

Letter to shareholders

For Sonova, 2016 / 17 marked an important year in our strategic transformation. We significantly strengthened our position as a complete provider of innovative hearing care solutions and took a great stride towards further implementing our fully integrated business model.



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

Dear shareholders,

We are pleased to report that the Sonova Group again achieved strong progress in the 2016 / 17 financial year, with solid growth across our businesses. Moreover, the acquisition of AudioNova marks a major milestone in the Group's transformation to a fully integrated business model that extends along the entire hearing care value chain.

We took further significant steps in executing our strategy, which focuses on three key areas:

New products: Sonova's commitment to continuous platform-based innovation has delivered an array of new products that once again raised the standards in hearing care, including the introduction of a broad range of rechargeable hearing aids based on lithium-ion technology.

Market access: Building on our global footprint and our strategic commitment to vertical integration, we have continued to extend the number and breadth of channels through which we reach our customers.

eSolutions: We aim to lead the digital revolution in hearing care and have ensured that each new product and service that we launch is integrated into our full portfolio of digital solutions, connecting the people who use our products with their hearing care professionals and with Sonova.

The details of all these developments are outlined in the "Strategy and businesses" section of this report, starting on page 10.

To show how our strategy works in practice and give vivid examples of the world in which we operate, this year's report offers a closer look at the Asia / Pacific region, starting on page 13.

We made great strides in our transformation to a vertically integrated business model.

Robert F. Spoerry

Hearing instruments segment

Sonova's hearing instruments segment saw continued growth in 2016/17, based both on organic growth in its hearing instruments and retail businesses and on acquisitions – particularly that of AudioNova, which completed in September 2016. This resulted in a total sales increase of 15.9% in local currencies.

Sonova continued to set new industry and technology standards throughout 2016/17 with the introduction of innovative breakthrough products. *Belong™*, Phonak's latest generation product platform, came to market with the launch of the *Audéo™ B Receiver-In-Canal* product family in August 2016, followed in February 2017 by the *Bolero™ B Behind-The-Ear* family. Both feature improved audiological performance through the second generation of *AutoSense OS™*, one of the most sophisticated sound processing systems in the industry, and both include a rechargeable instrument based on innovative lithium-ion battery technology. *Unitron* and *Hansaton* have also introduced rechargeable hearing instruments, giving Sonova the industry's broadest portfolio of rechargeable solutions.

In February 2017, Phonak introduced *Virto™ B-Titanium*, the first Phonak custom product made from titanium and formed using state-of-the-art 3D metal printing for increased strength and functionality in a 26% smaller size than its predecessor. *Unitron* launched in August 2016 the smallest Receiver-In-Canal instrument in the world, *Moxi™ Now*, followed by the launch of the new *Tempus™* product platform. *Hansaton* unveiled its new product platform, *SphereHD*, and the 2017/18 financial year will see a further portfolio expansion including the most advanced wireless connectivity solution in the industry.

In the Group's retail business, the acquisition of AudioNova helped to accelerate the implementation of Sonova's vertically integrated business model. Despite causing some headwinds on our hearing instruments business from independent audiologists, particularly in Germany, the acquired business met our financial expectations during 2016/17, and the country-by-country integration with our previous *Connect Hearing* retail business is well on track. We have a strong leadership team in place, we have taken steps to harmonize our systems and processes, and we are ready to convert the AudioNova product offering to Sonova technology. In general, we made solid progress in all major markets,

Our innovative solutions aim to set new industry standards with every launch.

Lukas Braunschweiler

although some countries face challenges: in the Netherlands, for example, recent changes in the reimbursement conditions have some impact on sales, but we are taking steps to mitigate negative effects.

Cochlear implants segment

We are pleased to announce that Sonova's cochlear implants segment has returned to growth and profitability after a flat development in the previous year: sales grew by 9.6% in local currencies, with double-digit growth in new system sales somewhat offset by slower development in upgrade sales. The product highlight of the year was the introduction of *HiRes™ Ultra*, the thinnest implant from *Advanced Bionics*, which delivers precise and proven *HiRes* stimulation electronics in a profile 30% thinner than its predecessor. The synergies between *Advanced Bionics* and *Phonak* sound processing R&D were demonstrated yet again in the launch of the *Naída™ Link* solution for recipients who use a cochlear implant in one ear but a hearing aid in the other. This fast-growing "bimodal" market segment gains unprecedented control and convenience from the ability of *Naída CI* sound processors to communicate and coordinate wirelessly with *Phonak Naída Link* hearing aids.

Financial highlights

The Group has continued to build on its solid performance history. Consolidated sales for the year reached CHF 2,396 million, up 15.6% in Swiss francs and 15.3% in local currencies. The rise was driven both by organic growth and by acquisitions, particularly the effect of the AudioNova acquisition for seven months of the year. Organic revenue growth accelerated in the second half-year. Excluding one-time costs related to the acquisition of AudioNova, normalized operating profit before acquisition-related amortization (EBITA) was CHF 481.4 million, a rise of 12.1% in local currencies. The Group once again achieved a strong cash flow. In connection with the acquisition of AudioNova, a bond issue of CHF 760 million was placed at attractive rates; we expect to pay this off within the next few years. In summary, this brings net debt to CHF 404.6 million; the balance sheet remains strong and the equity ratio stands at a solid 54.2%.

Use of cash

In 2016/17, we spent CHF 675 million on acquisitions, which includes the net amount paid for AudioNova. In connection with the acquisition, we suspended the share buyback program: up to the suspension, Sonova had bought back 92,000 shares for CHF 12 million in this financial year. These shares will be proposed for cancellation at the 2017 Annual General Shareholders' Meeting. The Board of Directors also proposes a dividend of CHF 2.30 per share, an increase of 9.5%.

Corporate social responsibility

Sonova's corporate social responsibility (CSR) activities keep their strategic focus on two areas: expanding access to hearing care and doing business in a responsible manner. The Hear the World Foundation has been a main pillar of the Sonova Group's CSR engagement for ten years. During this time, it has supported over 80 separate projects, concentrating on helping disadvantaged children with hearing loss in developing countries. Sonova covers all the Foundation's administrative costs and provides hearing equipment and professional support without cost.

The company remains listed in the internationally-recognized Dow Jones Sustainability and FTSE4Good Global indices, which track sustainable business practices. You will find more about our CSR activities in the separate Corporate Social Responsibility Report, prepared in accordance with the Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

Our thanks

Technology is just the means to an end: real, effective innovation is based on people fulfilling the needs of other people. Our success as a company shows the deep knowledge our employees have both about the challenges of hearing loss and the potential for new, never-before-seen solutions to those challenges. Coupled with that knowledge is drive: the motivation to make a positive difference in the lives of millions around the world. We highly appreciate these qualities, both in those who work at Sonova and in the health care professionals whose partnership brings us into ever closer contact with the people who need our solutions. Those people – our customers – stand at the center of our business. We aim to set new standards with every innovation because they deserve the best we can do. And it is our shareholders whose continuing trust lets us develop the company for the future. We thank you all.

Outlook 2017/18

With an expanding global market, and an increasing appetite for truly innovative solutions, Sonova is well placed to continue to grow. As we implement our fully integrated business model, we anticipate that all our businesses will benefit from synergies and efficiencies along the value chain. The combination of continuous, industry-leading product innovation, multiple channels to market, and integrated eSolutions linking us with our customers will sustain our position as market leader in hearing care. Including the acquisition of AudioNova, we expect to increase consolidated sales in 2017/18 by 10%–12% in local currencies, while further expanding profitability.



Robert Spoerry
Chairman of the Board
of Directors

Lukas Braunschweiler
CEO

sonova
HEAR THE WORLD

PHONAK **unitron**  **HANSATON**

 **Advanced Bionics**

AudioNova 