

Letter to shareholders

In 2015/16 we consistently implemented our strategy of continuous innovation in products, services, and distribution, anticipating and addressing the major trends in a growing and changing hearing care market.



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

Dear shareholders,

The Sonova Group achieved a solid performance in the 2015/16 financial year, reaching a record sales level despite the persistent strength of the Swiss franc. We also made excellent progress in delivering on our strategy of providing the industry's broadest and most innovative offering of hearing care products, solutions, and services.

Our strategy focuses on three areas:

New products: The market offers exciting opportunities for new customer groups and new solution formats. Our consistent platform approach to product development in hearing instruments and cochlear implants – along with our continued high investment in research and development – has allowed us to expand our product offering over the year to exploit these opportunities.

Go-to-market: Innovation is not limited to products – it also drives the way we approach the market, both through our wholesale companies and our retail audiological service network. The industry is seeing a rise in lower-cost retailers, but also an increased emphasis on personalized care from dedicated audiologists. We address both these trends through channel partnership, vertical integration, services that generate increased customer demand, and an expanded presence in underdeveloped growth markets, such as China.

E-solutions: The lives of our customers are increasingly digital. More and more healthcare services are being offered through the channels opened by internet-enabled personal technology. We therefore continue to expand our technology platform by introducing complete digital solutions and services that connect Sonova with its consumers and their hearing care providers.

As an illustration of how we are implementing our strategy and how the Sonova Group generates value for its customers through all of its brands, we will be taking a closer look in this year's report at the world's second-largest market for hearing aids: Germany.

The synergies between both of our businesses provides us with a solid basis for future growth.

Robert F. Sperry

Hearing instruments segment

Sonova's hearing instruments business continued on its path of profitable growth throughout the 2015/16 financial year, thanks to sustained expansion in both the wholesale and the audiological service businesses. Hearing instruments sales rose 6.6% in local currencies, driven by organic growth and by the contribution from recent acquisitions, particularly Hansaton.

Building on the successful launch of Sonova's third-generation technology platform last year, we introduced a number of new product families across all our brands. In September 2015, Phonak extended its latest generation Venture product offering with the Phonak Virto™ V In-The-Ear product family, which offers significantly better speech understanding in a smaller package. Phonak rounded out its Venture portfolio by launching dedicated solutions for two customer groups most affected by the loss of hearing. The Phonak Naída™ V power instrument for severe to profound hearing loss helps to further improve speech understanding, yet is up to 25% thinner than its predecessor. Phonak Sky™ V builds on our 40 years' experience of pediatric hearing care, offering child-specific features and technologies optimized to help kids and teens stay connected in difficult hearing situations.

Unitron continued its transition onto the North technology platform, which started with the introduction of the popular Moxi™ Receiver-In-Canal products in April 2015; this was followed by the Stride™ Behind-The-Ear and In-The-Ear families, launched at the International Congress of Hearing Aid Acousticians (EUHA) in October 2015. Unitron also extended its unique Flex:trial™ and upgrade concept with Patient Ratings, which allows hearing aid wearers to share their experiences online with their hearing care professional.

The acquisition of Hansaton at the start of the 2015/16 financial year added another respected name to our range of hearing aid brands and further extended our leadership position in the global hearing instrument market. During the course of the financial year, Hansaton's product portfolio was brought onto the Sonova technology platform.

We are actively addressing a dynamic market environment through our unique vertical business model.

Lukas Braunschweiler

Sonova's audiological service business expanded substantially, both through organic growth and through further acquisitions. Since March 2015, when we named Germany as one of our ten key strategic markets for retail, our network in the country has grown nicely: from around 100 stores at the start of the 2015/16 financial year to nearly 150 at its end, providing a solid basis for future growth in this important market. We also optimized our country portfolio by selling our Italian network of around 70 stores while simultaneously reinforcing our existing position in Hungary by adding around 30 stores.

On May 4, 2016, Sonova announced that it has agreed to acquire AudioNova, one of Europe's leading hearing aid retailers. AudioNova operates over 1,300 stores in eight countries and generated net sales of around EUR 360 million in 2015. AudioNova is an excellent fit with Sonova's strategy for professional audiological service and retail. The combination of AudioNova and Sonova will create one of the broadest hearing aid retail service networks in Europe, providing critical mass with many complementary market positions. The closing of the transaction is subject to regulatory approval.

Cochlear implants segment

The cochlear implants segment had a challenging year, with sales slightly down by 2.4% in local currencies; it showed clear signs of improvement, however, by returning to growth in the second half and re-accelerating quarter by quarter. We remain convinced in the attractive growth prospects of the cochlear implant market, and are confident that the business will continue on its long-term growth path through diligently executing its strategy, supported by recent and upcoming product introductions.

The highlight of 2015/16 was the addition of the Naída CI Q90 and Q30 to Advanced Bionics' range of Q-series sound processors: building on the unique innovations introduced with the Naída CI Q70 in 2013, these confirm the benefits of bringing together the innovation DNA of Advanced Bionics and Phonak.

The close collaboration of Advanced Bionics and Phonak gives us a unique advantage, both in seamlessly combining the best of hearing instrument and cochlear implant technology, and in reaching and serving the large and as yet underpenetrated adult market segment. With the upcoming launch of Phonak Naída Link, bimodal recipients – those who have a cochlear implant in one ear but a hearing aid in the other – can now benefit of many advanced features where the two devices function as an integrated system to provide even better hearing.

Financial highlights

The Group built on its previous year's achievements with another solid performance. The reported results were negatively affected, however, by the significant and sudden strengthening of the Swiss franc. Despite these currency headwinds, consolidated sales for the year reached CHF 2,072 million, up 1.8% in Swiss francs and 5.8% in local currencies: a new record level. Operating profit before acquisition-related amortization (EBITA) was CHF 430.6 million, a rise of 1.4% in local currencies. The strength of the Swiss franc reduced reported EBITA by CHF 31.5 million, resulting in an operating margin of 20.8%. Helped by a strong cash flow, the Group ended the year with a solid balance sheet, including a net cash position of CHF 298.3 million and strong equity ratio of 69.3%

Use of cash

We continue to invest cash flow into value creating acquisitions. In 2015/16, we spent CHF 121 million on acquisitions, including the Hansaton hearing aid brand and the further expansion of our audiological service network, with a focus on Germany. Over the course of the financial year, Sonova bought back 1,203,500 shares for CHF 156 million. These shares will be proposed for cancellation at the 2016 Annual General Shareholders' Meeting. With the announcement of the acquisition of AudioNova, Sonova has suspended the share buyback program until further notice. The Board of Directors also proposes a dividend of CHF 2.10 per share, an increase of 2.4%, representing a payout ratio of 41%.

Changes to the Board of Directors

John J. Zei, who has been a member of the Board of Directors since 2010, will not stand for re-election at the upcoming Annual General Shareholders' Meeting, in accordance with the age limitations stipulated in the Organizational Regulations. Over his terms of office we have had many occasions to be grateful for his vast experience, his deep understanding of the hearing aid industry, and his dedication to Sonova. We all wish him well for the future.

The Board of Directors has nominated Lynn Dorsey Bleil as a new Board member for election at the 2016 Annual General Shareholders' Meeting. Ms. Bleil recently retired as Senior Partner from McKinsey & Company in the US after more than 25 years of advising senior management and boards of leading healthcare companies. Her impressive track record makes her a valuable addition to the Board of Directors.

Committed to corporate social responsibility

This year, the Hear the World Foundation, a main pillar of the Sonova Group's corporate social responsibility commitment, continued to make a significant contribution by supporting 23 projects worldwide, with a focus on helping children with hearing loss in low-income countries. By providing state-of-the-art equipment and hearing aids and by developing the necessary expertise on site, these projects ensure that these children have significantly better chances in education and personal development. For further information, please visit www.hear-the-world.com.

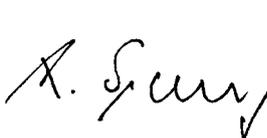
You can read more about our CSR activities in our separate Corporate Social Responsibility Report, prepared in accordance with the Global Reporting Initiative G4 guidelines.

Our thanks

Innovation is a function of people. Their dedication to the millions of people who deserve better hearing – and a life without limitations – is the motivation that drives our success. We rely ever more on close partnerships with hearing care professionals. Our customers inspire and challenge us every day; their needs point the way to new discoveries. And it is our shareholders whose continuing trust lets us develop the company for the future. Our thanks go to all of you.

Outlook 2016/17

Ours is an expanding market, with dynamics that favor our business model: an expanding customer base that demands ever more innovative solutions provides all the right conditions for further growth. We anticipate that our hearing instruments and our cochlear implants businesses will both contribute to positive future development. In 2016/17, we expect to increase consolidated sales by 4% – 6% in local currencies.



Robert Spoerry
Chairman of the Board
of Directors



Lukas Braunschweiler
CEO

SONOVA
HEAR THE WORLD

PHONAK

unitron

Connect
Hearing

