Financial reporting

Financial review

In the 2016 / 17 financial year, Sonova generated sales of CHF 2,395.7 million, an increase of 15.3 % in local currencies or 15.6 % in reported Swiss francs. Normalized for one-time costs, Group EBITA rose by 12.1 % in local currencies and 11.8 % in reported Swiss francs to CHF 481.4 million.

Solid organic growth further boosted by strategic acquisitions

Sonova Group sales in 2016 / 17 grew by 15.3 % in local currencies and 15.6 % in reported Swiss francs to CHF 2,395.7 million. Organic growth was 4.3 %, driven both by the hearing instruments and cochlear implants segments, and saw a marked acceleration over the course of the year. Exchange rate fluctuations had a minimal impact, adding just 0.3 % to the reported growth rate. The sales increase was strongly supported by acquisitions made in the reporting period, as well as annualizations of prior year acquisitions. In total, acquisitions added CHF 244.6 million or 11.8 % to the increase, mainly stemming from the acquisition of AudioNova, effective September 2016. Prior year business disposals reduced growth by 0.8 %.

Strong momentum driven by Europe

Sales in EMEA (Europe, Middle East, and Africa), the largest region with 48 % of Group sales, increased 33.8 % in local currencies. A solid organic sales increase in both segments was further boosted by acquisitions, in particular AudioNova. Good progress was achieved in major European markets including the UK, the Nordics, France, and Italy. The development of our hearing instruments business was negatively affected by expected reactions from wholesale customers, mainly in Germany, following the announcement of the AudioNova acquisition in May 2016; these were mainly felt during the first half of the financial year. The cochlear implants business achieved strong progress throughout the year.

The Group's business in the United States, representing 33 % of total sales, accelerated in the second half of the year, resulting in a sales increase of 1.0 % in local currency. Growth in the hearing instruments segment was driven by the Phonak brand, which benefited from the highly successful introduction of new products. This was partially offset by a decline at Unitron ahead of a new platform introduction towards the end of the fiscal year, along with no growth in our US retail network, which is undergoing a streamlining program. The cochlear implants business maintained strong momentum throughout the year, achieving a double digit sales increase. The rest of the Americas (excluding the US), which represented 9 % of total sales, reported a sales increase of 3.8 % in local currencies. Solid overall performance was partly offset by a targeted reduction of low-margin government tender business in Brazil and a sales decline at Unitron Canada.

Sonova Group key figures

in CHF m unless otherwise specified	2016 / 17	2015 / 16	Change in Swiss francs	Change in local currencies
Sales	2,395.7	2,071.9	15.6 %	15.3 %
EBITA	463.0	430.6	7.5 %	7.9 %
EPS (CHF)	5.35	5.11	4.7 %	
Operating free cash flow	424.8	344.2	23.4 %	
ROCE[1]	20.4 %	26.0 %		
EBITA (normalized)[2]	481.4	430.6	11.8 %	12.1 %
EBITA margin (normalized)[2]	20.1 %	20.8 %		
EPS (CHF) (normalized)[2]	5.58	5.11	9.2 %	

[1] For detailed definitions, please refer to "Key figures".

[2] 2016 / 17 excluding one-time costs of CHF 18.4 million, consisting of transaction costs and integration related restructuring costs in connection with the acquisition of AudioNova.

Sales by regions

in CHF m			2016 / 17		2015 / 16
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,162.2	48 %	33.8 %	883.0	43 %
USA	787.3	33 %	1.0 %	767.6	37 %
Americas (excl. USA)	210.9	9 %	3.8 %	197.1	9 %
Asia / Pacific	235.3	10 %	2.0 %	224.2	11 %
Total sales	**2,395.7**	**100 %**	**15.3 %**	**2,071.9**	**100 %**

Accounting for 10 % of Group sales, the Asia / Pacific region achieved a sales increase of 2.0 % in local currencies. This in part reflects the demanding base level set after the exceptional sales increase achieved in the prior year. Australia, New Zealand, and Japan showed solid growth, while China and India saw a refocusing on higher-margin business, resulting in targeted reductions in certain channels.

Business transformation affecting the cost structure

Reported gross profit reached CHF 1,651.8 million, an increase of 20.1 % both in local currencies and reported Swiss francs. Gross profit margin was 68.9 %, up strongly from 66.4 % in the prior year. The gross profit margin was lifted by a solid organic increase and the effect of an increased share of retail revenues with higher gross margin arising from the acquisition of AudioNova.

Reported operating expenses, including other operating income, reached CHF 1,188.8 million (2015 / 16: CHF 944.8 million). This includes CHF 18.4 million in one-time costs in connection with the AudioNova acquisition, which related to transaction as well as restructuring costs. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses in local currencies rose by 23.7 % or by 23.9 % in Swiss francs to CHF 1,170.3 million, mainly driven by the acquisition of AudioNova.

Underpinning its commitment to innovation, the Group maintained its high level of investment in research and development (R & D) with R & D expenses reaching CHF 137.1 million, an increase of 5.3 % in local currencies. Due to the increased relative share of the retail business after the acquisition of AudioNova, R & D as a percentage of sales declined from 6.3 % to 5.7 %.

Both sales and marketing as well as general and administrative (G & A) costs showed a significant increase as a result of the AudioNova acquisition, which led to higher cost ratios as a percentage of sales compared to the prior year. Normalized sales and marketing costs were up 26.9 % in local currencies to CHF 811.0 million. As a percentage of sales, normalized sales and marketing expenses rose to 33.9 %, compared to 30.8 % in the prior year.

Normalized G & A costs increased by 17.3 % in local currencies to CHF 228.5 million. As a percentage of sales, normalized G & A costs were stable at 9.5 % (2015 / 16: 9.4 %).

Other income amounted to CHF 6.3 million, down from CHF 17.9 million in the prior year. A CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims was broadly offset by costs of CHF 35.6 million stemming from the impairment of previously capitalized development costs. The latter was the result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for our cochlear implant sound processor technology. Furthermore, the current year figure includes a CHF 3.9 million capital gain from the sale of non-core retail activities in France. During the 2015 / 16 financial year, other income included a capital gain of CHF 8.7 million from divestments, mainly consisting of our previous Italian retail business, and a CHF 8.8 million release from a provision for cochlear implant product liabilities.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 463.0 million (2015 / 16: CHF 430.6 million), an increase of 7.9 % in local currencies or 7.5 % in Swiss francs from the prior year. Reported EBITA margin reached 19.3 % (2015 / 16: 20.8 %). For the year under review, exchange rate development had a minimal impact on the reported EBITA margin. Normalized for one-time costs, EBITA increased by 12.1 % in local currencies or 11.8 % in Swiss francs to CHF 481.4 million, corresponding to a margin of 20.1 %. Reported operating profit (EBIT) reached CHF 423.7 million, compared to CHF 403.4 million for the prior year, up by 5.0 %, reflecting the growth in reported EBITA and an expected increase in acquisition related amortization.

Earnings per share

Net financial expenses, including the result from associates, was stable at CHF 6.3 million (2015 / 16 CHF 6.4 million). Income taxes for the financial year totaled CHF 61.2 million, up from CHF 51.2 million in 2015 / 16, and representing an effective tax rate of 14.7 %, compared to 12.9 % in the prior year. The increase

Sales by product groups – Hearing instruments segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	604.5	28%	14.7%	512.8	27%
Advanced hearing instruments	464.7	21%	12.8%	403.4	21%
Standard hearing instruments	713.9	32%	15.8%	599.8	32%
Wireless communication systems	106.7	5%	14.9%	90.5	5%
Miscellaneous	300.5	14%	24.9%	278.5	15%
Total hearing instruments segment	**2,190.3**	**100%**	**15.9%**	**1,885.0**	**100%**

in the tax rate reflects a higher legacy tax rate at the acquired AudioNova entities; the effect is temporary until the acquired businesses are fully integrated into the Sonova group structures. Reported income after taxes was CHF 356.2 million, up 3.0% from the previous year. Basic earnings per share (EPS) therefore reached CHF 5.35 (2015/16: CHF 5.11), an increase of 4.7% from the previous year. Normalized for one-time costs, EPS increased 9.2% to CHF 5.58.

Workforce increases to 14,089

At the end of the 2016/17 financial year, the Group's total workforce stood at 14,089 full-time equivalents – an increase of 3,195 over the previous year. This growth comes mainly from the acquisition of AudioNova. Our manufacturing work force also increased at the Vietnam operation center, where we expanded the capacity of our production facility.

Hearing instruments segment – Growth from new products and acquisitions

Sales in the hearing instruments segment reached CHF 2,190.3 million, representing an increase of 15.9% in local currencies and 16.2% in reported Swiss francs. Organic growth was 3.8% in local currencies, supplemented by 12.1% or CHF 227.1 million from acquisitions net of disposals. The bulk of this came from the acquisition of AudioNova. Organic growth in the second half accelerated significantly with several successful new product launches, in particular the introduction of the rechargeable Phonak Audéo™ B product.

All hearing instrument product categories achieved solid double-digit growth in local currencies. The acquisition of AudioNova did not result in a significant shift of the product mix. Wireless communication systems were up 14.9% in local currencies, almost exclusively from organic growth. This marks the third consecutive year with double digit growth, reflecting a continued strong market response to our innovative solutions for school and workplace use. Sales in the "miscellaneous" product category increased by 24.9% in local currencies, largely driven by AudioNova. This category includes accessories, batteries, and services.

The hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own retail business, grew 2.8% in local currencies to CHF 1,311.2 million. Sales saw a marked acceleration in the second half, driven by the successful introduction of Phonak Audéo™ B in September 2016. Specifically, the rechargeable version, based on innovative lithium-ion technology, resulted in market-beating demand in the US and key European markets. The rechargeable technology product range was further broadened by the launch of the same feature in the Phonak Bolero™ product family in February 2017. Growth in Europe was strong, despite an expected headwind from independent customers in Germany after the announcement of the AudioNova acquisition in May 2016. Phonak in the US and Canada grew strongly across the main channels and we also increased market share in our business with the US Department of Veterans Affairs (VA). An updated product offering at Costco was very well received and contributed to strong growth in the second half-year. This was partially offset by a decline at Unitron in both countries, where the product portfolio was coming to the end of its current product cycle ahead of the introduction of the new Tempus platform in March/April 2017. With the exception of China and India, the Asia/Pacific region continued its growth trajectory with strong increases in Australia, Japan, and Korea. In China and India, the Group has proactively reduced its exposure to low-margin business.

The retail business, consisting of over 3,300 Sonova owned points of sale in 12 key markets, increased sales by 42.7% in local currencies to CHF 879.1 million. Good organic growth across Europe was supplemented by the acquisition of AudioNova and a number of smaller chains in several countries, thereby further extending our market-leading position across the region. Boots Hearingcare continued on its long term growth trajectory supported by new product introductions. The retail market environment in the US remained challenging and the business could not grow beyond the prior year's result. The US network is undergoing a further streamlining and productivity improvement. Canada and Asia/Pacific continued to perform strongly.

Sales by business – Hearing instruments segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing instruments business	1,311.2	60%	2.8%	1,266.2	67%
Retail business	879.1	40%	42.7%	618.7	33%
Total hearing instruments segment	**2,190.3**	**100%**	**15.9%**	**1,885.0**	**100.0%**

AudioNova was consolidated from September 2016. The integration of the business is well on track and did not affect day-to-day retail business. Geers in Germany kept up its strong growth record, expanding on its leading position in the market. AudioNova in the Netherlands initiated a restructuring program to adjust the store network and cost structure to recent changes in the reimbursement conditions. In a successive transaction, the AudioNova business in France was sold effective March 1, 2017. Effective April 1, 2017, AudioNova's Portuguese business was also sold to the same buyer. This transaction will appear in the accounts for the 2017/18 financial year.

Reported EBITA for the hearing instruments segment amounted to CHF 455.0 million, up 6.0% in local currencies. The normalized EBITA for the hearing instruments segment increased by 10.3% in local currencies to CHF 473.4 million, corresponding to an EBITA margin of 21.6%. The EBITA margin development in the ongoing business was positive through a strong focus on managing operating costs and achieving additional efficiency and scale in manufacturing. The acquisition of AudioNova and other retail businesses, with its resulting higher relative share of retail revenues, negatively affected the margin. This was partially offset by a CHF 3.9 million capital gain from the sale of AudioNova France. In the prior year, reported EBITA included a capital gain of CHF 8.7 million from the sale of two non-core businesses, partly offset by a CHF 2.3 million foreign exchange loss on working capital.

Cochlear implants segment – Accelerating in the second half

After a good first half, the cochlear implants business continued to build momentum in the second half of the year. Total sales were CHF 205.4 million, an increase of 9.6% in local currencies and 9.8% in reported Swiss francs.

Double digit new systems sales growth across North America and the EMEA region was driven by an attractive product portfolio and new product introductions in the second half-year, including the new HiRes™ Ultra implant. This was partially offset by slower growth in Latin America and the Asia/Pacific region. Upgrade sales to existing users were held back by a decline in the first half-year, largely related to a smaller qualifying customer base eligible for insurance funded replacement of their sound processors. Increasing at a double-digit rate, upgrade sales recovered strongly in the second half of the year.

EBITA increased to CHF 8.0 million, compared to a break-even result in the prior year, reflecting good operating leverage and strict cost management. CHF 35.6 million in capitalized development costs were impaired as a result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for the sound processor technology in cochlear implants. This cost was offset by a CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims. The assessment of both of these items is based on a regular systematic review. In summary, this resulted in a net benefit of CHF 1.8 million, which was reflected in the reported EBITA.

Sales by product groups – Cochlear implants segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	160.0	78%	12.8%	141.6	76%
Upgrades and accessories	45.4	22%	0.5%	45.3	24%
Total cochlear implants segment	**205.4**	**100%**	**9.6%**	**186.9**	**100%**

Strong operating free cash flow

Cash flow from operating activities reached CHF 522.4 million, compared to CHF 428.4 million in the prior year. Investments in tangible and intangible assets increased by CHF 15.2 million or 18.3 % to CHF 98.2 million, resulting in a strong operating free cash flow of CHF 424.8 million, up by 23.4 % or CHF 80.6 million. Cash consideration for acquisitions amounted to CHF 675.3 million, compared to 121.3 million in the prior year. The increase is mainly caused by the AudioNova acquisition, with its gross purchase price of CHF 921.2 million and acquired debt of CHF 290.8 million. The cash inflow from divestments amounted to CHF 17.8 million as against CHF 29.6 million in the prior year. In summary, this resulted in a negative free cash flow of CHF 232.6 million, compared to a positive free cash flow of CHF 252.6 million in the prior year.

The cash inflow from financing activities in the 2016 / 17 financial year was CHF 290.5 million, compared to a cash outflow of CHF 325.6 million in the prior year. This reflects an increase in net borrowings by CHF 468.9 million, mainly consisting of the bond issue related to the financing of the AudioNova acquisition. Cash spent under the share buy-back program decreased significantly to CHF 11.8 million (2015 / 16: CHF 155.6 million) as a result of the suspension of the program following the announcement of the acquisition of AudioNova in May 2016. In the 2016 / 17 financial year, a net amount of CHF 20.8 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 19.7 million in the prior year. The cash outflow from financing also reflects dividend payments of CHF 137.2 million.

Balance sheet remains strong

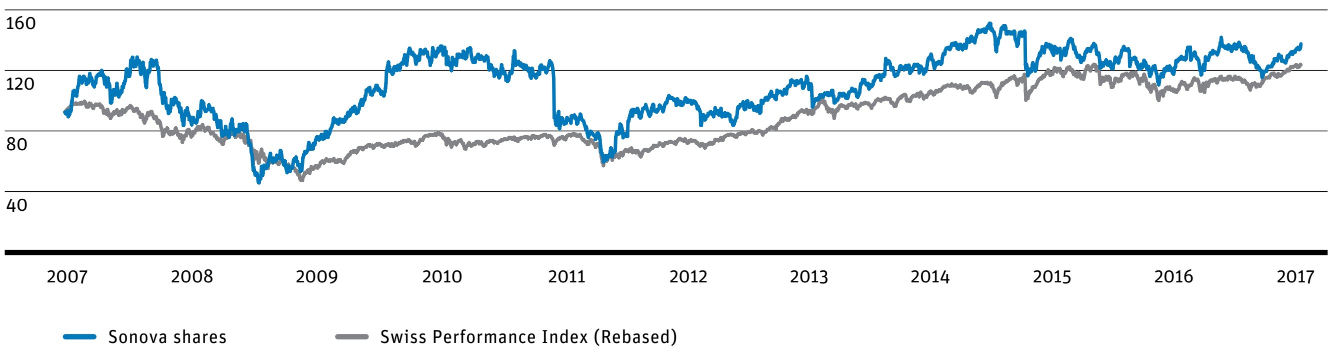
Reported net working capital was CHF 169.7 million, compared to CHF 185.5 million at the end of the prior year, reflecting a strong focus on working capital management. Capital employed was CHF 2,535.9 million, compared to CHF 1,608.0 million in the prior year; the increase was largely driven by the acquisition of AudioNova. The Group's equity position amounted to CHF 2,131.3 million, resulting in a solid equity ratio of 54.2 %. The net debt position stood at CHF 404.6 million, compared to a net cash position of CHF 298.3 million the end of the prior year. As a result of acquisitions, the return on capital employed (ROCE) experienced an expected decrease to 20.4 %, compared to 26.0 % in the prior year.

In light of the continued strong operating free cash flow of the Sonova Group, as well as its healthy financial position, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 13, 2017 a dividend of CHF 2.30. This proposed distribution is up 9.5 % over the prior year, and represents a stable payout ratio, normalized for one-time cost, of 41 % (reported: 43 %).

Outlook 2017 / 18

We expect to achieve continued solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2017 / 18. The development will be supported by our attractive product and solutions portfolio as well as our continued commitment to innovation. Coupled with the annualization of prior year acquisitions, in particular AudioNova, we expect overall sales to grow in the range of 10 % – 12 % in local currencies.

Share price performance



Share price performance [1)]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	49.4 %	38.5 %	7.4 %	2.7 %	13.1 %
Swiss Performance Index (SPI)[2)]	34.2 %	68.6 %	18.6 %	5.5 %	15.9 %
Sonova shares relative to the SPI	15.2 %	(30.1 %)	(11.1 %)	(2.8 %)	(2.8 %)

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2016 / 17 financial year.
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	Normalized performance 2016 / 17[1]	Reported performance 2016 / 17	2015 / 16
Sales	**2,395,650**	**2,395,650**	**2,071,930**
change compared to previous year (%)	15.6	15.6	1.8
Gross profit	**1,651,752**	**1,651,752**	**1,375,468**
change compared to previous year (%)	20.1	20.1	(0.9)
in % of sales	68.9	68.9	66.4
Research & development costs	**137,134**	**137,134**	**130,255**
in % of sales	5.7	5.7	6.3
Sales & marketing costs	**810,988**	**815,018**	**638,240**
in % of sales	33.9	34.0	30.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**481,441**	**462,998**	**430,632**
change compared to previous year (%)	11.8	7.5	(5.5)
in % of sales	20.1	19.3	20.8
Operating profit (EBIT)	**442,120**	**423,677**	**403,437**
change compared to previous year (%)	9.6	5.0	(6.0)
in % of sales	18.5	17.7	19.5
Income after taxes	**371,484**	**356,176**	**345,847**
change compared to previous year (%)	7.4	3.0	(6.1)
in % of sales	15.5	14.9	16.7
Basic earnings per share (CHF)	5.58	5.35	5.11
Dividend / distribution per share (CHF)	2.30[12]	2.30[12]	2.10
Net cash[4]	**(404,634)**	**(404,634)**	**298,274**
Net working capital[5]	**169,706**	**169,706**	**185,459**
Capital expenditure (tangible and intangible assets)[6]	**97,120**	**97,120**	**83,051**
Capital employed[7]	**2,535,906**	**2,535,906**	**1,607,992**
Total assets	**3,935,680**	**3,935,680**	**2,751,611**
Equity	**2,131,272**	**2,131,272**	**1,906,266**
Equity financing ratio (%)[8]	**54.2**	**54.2**	**69.3**
Free cash flow[9]	**(232,615)**	**(232,615)**	**252,573**
Operating free cash flow[10]	**424,847**	**424,847**	**344,212**
in % of sales	17.7	17.7	16.6
Return on capital employed (%)[11]	**20.4**	**20.4**	**26.0**
Number of employees (average)	**12,802**	**12,802**	**10,697**
change compared to previous year (%)	19.7	19.7	7.4
Number of employees (end of period)	**14,089**	**14,089**	**10,894**
change compared to previous year (%)	29.3	29.3	7.0

1) Excluding one-time costs of CHF 18.4 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) Restated following the implementation of IAS 19 (revised).
3) Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business. Balance sheet related key figures (including respective ratios) as reported.
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

2014/15	2013/14	Normalized performance 2012/13[2)/3)]	Reported performance 2012/13[2)]
2,035,085	**1,951,312**	**1,795,262**	**1,795,262**
4.3	8.7	10.8	10.8
1,387,524	**1,340,449**	**1,239,780**	**1,239,780**
3.5	8.1	12.1	12.1
68.2	68.7	69.1	69.1
130,897	**125,657**	**113,884**	**113,884**
6.4	6.4	6.3	6.3
613,217	**589,627**	**559,077**	**559,077**
30.1	30.2	31.1	31.1
455,564	**430,109**	**385,304**	**181,688**
5.9	11.6	22.2	(42.4)
22.4	22.0	21.5	10.1
429,069	**404,030**	**359,175**	**155,559**
6.2	12.5	24.8	(45.9)
21.1	20.7	20.0	8.7
368,323	**347,382**	**307,745**	**110,869**
6.0	12.9	24.9	(55.0)
18.1	17.8	17.1	6.2
5.37	5.08	4.60	1.65
2.05	1.90	1.60	1.60
382,343	**311,525**	**185,800**	**185,800**
181,379	**190,571**	**187,148**	**187,148**
88,735	**93,918**	**82,354**	**82,354**
1,489,461	**1,462,850**	**1,455,460**	**1,455,460**
2,691,631	**2,593,748**	**2,680,042**	**2,680,042**
1,871,804	**1,774,375**	**1,641,260**	**1,641,260**
69.5	**68.4**	**61.2**	**61.2**
308,700	**288,618**	**262,370**	**262,370**
366,385	**318,430**	**318,553**	**318,553**
18.0	16.3	17.7	17.7
29.1	**27.7**	**10.4**	**10.4**
9,960	**9,175**	**8,709**	**8,709**
8.6	5.4	9.3	9.3
10,184	**9,529**	**8,952**	**8,952**
6.9	6.4	8.9	8.9

6) Excluding goodwill and intangibles relating to acquisitions.
7) Equity – net cash.
8) Equity in % of total assets.
9) Cash flow from operating activities + cash flow from investing activities.
10) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested.
11) EBIT in % of capital employed (average).
12) Proposal to the Annual General Shareholders' Meeting of June 13, 2017.

Consolidated financial statements

Consolidated income statements

1,000 CHF	Notes	2016/17	2015/16
Sales	6	**2,395,650**	**2,071,930**
Cost of sales		(743,898)	(696,462)
Gross profit		**1,651,752**	**1,375,468**
Research and development		(137,134)	(130,255)
Sales and marketing		(815,018)	(638,240)
General and administration		(242,893)	(194,223)
Other income / (expenses), net	7	6,291	17,882
Operating profit before acquisition-related amortization (EBITA)[1]		**462,998**	**430,632**
Acquisition-related amortization	20	(39,321)	(27,195)
Operating profit (EBIT)[2]		**423,677**	**403,437**
Financial income	8	7,393	4,298
Financial expenses	8	(13,598)	(12,249)
Share of profit / (loss) in associates / joint ventures, net	18	(143)	1,574
Income before taxes		**417,329**	**397,060**
Income taxes	9	(61,153)	(51,213)
Income after taxes		**356,176**	**345,847**
Attributable to:			
Equity holders of the parent		349,172	337,026
Non-controlling interests		7,004	8,821
Basic earnings per share (CHF)	10	5.35	5.11
Diluted earnings per share (CHF)	10	5.34	5.10

[1] Earnings before financial result, share of profit / (loss) in associates / joint ventures, taxes and acquisition-related amortization (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	Notes	2016/17	2015/16
Income after taxes		**356,176**	**345,847**
Other comprehensive income			
Actuarial gain / (loss) from defined benefit plans, net	30	39,448	(6,610)
Tax effect on actuarial gain / (loss) from defined benefit plans, net		(5,539)	893
Total items not to be reclassified to income statement in subsequent periods		**33,909**	**(5,717)**
Currency translation differences		(5,815)	(2,547)
Tax effect on currency translation items		(2,040)	760
Total items to be reclassified to income statement in subsequent periods		**(7,855)**	**(1,787)**
Other comprehensive income, net of tax		**26,054**	**(7,504)**
Total comprehensive income		**382,230**	**338,343**
Attributable to:			
Equity holders of the parent		377,154	330,309
Non-controlling interests		5,076	8,034

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

Consolidated balance sheets

Assets 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Cash and cash equivalents	12	374,504	317,266
Other current financial assets	13	4,164	6,748
Trade receivables	14	413,375	354,672
Current income tax receivables		6,426	7,755
Other receivables and prepaid expenses	15	86,328	69,610
Inventories	16	255,655	240,451
Total current assets		**1,140,452**	**996,502**
Property, plant and equipment	17	310,321	267,870
Intangible assets	20	2,323,087	1,349,628
Investments in associates / joint ventures	18	11,471	9,275
Other non-current financial assets	19	20,365	19,970
Deferred tax assets	9	129,984	108,366
Total non-current assets		**2,795,228**	**1,755,109**
Total assets		**3,935,680**	**2,751,611**

Liabilities and equity 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Current financial liabilities	22	13,355	6,546
Trade payables		106,028	77,828
Current income tax liabilities		117,583	93,812
Other short-term liabilities	23	259,175	214,189
Short-term provisions	21	112,279	105,220
Total current liabilities		**608,420**	**497,595**
Non-current financial liabilities	24	766,960	15,174
Long-term provisions	21	185,929	191,880
Other long-term liabilities	26	106,278	94,764
Deferred tax liabilities	9	136,821	45,932
Total non-current liabilities		**1,195,988**	**347,750**
Total liabilities		**1,804,408**	**845,345**
Share capital	27	3,271	3,331
Treasury shares		(12,130)	(155,676)
Retained earnings and reserves		2,117,271	2,034,677
Equity attributable to equity holders of the parent		**2,108,412**	**1,882,332**
Non-controlling interests		22,860	23,934
Equity		**2,131,272**	**1,906,266**
Total liabilities and equity		**3,935,680**	**2,751,611**

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

Consolidated cash flow statements

1,000 CHF	Notes		2016/17		2015/16
Income before taxes			**417,329**		**397,060**
Depreciation, amortization and impairment of tangible and intangible assets	17, 20	147,404		88,743	
Loss on sale of tangible and intangible assets, net		727		769	
Share of loss / (gain) in associates / joint ventures, net	18	143		(1,574)	
Decrease in long-term provisions		(38,384)		(7,403)	
Financial (income) / expense, net	8	6,205		7,951	
Share based payments and other non-cash item		19,985		4,061	
Income taxes paid		(36,353)	99,727	(40,545)	52,002
Cash flow before changes in net working capital			**517,056**		**449,062**
(Increase) / decrease in trade receivables		(23,926)		312	
(Increase) / decrease in other receivables and prepaid expenses		(6,505)		4,415	
Decrease in inventories		3,604		5,019	
Increase / (decrease) in trade payables		14,497		(11,327)	
Increase / (decrease) in other payables, accruals and short-term provisions		17,665	5,335	(19,038)	(20,619)
Cash flow from operating activities			**522,391**		**428,443**
Purchase of tangible and intangible assets		(98,220)		(83,051)	
Proceeds from sale of tangible and intangible assets		997		576	
Cash consideration for acquisitions, net of cash acquired	28	(675,283)		(121,252)	
Cash consideration from divestments, net of cash divested	28	17,821		29,613	
Changes in other financial assets		(1,486)		(5,034)	
Interest received and realized gain from financial assets		1,165		3,278	
Cash flow from investing activities			**(755,006)**		**(175,870)**
Proceeds from borrowings		880,493			
Repayment of borrowings		(411,597)		(479)	
(Purchase) / sale of treasury shares, net		(32,603)		(175,377)	
Dividends paid by Sonova Holding AG		(137,178)		(136,039)	
Transactions with non-controlling interests		(6,150)		(11,403)	
Interest paid and other financial expenses		(2,443)		(2,312)	
Cash flow from financing activities			**290,522**		**(325,610)**
Exchange losses on cash and cash equivalents			(669)		(183)
Decrease in cash and cash equivalents			**57,238**		**(73,220)**
Cash and cash equivalents at the beginning of the financial year			317,266		390,486
Cash and cash equivalents at the end of the financial year			**374,504**		**317,266**

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	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		337,026			8,821	345,847
Actuarial loss from defined benefit plans, net		(6,610)				(6,610)
Tax effect on actuarial loss		893				893
Currency translation differences		19	(1,779)		(787)	(2,547)
Tax effect on currency translation			760			760
Total comprehensive income		**331,328**	**(1,019)**		**8,034**	**338,343**
Capital decrease – share buy-back program	(28)	(73,551)		73,579		
Share-based payments		7,565				7,565
Sale of treasury shares		(6,222)		22,732		16,510
Purchase of treasury shares				(180,514)		(180,514)
Dividend paid		(136,039)			(11,403)	(147,442)
Balance March 31, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**
Balance April 1, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**
Income for the period		349,172			7,004	356,176
Actuarial gain from defined benefit plans, net		39,448				39,448
Tax effect on actuarial gain		(5,539)				(5,539)
Currency translation differences		(67)	(3,820)		(1,928)	(5,815)
Tax effect on currency translation			(2,040)			(2,040)
Total comprehensive income		**383,014**	**(5,860)**		**5,076**	**382,230**
Capital decrease – share buy-back program	(60)	(155,579)		155,639		
Share-based payments		4,824				4,824
Sale of treasury shares		(6,627)		38,780		32,153
Purchase of treasury shares				(50,873)		(50,873)
Dividend paid		(137,178)			(6,150)	(143,328)
Balance March 31, 2017	**3,271**	**2,419,177**	**(301,906)**	**(12,130)[1]**	**22,860**	**2,131,272**

[1] 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, 2017

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 100 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 (IAS) 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 9, 2017, and are subject to approval by the Annual General Shareholders' Meeting on June 13, 2017.

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 as 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 judgments and estimates"). Actual results could differ from these estimates.

2.1 Changes in accounting policies

In 2016/17 the Group has adopted the following minor amendments to existing standards and interpretations, without having a 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. The Group does not expect IFRS 9 to have a significant impact on its consolidated financial statements and will implement the new standard on April 1, 2018.

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. The Group is currently assessing the impact of adopting the standard. A reliable estimation of the impact, however, is not possible prior to the completion of the assessment. Implementation of the standard is planned for April 1, 2018.

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 Group is currently assessing the impact of adopting the standard. A reliable estimation of the impact, however, is not possible prior to the completion of the assessment. Implementation of the standard is planned for April 1, 2019.

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 exists when the Group is exposed, or has rights, to variable returns from its relationship with an entity and has the power to affect those returns. 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 do not result in a loss of control will be accounted for as an equity transaction. Hence, 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 was transferred to the Group. Group companies divested during the year 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 and joint ventures
Investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are entities in which Sonova has a significant influence but does not exercise control (usually 20 % – 50 % of voting rights). Joint ventures are joint arrangements whereby two or more parties have rights to the net assets of the arrangement.

Under the equity method, the investment in an associate / joint venture 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 associate / joint venture after the acquisition date. When the Group's share of losses in an associate / joint venture equals or exceeds its interest in the associate / joint venture, no further losses are recognized, unless there is a legal or constructive obligation. In order to apply the equity method the most recent available financial statements of an associate / joint venture are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date.

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 on 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 5). 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 to the income statement.

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 consolidated cash flow statement summarizes the movements in cash and cash equivalents.

Other current financial assets
Other current financial assets consist of financial assets held for trading as well as short-term loans to third parties. 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).

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.

Trade receivables
Trade receivables are recorded at original invoice amount less provisions 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, the latter 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 lifetime of the individual assets or asset categories. Where an asset comprises several parts with different useful lifetimes, each part of the asset is depreciated separately over its applicable useful lifetime. The applicable useful lifetimes 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.

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 lifetimes of the related assets are recognized as an expense in the period in which they are incurred.

Leasing
There are no assets that are held under leases which effectively transfer to the Group the risks and rewards of ownership (finance leases). Therefore all 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, licenses 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 lifetime 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 – 20 years. Other intangible assets are generally amortized over a period of 3 – 10 years. For capitalized development costs in the Cochlear implants segment amortization starts when the capitalized asset is ready for use, which is generally after receipt of approval from regulatory bodies. These assets are amortized over the estimated useful lifetime of 2 – 7 years applying the straight-line method. For in-process capitalized development costs these capitalized costs are tested annually for impairment. 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 related to the development of cochlear 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 acquisition 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, 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 interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

If a business combination is achieved in stages (control obtained over an associate), the previously held equity interest in an associate is remeasured to its acquisition-date fair value and any resulting gain or loss is recognized in "financial income / expenses" in profit or loss.

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 as well as rent deposits. 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 as well as rent deposits are classified as loans and receivables (see Note 2.5).

Financial liabilities
Current financial liabilities consist of short-term bank debt and all other interest bearing debt with a maturity of 12 months or less. Given the short-term nature of these debts they are recorded at nominal value. In addition, current financial liabilities also consist of financial liabilities resulting from contingent considerations as well as deferred payments (earn-out agreements) 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.

Derivative financial instruments are initially recognized in the balance sheet at fair value and are re-measured to their current fair value at the end of each subsequent reporting period.

Bonds are initially measured at fair value including direct transaction costs. In subsequent accounting periods, they are re-measured at amortized costs applying the effective interest method.

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 instruments 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.

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 case any of the Group Companies purchase shares of the parent company, the consideration paid is recognized as treasury shares and presented as a deduction from equity. Any consideration received from the sale of own shares is recognized in equity.

Income taxes

Income taxes include current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions and significant judgment 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. Deferred income tax liabilities are provided for on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue recognition

Sales are recognized net of sales taxes and discounts when the significant risk and rewards of ownership has been transferred to the buyer, mainly upon delivery of products and services and reasonably assured collectibility of the related receivables.

For hearing instruments sold, probable returns of products are estimated and a corresponding provision is recognized. The portion of goods sold that are expected to be returned are estimated based on historical product return rates.

For cochlear implants, sales are generally recognized upon delivery to the buyer, mainly hospitals. For returns of products, accumulated experience is used to determine the respective provision.

Revenue from the sale of service is recognized when the service has been provided to the customer and where there are no continuing unfulfilled service obligations. Sales of service contracts, such as long-term service contracts and extended warranties are separated from the sale of goods and recognized on a straight-line basis over the term of the contract.

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.

Acquisition-related amortization

The Group is continuously amending its business portfolio with acquisitions resulting in acquisition-related intangibles (see section "Intangible Assets") and related amortization charges. The Group discloses acquisition-related amortization as a separate line item in the income statement, and identifies EBITA as its key profit metric for internal (refer to Note 6) as well as for external reporting purposes. The functional allocation of these acquisition-related amortization costs are further disclosed in Note 20 "Intangible Assets" in the notes to the financial statements.

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 6.

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 cost of disposal 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. Impairments of financial assets are 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. A goodwill impairment test is performed annually, 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 well as post-employment plan organizations (pension funds) for the benefit of Sonova employees. No related party exercises control over the Group.

Employee benefits

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.

The Group also has several 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. Service costs from defined benefit plans are charged to the appropriate income statement heading within the operating results.

A single net interest component is calculated by applying the discount rate to the net defined benefit asset or liability. The net interest component is recognized in the income statement in the financial result.

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 in certain Group companies. 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 determined at the grant date and recorded as an expense over the vesting period (for details refer to Note 31). The expense for equity compensation awards is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity (for equity-settled compensation) or financial liability (for cash-settled compensation) is recorded. In the case of cash-settled compensation, until the liability is settled it is revalued at each reporting date, recognizing changes in the fair value in the income statement.

2.5 Financial assets

The Group classifies its financial assets in the categories financial assets at fair value through profit or loss, loans and receivables. Management determines the classification of its investments at initial recognition. 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 consist of cash-settled calls on Sonova shares as a hedge against obligations from warrant appreciation rights (WARs) and share appreciation rights (SARs) allocated to US employees participating in the Executive Equity Award Plan (EEAP) and certain minority investments in hearing instrument related businesses. These financial assets are measured at their fair value. Those fair value changes are included in the profit or loss for the period in which they arise.

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 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 lifetime of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

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 foreign currency balance sheet positions 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.

2.7 Significant accounting judgments and estimates

Key management judgments made in applying accounting policies

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

These include, but are not limited to, the following areas:

Capitalization of development costs

As outlined under 2.4 "Accounting and valuation principles" the Group capitalizes costs relating to the development of cochlear implants. In determining the commercial as well as the technical feasibility, management judgment may be required. In the current financial year the group impaired development costs in the amount of CHF 35.6 million (disclosed in the annual income statement in the line "Other income / (expenses), net").

Business combinations

In the course of recognizing assets and liabilities from business combinations, management judgments might be required for the following areas:

- Acquisition-related intangibles resulting from technology, customer relationships, client lists or brand names.
- Contingent consideration arrangements.

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. This includes estimates and assumptions in the ordinary course of business as well as non-operating events such as the outcome of pending legal disputes. 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 resulting 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). At the end of the 2016 / 17 financial year, such liabilities contingent on future events amount to CHF 10.6 million (previous year CHF 13.9 million) and are disclosed under other provisions (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 2,323.1 million (previous year CHF 1,349.6 million) as disclosed in Note 20.

Included in the intangible assets is goodwill amounting to CHF 1,815.2 million (previous year CHF 1,069.5 million).

Furthermore intangible assets also include capitalized development costs in the amount of CHF 100.6 million (previous year CHF 113.8 million). The capitalized development cost are reviewed on a regular basis as a matter of a standard systematic procedure. Due to the revision of the Cochlear implants product roadmap in the 2016 / 17 financial year, Sonova has identified the need of valuation adjustments on certain R&D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement in the line "other income / (expense), net".

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 130.0 million (previous year CHF 108.4 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 2016 / 17 financial period amounts to CHF 356.5 million (previous year CHF 361.1 million) as disclosed in Note 30. This includes CHF 353.3 million (previous year CHF 356.4 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension 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. In 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 together with a sensitivity analysis considering changes for the main input parameters in the actuarial valuation are set out in Note 30.

Provisions for warranty and returns
On March 31, 2017, the Group recorded provisions for warranty and returns of CHF 117.5 million (previous year CHF 96.3 million) as disclosed in Note 21.

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.

Provision for product liabilities
The Sonova Group accounts consider a provision for product liabilities related to products affected by a voluntary cochlear implant product recall of Advanced Bionics LLC in 2006.

The provision for product liabilities is reassessed on a regular and systematic basis. The provision is estimated based on a financial model. Generally the model used to calculate the provision for the end of the 2016 / 17 financial year is consistent to the prior year, except for a change in the claim rates and cost per case used to calculate the provision. Due to more available historical data about the claims and cost per case to date, these factors are now based on historical averages and no longer based on expert estimation. In the 2016 / 17 financial year, improvements in the expected number and cost of current and future claims led to a reversal of CHF 37.4 million which is contributing to the profit of 2016 / 17 in the same amount (disclosed in the annual income statement in the line “Other income / (expenses), net”). In the previous year the positive effect in the income statement amounted to CHF 8.8 million.

On March 31, 2017, the provision for the before mentioned cochlear implant product liabilities was CHF 132.5 million (previous year CHF 166.4 million).

The calculation of this provision is based on past experience regarding the number and cost of current and future claims. As actual results may differ from these forecasts, the respective provision may need to be adjusted accordingly.

3. Changes in Group structure

In the 2016 / 17 and 2015 / 16 financial years, the Group entered into several business combinations. The companies acquired / divested are in the business of producing and distributing hearing instruments.

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).

On April 16, 2015, Sonova Holding AG announced that it has 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 employs around 200 staff in Germany, France and the US. In calendar year 2014 sales were EUR 42 million (CHF 44 million).

On January 16, 2017, Sonova Holding AG announced that Sonova is engaged in negotiations regarding a potential sale of AudioNova retail business in France. In February 2017 all necessary regulatory approvals were obtained and the transaction has been closed on March 1, 2017. Furthermore on January 16, 2017 Sonova also announced that it has signed an agreement to sell its MiniSom retail business in Portugal. In March 2017 all necessary regulatory approval were obtained and the transaction will be closed on April 1, 2017. Further in the reporting period the Group divested a minor Group company in the Americas region. These three transactions have no material impact on the financial statements.

The effect of the acquisitions and divestments for the 2016 / 17 and 2015 / 16 financial years is disclosed in Note 28.

4. Number of employees

On March 31, 2017, the Sonova Group employed the full time equivalent of 14,089 people (previous year 10,894). They were engaged in the following regions and activities:

By region	31.3.2017	31.3.2016
Switzerland	1,178	1,200
EMEA (excl. Switzerland)	6,399	3,452
Americas	3,538	3,622
Asia / Pacific	2,974	2,620
Total	**14,089**	**10,894**
By activity		
Research and development	742	697
Operations	4,369	4,033
Sales and marketing, general and administration	8,978	6,164
Total	**14,089**	**10,894**

The average number of employees (full time equivalents) of the Sonova Group for the year was 12,802 (previous year 10,697). Total personnel expenses for the 2016 / 17 financial year amounted to CHF 861.3 million (previous year CHF 746.3 million).

5. Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2017	31.3.2016	2016 / 17	2015 / 16
	Year-end rates		Average rates for the year	
AUD 1	0.77	0.74	0.74	0.72
BRL 1	0.32	0.27	0.30	0.27
CAD 1	0.75	0.74	0.75	0.74
CNY 1	0.15	0.15	0.15	0.15
EUR 1	1.07	1.09	1.08	1.07
GBP 1	1.25	1.38	1.29	1.47
JPY 100	0.90	0.86	0.91	0.81
USD 1	1.00	0.96	0.99	0.97

6. Segment information

Segment information by business segments

Since the acquisition of Advanced Bionics as of December 30, 2009, the Group is active in the two business segments cochlear implants and hearing instruments, which are reported separately to the Group's chief operating decision maker (i.e. Chief Executive Officer). The financial information that is provided to the Group's chief operating decision maker, which is used to allocate resources and to assess the performance, is primarily based on the sales analysis as well as the consolidated income statements and other key financial metrics for the two 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 centralized in Switzerland while some activities are also performed in Canada and Sweden. 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, the United States and Sweden. 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. The distribution channels of the Group in the individual markets vary depending on the sales strategy and the characteristics of the countries. The distribution channels can broadly be split into a retail business where Sonova operates its own store network and sells directly to end consumers and a hearing instruments business, reflecting the wholesale sales to independent audiologists, 3rd party retail chains, multinational and government customers.

Cochlear implants: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing implants and related products. The segment consists of Advanced Bionics and the related sales organizations, which were acquired as of December 30, 2009 and which provide cochlear implant systems. In addition, since the acquisition the Group set up further sales organizations. Research and development as well as marketing activities of Advanced Bionics are predominantly centralized in the United States and Switzerland while production resides in the United States. The distribution of products is effected through sales organizations in the individual markets.

1,000 CHF	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**	**2016/17**	**2015/16**
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	2,191,985	1,887,211	207,244	187,267			2,399,229	2,074,478
Intersegment sales	(1,688)	(2,243)	(1,891)	(305)			(3,579)	(2,548)
Sales	**2,190,297**	**1,884,968**	**205,353**	**186,962**			**2,395,650**	**2,071,930**
Operating profit before acquisition-related amortization (EBITA)	**454,993**	**430,753**	**8,005**	**(121)**			**462,998**	**430,632**
Depreciation, amortization and impairment	(92,767)	(70,901)	(54,637)	(17,842)			(147,404)	(88,743)
Segment assets	**3,552,007**	**2,423,715**	**588,382**	**582,286**	**(720,668)**	**(689,297)**	**3,419,721**	**2,316,704**
Unallocated assets[1]							515,959	434,907
Total assets							**3,935,680**	**2,751,611**

[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	**2016/17**	**2015/16**
EBITA	462,998	430,632
Acquisition-related amortization	(39,321)	(27,195)
Financial costs, net	(6,205)	(7,951)
Share of (loss)/gain in associates/joint ventures, net	(143)	1,574
Income before taxes	**417,329**	**397,060**

Entity-wide disclosures

Sales by product groups 1,000 CHF	**2016/17**	**2015/16**
Premium hearing instruments	604,506	512,796
Advanced hearing instruments	464,710	403,356
Standard hearing instruments	713,864	599,814
Wireless communication systems	106,684	90,510
Miscellaneous	300,533	278,492
Total hearing instruments segment	**2,190,297**	**1,884,968**
Cochlear implant systems	159,971	141,647
Upgrades and accessories	45,382	45,315
Total cochlear implants segment	**205,353**	**186,962**
Total sales	**2,395,650**	**2,071,930**

Sales by business – hearing instruments segment 1,000 CHF	**2016/17**	**2015/16**
Hearing instruments business	1,311,207	1,266,240
Retail business	879,090	618,728
Total hearing instruments segment	**2,190,297**	**1,884,968**

Sales and selected non-current assets by regions 1,000 CHF	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	26,837	24,883	241,460	263,910
EMEA (excl. Switzerland)	1,135,362	858,087	1,461,948	462,191
USA	787,324	767,631	700,766	682,090
Americas (excl. USA)	210,888	197,144	130,749	123,856
Asia/Pacific	235,239	224,185	109,967	94,726
Total Group	**2,395,650**	**2,071,930**	**2,644,890**	**1,626,773**

[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.

7. Other income / expenses, net

“Other income / expenses, net” in the 2016 / 17 financial year amounts to CHF 6.3 million (previous year CHF 17.9 million). The regular and systematic assessment of the provision for product liabilities led to a release of CHF 37.4 million (previous year CHF 8.8 million). Further there was an impairment of previously capitalized development costs of CHF 35.6 million. For further information refer to Note 2.7 “Provision for product liabilities”, Note 20 “Intangible assets” and Note 21 “Provisions”. In addition the divestment of the AudioNova retail business in France together with a smaller divestment in the Americas region led to a gain of CHF 3.8 million (previous year other income from divestment CHF 8.7 million). For further information refer to Note 28.

8. Financial income / expenses, net

1,000 CHF	2016 / 17	2015 / 16
Interest income	3,797	2,007
Other financial income	3,596	2,291
Total financial income	**7,393**	**4,298**
Interest expenses	(1,728)	(1,475)
Other financial expenses	(11,870)	(10,774)
Total financial expenses	**(13,598)**	**(12,249)**
Total financial income / expenses, net	**(6,205)**	**(7,951)**

Other financial expenses in 2016 / 17 and 2015 / 16 include, amongst other items, the unwinding of the discount on provisions, contingent considerations and deferred payments, fair value adjustments of financial instruments as well as the costs for entering into forward foreign currency contracts.

9. Taxes

1,000 CHF	2016 / 17	2015 / 16
Income taxes	49,235	37,920
Change in deferred taxes	11,918	13,293
Total tax expense	**61,153**	**51,213**
Reconciliation of tax expense		
Income before taxes	417,329	397,060
Group’s expected average tax rate	15.5 %	13.7 %
Tax at expected average rate	**64,887**	**54,384**
+ / – Effects of		
Expenses not subject to tax, net	3,564	1,106
Changes of unrecognized loss carryforwards / deferred tax assets	(3,785)	10,131
Local actual tax rate different to Group’s expected average tax rate	(12,759)	(23,183)
Change in tax rates on deferred tax balances	7,808	7,441
Prior year adjustments and other items, net	1,438	1,334
Total tax expense	**61,153**	**51,213**
Weighted average effective tax rate	14.7 %	12.9 %

The Group’s expected average 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					**31.3.2017**
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(6,168)	(25,570)	27,295	66,877	62,434
Changes through business combinations	(612)	(78,784)	8,294	9,662	(61,440)
Deferred taxes recognized in the income statement	(356)	3,238	(4,414)	(10,386)	(11,918)
Deferred taxes recognized in OCI[1]			5,539		5,539
Exchange differences	42	1,389	(1,399)	(1,484)	(1,452)
Balance March 31	**(7,094)**	**(99,727)**	**35,315**	**64,669**	**(6,837)**
Amounts in the balance sheet					
Deferred tax assets					129,984
Deferred tax liabilities					(136,821)
Total deferred taxes, net					**(6,837)**

[1] Other comprehensive income.

Deferred tax assets and (liabilities) 1,000 CHF					**31.3.2016**
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(5,907)	(16,106)	28,532	71,907	78,426
Changes through business combinations		(7,165)			(7,165)
Deferred taxes recognized in the income statement	34	(1,479)	(3,288)	(8,560)	(13,293)
Deferred taxes recognized in OCI[1]			893		893
Exchange differences	(295)	(820)	1,158	3,530	3,573
Balance March 31	**(6,168)**	**(25,570)**	**27,295**	**66,877**	**62,434**
Amounts in the balance sheet					
Deferred tax assets					108,366
Deferred tax liabilities					(45,932)
Total deferred taxes, net					**62,434**

[1] Other comprehensive income.

Deferred tax assets have been capitalized based on the projected future performance of the Group companies.

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	**31.3.2017**	**31.3.2016**
Within 1 – 3 years	60,213	61,202
Within 4 years	39,851	11,009
Within 5 years	17,585	42,182
More than 5 years	416,462	386,436
Total	**534,111**	**500,829**

Tax loss carryforwards which have not been capitalized also include pre-acquisition tax losses with limitation of use and losses which do not qualify for capitalization. The inherent uncertainty regarding the level and use of such tax losses, and changes in tax regulations and laws can impact the annual assessment of these unused tax loss carryforwards.

10. 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	**2016/17**	**2015/16**
Income after taxes (1,000 CHF)	349,172	337,026
Weighted average number of outstanding shares	65,321,391	65,946,732
Basic earnings per share (CHF)	**5.35**	**5.11**

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 2012 through to 2017 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	**2016/17**	**2015/16**
Income after taxes (1,000 CHF)	349,172	337,026
Weighted average number of outstanding shares	65,321,391	65,946,732
Adjustment for dilutive share options	91,619	100,524
Adjusted weighted average number of outstanding shares	65,413,010	66,047,255
Diluted earnings per share (CHF)	**5.34**	**5.10**

11. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 13, 2017, that a dividend of CHF 2.30 shall be distributed (previous year CHF 2.10).

12. Cash and cash equivalents

1,000 CHF	**31.3.2017**	**31.3.2016**
Cash on hand	1,129	714
Current bank accounts	289,819	276,962
Term deposits	83,556	39,590
Total	**374,504**	**317,266**

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.

13. Other current financial assets

1,000 CHF	31.3.2017	31.3.2016
Marketable securities	358	1,918
Positive replacement value of forward foreign exchange contracts	819	810
Loans to third parties	2,987	4,020
Total	**4,164**	**6,748**

14. Trade receivables

1,000 CHF	31.3.2017	31.3.2016
Trade receivables	439,453	376,838
Provision for doubtful receivables	(26,078)	(22,166)
Total	**413,375**	**354,672**

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

1,000 CHF	31.3.2017	31.3.2016
Total trade receivables, net	**413,375**	**354,672**
of which:		
Not overdue	302,406	255,086
Overdue 1 – 30 days	54,547	46,517
Overdue more than 30 days	56,422	53,069
Total	**413,375**	**354,672**

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	2016 / 17	2015 / 16
Provision for doubtful receivables, April 1	**(22,166)**	**(22,755)**
Changes through business combinations	(3,039)	(2,023)
Utilization or reversal	9,299	10,488
Additions	(10,661)	(8,308)
Disposal	979	255
Exchange differences	(490)	177
Provision for doubtful receivables, March 31	**(26,078)**	**(22,166)**

During 2016 / 17 the Group has utilized CHF 7.3 million (previous year CHF 5.7 million) of this provision to write-off receivables.

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

1,000 CHF	31.3.2017	31.3.2016
BRL	22,155	22,350
CAD	24,546	22,502
CHF	13,625	13,201
EUR	139,628	103,237
GBP	12,859	13,962
USD	134,033	116,904
Other	66,529	62,516
Total trade receivables, net	**413,375**	**354,672**

15. Other receivables and prepaid expenses

1,000 CHF	31.3.2017	31.3.2016
Other receivables	65,240	50,590
Prepaid expenses	21,088	19,020
Total	**86,328**	**69,610**

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

16. Inventories

1,000 CHF	31.3.2017	31.3.2016
Raw materials and components	40,905	46,381
Work-in-process	93,891	96,090
Finished products	156,871	129,218
Allowances	(36,012)	(31,238)
Total	**255,655**	**240,451**

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

In 2016 / 17, CHF 639.2 million (previous year CHF 594.5 million) were recognized as an expense and included in “cost of sales”.

17. Property, plant and equipment

1,000 CHF					**31.3.2017**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	177,323	236,953	182,728	7,835	604,839
Changes through business combinations	10,650	25,726	122,691	2,069	161,136
Additions	7,509	22,782	22,585	3,059	55,935
Disposals	(311)	(13,449)	(15,225)		(28,985)
Transfers		4,572	2,972	(7,544)	
Exchange differences	(132)	678	(2,411)	14	(1,851)
Balance March 31	**195,039**	**277,262**	**313,340**	**5,433**	**791,074**
Accumulated depreciation					
Balance April 1	(60,095)	(171,618)	(105,256)		(336,969)
Changes through business combinations	(3,623)	(20,166)	(90,685)		(114,474)
Additions	(5,673)	(24,033)	(26,436)		(56,142)
Disposals	233	12,897	12,510		25,640
Transfers		402	(402)		
Exchange differences	(43)	(572)	1,807		1,192
Balance March 31	**(69,201)**	**(203,090)**	**(208,462)**		**(480,753)**
Net book value					
Balance April 1	117,228	65,335	77,472	7,835	267,870
Balance March 31	**125,838**	**74,172**	**104,878**	**5,433**	**310,321**

1,000 CHF					**31.3.2016**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	169,130	224,000	167,009	14,598	574,737
Changes through business combinations	497	1,647	2,989	20	5,153
Additions	910	15,936	20,096	10,045	46,987
Disposals	(142)	(8,809)	(11,637)	(61)	(20,649)
Transfers	7,225	5,506	3,793	(16,524)	
Exchange differences	(297)	(1,327)	478	(243)	(1,389)
Balance March 31	**177,323**	**236,953**	**182,728**	**7,835**	**604,839**
Accumulated depreciation					
Balance April 1	(55,027)	(157,886)	(91,836)		(304,749)
Additions	(5,261)	(22,260)	(19,982)		(47,503)
Disposals	140	7,609	6,722		14,471
Exchange differences	53	919	(160)		812
Balance March 31	**(60,095)**	**(171,618)**	**(105,256)**		**(336,969)**
Net book value					
Balance April 1	114,103	66,114	75,173	14,598	269,988
Balance March 31	**117,228**	**65,335**	**77,472**	**7,835**	**267,870**

Pledged fixed assets amounted to CHF 0.1 million (previous year CHF 0.03 million).

There are no assets held under finance leases.

18. 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	2016 / 17	2015 / 16
Current assets	919	442
Non-current assets	1,518	1,096
Total assets	**2,437**	**1,538**
Current liabilities	(394)	(278)
Non-current liabilities		(32)
Total liabilities	**(394)**	**(310)**
Net assets	**2,043**	**1,228**
Income for the year	2,170	2,847
Expenses for the year	(2,313)	(1,273)
Profit for the year	**(143)**	**1,574**
Net book value at year-end	11,471	9,275
Share of (loss) / gain recognized by the Group	(143)	1,574

In the 2016 / 17 financial year, the Group acquired three and divested one associate, being all in the business of selling hearing instruments. The total purchase consideration for the associates acquired amounted to CHF 1.6 million. In the 2015 / 16 financial year, there have been no changes in the number of associates / joint ventures.

Sales to associates / joint ventures in the 2016 / 17 financial year amounted to CHF 7.3 million (previous year CHF 7.5 million). At March 31, 2017, trade receivables towards associates / joint ventures amounted to CHF 2.2 million (previous year CHF 1.8 million).

At the end of the 2016 / 17 and 2015 / 16 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 11.5 million (previous year CHF 9.3 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2016.

19. Other non-current financial assets

1,000 CHF	31.3.2017	31.3.2016
Financial assets at fair value through profit or loss	3,190	7,442
Loans to associates	7,855	8,102
Loans to third parties	7,722	4,171
Rent deposits	1,598	255
Total	**20,365**	**19,970**

Financial assets at fair value through profit or loss mainly consist of minority interests in patent and software development companies specific to the hearing aid industry. 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 31).

The loans are primarily denominated in CAD, EUR, GBP, USD and ZAR. Loans to third parties consist mainly of loans to customers. As of March 31, 2017, the respective repayment periods vary between one and eight years and the interest rates vary generally between 3 % and 5 %. The valuation of the loans approximates to fair value.

20. Intangible assets

1,000 CHF					31.3.2017
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,217,979	303,894	138,217	67,356	1,727,446
Changes through business combinations	753,856	315,541		12,673	1,082,070
Additions			32,369	8,816	41,185
Disposals	(4,302)	(6,099)	(35,569)	(974)	(46,944)
Exchange differences	1,685	(6,375)	66	(389)	(5,013)
Balance March 31	**1,969,218**	**606,961**	**135,083**	**87,482**	**2,798,744**
Accumulated amortization and impairments					
Balance April 1	(148,518)	(158,834)	(24,420)	(46,046)	(377,818)
Changes through business combinations		(26,556)		(10,790)	(37,346)
Additions		(39,321)[2]	(10,069)	(6,303)	(55,693)
Disposals		437	35,569	958	36,964
Impairment			(35,569)		(35,569)
Exchange differences	(5,544)	(658)		7	(6,195)
Balance March 31	**(154,062)**	**(224,932)**	**(34,489)**	**(62,174)**	**(475,657)**
Net book value					
Balance April 1	1,069,461	145,060	113,797	21,310	1,349,628
Balance March 31	**1,815,156**	**382,029**	**100,594**	**25,308**	**2,323,087**

[1] Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R & D and technology.
[2] Relates to research and development (CHF 5.1 million) and sales and marketing (CHF 34.2 million).

1,000 CHF					31.3.2016
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,121,654	271,267	112,325	63,519	1,568,765
Changes through business combinations	106,531	38,072		895	145,498
Additions			26,366	9,698	36,064
Disposals	(7,389)	(6,028)	(430)	(6,940)	(20,787)
Exchange differences	(2,817)	583	(44)	184	(2,094)
Balance March 31	**1,217,979**	**303,894**	**138,217**	**67,356**	**1,727,446**
Accumulated amortization and impairments					
Balance April 1	(150,151)	(136,029)	(16,010)	(46,977)	(349,167)
Additions		(27,195)[2]	(8,410)	(5,635)	(41,240)
Disposals		3,683		6,643	10,326
Exchange differences	1,633	707		(77)	2,263
Balance March 31	**(148,518)**	**(158,834)**	**(24,420)**	**(46,046)**	**(377,818)**
Net book value					
Balance April 1	971,503	135,238	96,315	16,542	1,219,598
Balance March 31	**1,069,461**	**145,060**	**113,797**	**21,310**	**1,349,628**

[1] Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R&D and technology.
[2] Relates to research and development (CHF 4.4 million) and sales and marketing (CHF 22.8 million).

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit, which is expected to benefit from the synergies of the corresponding business combination.

For the Group, a meaningful goodwill allocation can only be done at the level of the segments, hearing instruments and cochlear implants. This also reflects the level that the goodwill is monitored by management.

For both of the two cash-generating units, the recoverable amount (higher of the cash-generating unit's fair value less cost of disposal 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 cost of disposal. Therefore, fair value less cost of disposal is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2016/17 and 2015/16 financial years.

Hearing instruments

As of March 31, 2017, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,492.7 million (prior year CHF 758.6 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0% (prior year 2.1%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.2% (prior year 9.9%) was used. An increase in the discount rate of 1% would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2017, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 322.5 million (prior year CHF 310.9 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the Cochlear implants business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.1 % (prior year 2.1 %) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.1 % (prior year 9.8 %) was used. An increase in the discount rate of 1 % would not result in an impairment of goodwill.

The capitalized development cost are reviewed on a regular basis. Due to the revision of the Cochlear implants product roadmap in the 2016 / 17 financial year, Sonova has identified the need of valuation adjustments on certain R & D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement in the line “other income / (expense), net”. The capitalized intangibles are included in the reportable segment “Cochlear implants” disclosed in Note 6.

21. Provisions

1,000 CHF					31.3.2017
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	96,293	11,380	166,385	23,042	297,100
Changes through business combinations	16,250			16,901	33,151
Amounts used	(63,621)	(6,816)	(3,157)	(11,520)	(85,114)
Reversals	(2,792)	(6)	(37,380)	(3,439)	(43,617)
Increases	70,798	6,302		12,479	89,579
Disposals	(60)			(539)	(599)
Present value adjustments	3		960		963
Exchange differences	618	326	5,717	84	6,745
Balance March 31	**117,489**	**11,186**	**132,525**	**37,008**	**298,208**
thereof short-term	78,793	11,180	14,062	8,244	112,279
thereof long-term	38,696	6	118,463	28,764	185,929

1,000 CHF					31.3.2016
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	83,042	10,841	192,504	30,694	317,081
Changes through business combinations	5,866	132		3,033	9,031
Amounts used	(50,710)	(6,726)	(16,369)	(10,745)	(84,550)
Reversals	(5,869)	(166)	(8,847)	(5,490)	(20,372)
Increases	64,553	7,406		6,909	78,868
Disposals	(77)			(1,336)	(1,413)
Present value adjustments	14		1,167		1,181
Exchange differences	(526)	(107)	(2,070)	(23)	(2,726)
Balance March 31	**96,293**	**11,380**	**166,385**	**23,042**	**297,100**
thereof short-term	70,656	11,361	12,899	10,304	105,220
thereof long-term	25,637	19	153,486	12,738	191,880

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. During this period, products will be repaired or a replacement product will be provided free of charge. The provision is based on turnover, past experience and projected warranty claims.

The provision for reimbursement to customers considers commitments to provide volume rebates. The provision is based on expected volumes. The large majority of the cash outflows are expected to take place within the next 12 months.

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics LLC in 2006. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees.

The provision for the above mentioned cochlear implant product liabilities is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a reduction of CHF 37.4 million (previous year CHF 8.8 million) in “other income / (expense), net”. For further information refer to Note 2.7 “Provision for product liabilities”. The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings.

Other provisions include earn-out provisions as well as provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. The main change compared to previous year is primarily related to the acquisition of AudioNova. The timing of cash outflows for the other provisions are expected to take place within the next two years.

22. Current financial liabilities

1,000 CHF	**31.3.2017**	**31.3.2016**
Short-term debt	19	45
Deferred payments and contingent considerations	12,323	5,652
Other current financial liabilities	1,013	849
Total	**13,355**	**6,546**
Unused borrowing facilities	187,003	187,836

Current financial liabilities mainly consist of financial liabilities resulting from earn-out agreements related to contingent considerations and deferred payments from acquisitions.

Given the short-term nature of the deferred payments they are recognized at nominal value. The book value of deferred payments approximates fair value.

In the 2015 / 16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at balance sheet date.

23. Other short-term liabilities

1,000 CHF	31.3.2017	31.3.2016
Other payables	47,661	39,772
Accrued expenses	184,190	146,600
Deferred income	27,324	27,817
Total	**259,175**	**214,189**

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.

24. Non-current financial liabilities

1,000 CHF	31.3.2017	31.3.2016
Bank debt	78	101
Bonds	759,198	
Other non-current financial liabilities	7,684	15,073
Total	**766,960**	**15,174**

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:

- A 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 bps 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. The fair value as of March 31, 2017 is amounting to CHF 150.0 million (100.23 %).
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15 % with a 0.00 % interest rate and maturity on October 11, 2019. The fair value as of March 31, 2017 is amounting to CHF 250.0million (100.04 %).
- A 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. The fair value as of March 31, 2017 is amounting to CHF 360.0 million (100.13 %).

Other non-current financial liabilities consist of obligations in relation to earn-out agreements from acquisitions as well as amounts due in relation to the share appreciation rights (SARs) and warrant appreciation rights (WARs) (refer to Note 31).

Analysis by currency 1,000 CHF				31.3.2017			31.3.2016
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Other non-current financial liabilities	Total
CHF		759,198	5,944	765,142		13,615	13,615
USD			419	419		1,075	1,075
EUR						3	3
Other	78		1,321	1,399	101	380	481
Total	**78**	**759,198**	**7,684**	**766,960**	**101**	**15,073**	**15,174**

25. 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 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 responsibility for the process of risk assessment and monitoring is allocated to the corporate risk function. 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, forward currency contracts 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 1 and 6 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, 2017, forward currency contracts amounting to CHF 201.8 million (previous year CHF 173.8 million) were open. The open contracts on March 31, 2017 as well as on March 31, 2016 were all due within one year.

Notional amount of forward contracts 1,000 CHF		**31.3.2017**		**31.3.2016**
	Total	Fair Value	Total	Fair Value
Positive replacement values	57,513	819	146,841	810
Negative replacement values	102,597	(870)	26,976	(637)
Total	**160,110**	**(51)**	**173,817**	**173**

Foreign currency sensitivity analysis

1,000 CHF	2016/17	2015/16	2016/17	2015/16
	Impact on income after taxes		Impact on equity	
Change in USD/CHF +5%	1,181	2,589	32,494	23,100
Change in USD/CHF –5%	(1,181)	(2,589)	(32,494)	(23,100)
Change in EUR/CHF +5%	4,665	3,708	17,733	6,576
Change in EUR/CHF –5%	(4,665)	(3,708)	(17,733)	(6,576)

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2016/17 financial year of CHF 236 million (previous year CHF 249 million). On liabilities the most significant risk relates to the two year variable rate bond (see Note 24). If interest rates during the 2016/17 financial year had been 1% higher the positive impact on income before taxes would have been CHF 1.3 million. In case interest rates had been 1% lower the income would have been negatively impacted by CHF 0.2 million.

Other market risks

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

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 at least "BBB+" rated (S&P) financial institutions. As of March 31, 2017, the largest balance with a single counterparty amounted to 19% (previous year 32%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers 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. The same applies to loans to third and related parties.

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

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.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2017 and 2016:

1,000 CHF					31.3.2017
	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 debt	19				19
Other current financial liabilities	4,563	8,773			13,336
Trade payables and other short-term liabilities	232,106	111,198			343,304
Total current financial liabilities	**236,688**	**119,971**			**356,659**
Long-term bank debt			78		78
Bonds			759,198		759,198
Other non-current financial liabilities			7,684		7,684
Total non-current financial liabilities			**766,960**		**766,960**
Total financial liabilities	**236,688**	**119,971**	**766,960**		**1,123,619**

1,000 CHF					31.3.2016
	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 debt	45				45
Other current financial liabilities	4,694	1,807			6,501
Trade and other short-term liabilities	179,042	104,016			283,058
Total current financial liabilities	**183,781**	**105,823**			**289,604**
Long-term bank debt			101		101
Other non-current financial liabilities			15,073		15,073
Total non-current financial liabilities			**15,174**		**15,174**
Total financial liabilities	**183,781**	**105,823**	**15,174**		**304,778**

Fair value hierarchy

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2017 and 2016. The different levels have been defined as follows:

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.
Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
Level 3: If a significant amount of inputs is not based on observable market data the instrument is included in level 3. For this level other techniques, such as discounted cash flow analysis, are used to determine fair value.

During the reporting period there were no reclassifications between the individual levels.

1,000 CHF				31.3.2017
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	1,788		1,531	3,319
Total	**1,788**		**1,531**	**3,319**
Financial liabilities				
At fair value through profit or loss		(704)	(20,598)	(21,302)
Total		**(704)**	**(20,598)**	**(21,302)**

1,000 CHF				31.3.2016
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	2,886		6,474	9,360
Total	**2,886**		**6,474**	**9,360**
Financial liabilities				
At fair value through profit or loss			(21,574)	(21,574)
Total			**(21,574)**	**(21,574)**

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2017 and 2016:

Financial assets at fair value through profit or loss 1,000 CHF	2016/17	2015/16
Balance April 1	6,474	6,695
Additions / (disposals), net	(3,263)	29
Losses recognized in profit or loss	(1,680)	(250)
Balance March 31	**1,531**	**6,474**

Financial liabilities at fair value through profit or loss 1,000 CHF	2016/17	2015/16
Balance April 1	(21,574)	(7,966)
(Additions) / disposals, net	1,620	(13,563)
Losses recognized in profit or loss	(644)	(45)
Balance March 31	**(20,598)**	**(21,574)**

Capital risk management

It is the Group's policy to maintain a strong equity base and to secure a continuous "investment grade" rating. The Group's strong balance sheet and earnings tracking provides for additional debt capacity.

The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth, and amortization of debt.

26. Other long-term liabilities

1,000 CHF	31.3.2017	31.3.2016
Long-term deferred income	80,697	29,440
Retirement benefit obligations	25,581	65,324
Total	**106,278**	**94,764**

Long-term deferred income relates to long-term service contracts with customers and is recognized as a sale over the period of the service contract. The increase in the financial year 2016/17 primarily relates to the acquisition of AudioNova.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 30.

27. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2015	67,173,287	(547,313)	66,625,974
Capital decrease – share buy-back program	(546,900)	546,900	
Purchase of treasury shares		(182,420)	(182,420)
Sale / transfer of treasury shares		176,344	176,344
Purchase of shares intended to be cancelled[2]		(1,203,500)	(1,203,500)
Balance March 31, 2016	**66,626,387**	**(1,209,989)**	**65,416,398**
Capital decrease – share buy-back program	(1,203,500)	1,203,500	
Purchase of treasury shares		(294,791)	(294,791)
Sale / transfer of treasury shares		293,090	293,090
Balance March 31, 2017	**65,422,887**	**(8,190)**	**65,414,697**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2017	**3,271**	**(1)**	**3,270**

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

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). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2017. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

28. Acquisitions / Disposals of subsidiaries

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 in the 2016 / 17 and 2015 / 16 financial year. Further during the financial year 2015 / 16 Hansaton Akustik GmbH was acquired.

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

1,000 CHF			**2016 / 17**	**2015 / 16**
	AudioNova	Others	Total	Total
Trade receivables	32,486	333	32,819	12,998
Other current assets	77,152	2,444	79,596	27,948
Property, plant & equipment	45,572	1,090	46,662	5,153
Intangible assets	275,742	15,126	290,868	38,967
Other non-current assets	28,010	2,183	30,193	5,366
Current liabilities	(35,307)	(3,450)	(38,757)	(36,297)
Non-current liabilities	(460,818)	(5,117)	(465,935)	(19,546)
Net assets	**(37,163)**	**12,609**	**(24,554)**	**34,589**
Goodwill	720,610	33,246	753,856	106,531
Purchase consideration	**683,447**	**45,855**	**729,302**	**141,120**
Liabilities for contingent considerations and deferred payments[1]		(1,487)	(1,487)	(17,154)
Cash and cash equivalents acquired	(53,022)	(1,359)	(54,381)	(7,056)
Cash outflow for investments in associates, contingent considerations and deferred payments		1,849	1,849	4,342
Cash consideration for acquisitions, net of cash acquired	**630,425**	**44,858**	**675,283**	**121,252**
Settlement of pre-existing HAL intragroup financing	290,794		290,794	
Total consideration paid, net of cash acquired	**921,219**	**44,858**	**966,077**	**121,252**

[1] Contingent considerations and deferred payments (earn-out payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments 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 Sonova products within acquired distribution companies 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. All acquisitions have been accounted for applying the acquisition method of accounting.

Recognized acquisition-related intangible assets for AudioNova largely contain trademarks (CHF 142.3 million) and customer relationships (CHF 131.5 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 8.8 million (prior year period CHF 2.0 million), thereof CHF 8.1 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 resulting from the AudioNova acquisition.

1,000 CHF			2016/17	2015/16
	AudioNova	Others	Total	Total
Contribution of acquired companies from date of acquisition				
Sales	218,086	12,661	230,747	60,434
Net income	11,589	1,269	12,858	(203)
Contribution, if the acquisitions occurred on April 1				
Sales	361,867	19,754	381,621	76,917
Net income[1)]	9,304	3,230	12,534	1,053

1) The contribution from AudioNova has been normalized for interest costs on the pre-existing intragroup financing arrangements with the former owners (HAL Investments B.V.) and includes amortization on additional acquisition-related intangibles.

On January 16, 2017, Sonova Holding AG announced that Sonova is engaged in negotiations regarding a potential sale of AudioNova retail business in France. In February 2017 all necessary regulatory approvals were obtained and the transaction has been closed on March 1, 2017. Further in the 2016/17 financial year, the Group divested a minor group company in the Americas region. The total consideration amounting to CHF 18.3 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 14.0 million including cash and cash equivalents of CHF 0.5 million. The net gain from these transactions of CHF 3.8 million has been recognized in the income statement and is included in "other income/(expense), net". Furthermore on January 16, 2017 Sonova also announced that it has signed an agreement to sell its MiniSom retail business in Portugal. In March 2017 all necessary regulatory approval were obtained and the transaction was closed on April 1, 2017. These transactions have no material impact on the financial statements.

In the 2015/16 reporting period, the Group divested two minor group companies in the EMEA region. The consideration amounting to CHF 33.4 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 24.7 million including cash and cash equivalents of CHF 3.8 million. The net gain from those transactions of CHF 8.7 million has been recognized in the income statement and is included in "other income / (expense), net".

29. Transactions and relations with members of the Management Board and the Board of Directors

1,000 CHF	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	Management Board		Board of Directors		Total	
Short-term employee benefits	8,199	8,884	1,519	1,590	9,718	10,474
Post-employment benefits	828	848			828	848
Share based payments	5,064	4,987	1,362	1,344	6,426	6,331
Total	**14,091**	**14,719**	**2,881**	**2,934**	**16,972**	**17,653**

The total compensation to the Management Board for the 2016/17 reporting period, as shown above, relates to the 10 current members of the Management Board (including one member of the Management Board joined in January 2017) and one former member. The total compensation to the Management Board for the 2015/16 reporting period, as shown above, related to 13 members.

The total compensation to the Board of Directors for the 2016/17 reporting period, as shown above, relates, as in previous year, to eight current members and one former member (considered until retirement from the Board of Directors).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 30.

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 the compensation report and in the Note 3.6 of the financial statements of Sonova Holding AG.

30. Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Norway, Canada, Germany and Israel. These plans are both funded and unfunded and determined by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland which in total accounts for CHF 353.3 million or 99.6 % (previous year CHF 356.4 million or 99.2 %) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is in essence contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. In the reporting period the foundation decided to reduce the actual annuity rate of 5.8 % applied to the individual accumulated retirement saving gradually over-time. Between now and 2019 the annuity rate will be reduced by 0.2 % per annum, to reach 5.4 % in 2019. Previous year the decision had been taken to reduce the annuity rate by 0.2 % on a straightline basis to reach 5.8 % in 2017 respectively 5.6 % in 2018. In addition the new generation tables BVG 2015 with higher life expectancy and lower invalidity incidence rates have been adopted.

As of March 31, 2017, 1,210 employees (previous year 1,238 employees) and 107 beneficiaries (previous year 84 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 14.3 years (previous year 14.5 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF 1,000	**31.3.2017**	**31.3.2016**
Present value of funded obligations	(354,721)	(359,282)
Fair value of plan assets	330,864	295,796
Net present value of funded plans	**(23,857)**	**(63,486)**
Present value of unfunded obligations	(1,724)	(1,838)
Total liabilities, net	**(25,581)**	**(65,324)**
Amounts in the balance sheet:		
Retirement benefit obligations	(25,581)	(65,324)

Remeasurements recognized in equity CHF 1,000	**2016 / 17**	**2015 / 16**
Balance April 1	69,497	62,887
Actuarial (gains) / losses from		
– changes in demographic assumptions	(6,775)	
– changes in financial assumptions	(4,125)	(1,053)
– changes in experience adjustments	(4,789)	(2,180)
Return on plan assets excluding interest income	(23,759)	9,843
Balance March 31	**30,049**	**69,497**

Amounts recognized in the income statement CHF 1,000	**2016 / 17**	**2015 / 16**
Current service cost[1)]	23,982	21,350
Participants' contributions	(10,633)	(10,800)
Net interest cost	435	560
Total employee benefit expenses[2)]	**13,784**	**11,110**

1) Current service cost for the 2016 / 17 as well as the 2015 / 16 financial year contains a gradual reduction of the annuity rate. In addition, 2015 / 16 included the implementation of a restructuring plan, announced on March 2, 2015, which provided for the reduction of approx. 100 positions in Switzerland.

2) The amount recognized in the consolidated income statement 2016 / 17 has been charged to:
– cost of sales CHF 2.4 million (previous year CHF 2.4 million);
– research and development CHF 4.3 million (previous year 3.3 million);
– sales and marketing CHF 2.7 million (previous year 2.0 million);
– general and administration CHF 4.0 million (previous year CHF 2.8 million);
– financial expenses CHF 0.4 million (previous year CHF 0.6 million).

Movement in the present value of the defined benefit obligations CHF 1,000	**2016 / 17**	**2015 / 16**
Beginning of the year	361,122	350,315
Interest cost	2,243	2,886
Current service cost	23,982	21,350
Benefits paid, net	(15,377)	(11,715)
Actuarial loss on obligations	(15,689)	(3,233)
Changes through business combinations	104	1,536
Exchange differences	67	(17)
Present value of obligations at end of period	**356,452**	**361,122**

Movement in the fair value of the plan assets CHF 1,000	**2016 / 17**	**2015 / 16**
Beginning of the year	295,778	288,505
Interest income on plan asset	1,808	2,326
Employer's contributions paid	13,944	14,128
Participants' contributions	10,633	10,800
Benefits paid, net	(15,218)	(11,626)
Return on plan assets excluding interest income	23,759	(9,843)
Changes through business combinations	110	1,512
Exchange differences	(55)	(24)
Fair value of plan assets at end of period	**330,759**	**295,778**

The plan assets consist of:	31.3.2017	31.3.2016
Cash	1.4%	1.2%
Domestic bonds	20.0%	22.0%
Foreign bonds	8.4%	10.2%
Domestic equities	13.8%	13.3%
Foreign equities	32.1%	30.0%
Real estates	15.0%	16.0%
Alternative investments	9.3%	7.3%

The actual return on plan assets amounted to CHF 25.4 million (previous year CHF –7.5 million). The expected employer's contributions to be paid in the 2017/18 financial year amount to CHF 14.1 million.

Principal actuarial assumptions (weighted average)	2016/17	2015/16
Discount rate	0.60%	0.60%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2010GT

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions was changed. For the analysis, changes in the assumptions were considered separately and no inter-dependencies were taken into account.

Sensitivity analysis – Impact on defined benefit obligation CHF 1,000	31.3.2017	31.3.2016
Discount rate		
Discount rate + 0.25%	(11,694)	(11,961)
Discount rate – 0.25%	13,315	13,635
Salary growth		
Salary growth + 0.25%	823	959
Salary growth – 0.25%	(802)	(936)
Pension growth		
Pension growth + 0.5%	13,485	13,466
Pension growth – 0.5%	(13,485)	(13,466)
Fluctuation rate		
Fluctuation rate + 5%	(14,357)	(17,199)
Fluctuation rate – 5%	24,750	29,307

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 17.7 million in the year ended March 31, 2017 (previous year CHF 13.7 million) are recognized directly in the income statement.

31. Equity plans

Equity plans are offered annually to the members of the Board of Directors (BoD), to the members of the Management Board (MB) as well as to other management and senior employees of the Group, entitling them to receive long-term incentives in the form of equity plans free of charge. Equity plans are settled either with Sonova Holding AG shares (equity-settled share-based payment) or for certain US employees with an equivalent amount in cash (cash-settled share-based payment). The amount granted varies depending on the degree of management responsibility held.

In the 2016 / 17 and 2015 / 16 financial years, Sonova granted restricted shares, restricted share units (RSUs), options, and for US employees, share appreciation rights (SARs). From 2014, grants made under the Executive Equity Award Plan (EEAP) to the CEO and the other members of the MB includes a performance criterion: the vesting of options and RSUs in a given year is subject to achievement of a pre-defined minimum return on capital employed (ROCE) target.

The following share-based payment costs have been recognized in the financial years:

1,000 CHF	**2016 / 17**	**2015 / 16**
Equity-settled share-based payment costs	18,708	18,938
Cash-settled share-based payment costs	254	403
Total share-based payment costs	**18,962**	**19,341**

The following table shows the outstanding options and / or SARs, granted as part of the EEAP 2012 to 2017. All of the equity instruments listed below vest in 4 equal tranches, annually over a period of 4 years.

Summary of outstanding options and SARs granted until March 31, 2017:

Financial year granted	Instruments granted	First vesting date / Expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2011 / 12	Options / SARs	1.6.2013 31.1.2019	298,474	95.85	78,753	1.8	78,753
2012 / 13	Options / SARs	1.6.2014 31.1.2020	227,188	109.10	108,502	2.8	65,029
2013 / 14	Options / SARs[1]	1.6.2015 31.1.2021	242,673	124.60	156,076	3.8	62,098
2014 / 15	Options / SARs[2]	1.6.2016 31.1.2022	308,459	121.10	238,729	4.8	44,878
2015 / 16	Options / SARs[3]	1.6.2017 31.1.2023	298,520	124.20	265,360	5.8	
2016 / 17	Options / SARs[4]	1.6.2018 31.1.2024	378,652	130.00	378,652	6.8	
Total			**1,753,966**	**118.18**	**1,226,072**[5]	**5.2**	**250,758**[6]
Thereof:							
Equity-settled			1,551,500		1,123,708		239,356
Cash-settled			202,466		102,364		11,402

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Weighted average exercise price of outstanding options / SARs amounts to CHF 122.28.
6) Weighted average exercise price for exercisable options / SARs amounts to CHF 110.92.

The fair value of options and / or SARs is calculated at the grant date by using an "Enhanced American Pricing Model". The expected volatility is based on historical measures. Valuation assumptions used for the options and / or SARs granted in the current financial year and the 2015 / 16 financial year are as follows:

Assumptions for valuation at grant date	Executive Equity Award Plan 2017	Executive Equity Award Plan 2016
Valuation date	1.2.2017	1.2.2016
Expiry date	31.1.2024	31.1.2023
Share price on grant date	CHF 130.00	CHF 124.20
Exercise price	CHF 130.00	CHF 124.20
Volatility	21.7 %	24.4 %
Expected dividend yield	2.1 %	2.3 %
Weighted risk free interest rate	(0.3 %)	(0.4 %)
Weighted average fair value of options / SARs issued	**CHF 16.99**	**CHF 20.60**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options 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 (including adjustments due to reassessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment.

Changes in outstanding options / warrants:		2016 / 17		2015 / 16
	Number of options	Weighted average exercise price (CHF)	Number of options / warrants[1]	Weighted average exercise price (CHF)
Outstanding options / warrants at April 1	1,010,026	117.07	1,019,036	114.50
Granted[2]	334,440	130.00	263,418	124.20
Exercised / sold[3]	(168,642)	108.20	(248,876)	114.20
Forfeited	(52,116)	121.82	(23,552)	115.82
Outstanding options / warrants at March 31	**1,123,708**	**122.03**	**1,010,026**	**117.07**
Exercisable at March 31	**239,356**	**110.71**	**203,464**	**105.04**

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

2) 2016 / 17 includes 147,948 performance options (previous year 126,206 performance options), granted to the CEO and MB members.

3) The movement in options / warrants for the 2016 / 17 financial year fully relates to options exercised as no warrants remain outstanding. In 2015 / 16 the movement related to 70,761 options exercised and 178,115 warrants sold. Total consideration from options exercised amounted to CHF 32.5 million (previous year CHF 7.6 million).
The weighted average share price of the options exercised during the year 2016 / 17 was CHF 132.29 (previous year CHF 131.67).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs , multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until their expiry.

Changes in outstanding SARs / WARs:		**2016 / 17**				**2015 / 16**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)	Number of WARs	Weighted average exercise price (CHF)
Outstanding SARs / WARs at April 1	103,956	119.45	91,706	116.34	8,783	118.40
Granted	44,212	130.00	35,102	124.20		
Exercised / sold	(19,963)	110.83	(8,151)	105.14	(8,783)	118.40
Forfeited	(25,841)	122.18	(14,701)	119.30		
Outstanding SARs / WARs at March 31[1]	**102,364**	**125.00**	**103,956**	**119.45**	**0**	
Exercisable at March 31[2]	**11,402**	**115.43**	**13,489**	**108.71**		

1) The carrying amount of the liability relating to the SARs at March 31, 2017 is CHF 1.2 million (previous year CHF 1.0 million).

2) The intrinsic value of the SARs exercisable at March 31, 2017 amounts to CHF 0.3 million (previous year CHF 0.2 million).

Restricted shares / Restricted share units (RSUs)

Under the EEAP grants 2012 to 2017, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares 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 one share per RSU after the vesting period. In the case of performance RSUs, granted to the CEO and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is also dependent on the fulfillment of the performance criteria. In addition to the RSUs granted in respect to the EEAP 2017, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

Upon vesting of the RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely achievements of the ROCE targets for performance RSUs granted to CEO and the other members of the MB) to ensure that only vested amounts are expensed. The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2016 / 17 financial year as these shares have no vesting period.

Changes in outstanding RSUs:	2016/17	2015/16
	Number of RSUs	Number of RSUs
RSUs at April 1	458,436	435,473
Granted[1]	135,286	133,082
Released	(110,627)	(87,843)
Forfeited	(25,426)	(22,276)
RSUs at March 31	**457,669**	**458,436**

[1] 2016/17 includes 17,907 performance RSUs, granted to the CEO and MB members (previous year 19,818).

32. Contingent liabilities

At March 31, 2017 and 2016, there were no pledges given to third parties other than in relation to bank loans and mortgages.

In the 2015/16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at the balance sheet date.

Deposits in the amount of CHF 2.7 million (previous year CHF 1.1 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.8 million at March 31, 2017 (previous year CHF 0.9 million). Open purchase orders as of March 31, 2017 and 2016, were related to recurring business activities.

33. Leasing liabilities

At March 31, 2017, the following non-cancellable minimum operating lease obligations existed:

Financial year 1,000 CHF	**31.3.2017**	**31.3.2016**
2016/17		41,392
2017/18	69,320	31,133
2018/19	50,229	24,951
2019/20	38,743	22,225
2020/21	26,593	15,575
2021/22	21,391	15,919
thereafter	25,990	13,025
Total	**232,266**	**164,220**

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

In the 2016/17 financial year, CHF 79.6 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 54.0 million). The increase is mainly related to the acquisition of AudioNova.

As of March 31, 2017 and 2016, the Group had no financial lease obligations.

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 (country)	Share / paid-in capital[1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,271	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	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 %
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100 %
Unitron Hearing GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100 %
Hansaton Akustik GmbH	B	Hamburg (DE)	EUR	1,000	100 %
Geers Hörakustik GmbH & Co. KG	B	Dortmund (DE)	EUR	4,990	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Audition Santé SAS	B	Cahors (FR)	EUR	18,800	100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000	100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
AudioNova International B.V.	A	Rotterdam (NL)	EUR	52,079	100 %
Schoonenberg Hoorcomfort B.V.	B	Dortrecht (NL)	EUR	19	100 %
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51 %
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100 %
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100 %
Americas					
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	36,179	100 %
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0 [3]	100 %
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0 [3]	100 %
Connect Hearing Inc.	B	Naperville (US)	USD	0 [4]	100 %
Ear Professionals International Corporation	B	Pomona (US)	USD	6	100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100 %
Advanced Bionics Corp.	A	Valencia (US)	USD	1	100 %
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0 [3]	100 %
Phonak LLC	B	Warrenville (US)	USD	0 [3]	100 %
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0 [3]	100 %
Development Finance Inc.	A	Wilmington (US)	USD	0 [5]	100 %
Asia / Pacific					
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	0 [6]	100 %
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	750	100 %
Triton Hearing Limited	B	Christchurch (NZ)	NZD	7,750	100 %
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	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] Share / paid-in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
[2] GBP 133
[3] Without par value
[4] USD 1
[5] USD 10
[6] AUD 100

Report of the statutory auditor on the consolidated financial statement

Report of the statutory auditor

to the General Meeting of Sonova Holding AG

Staefa

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

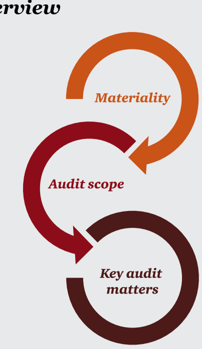
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 20.5 million

We concluded full scope audit work at 25 reporting units in 11 countries. Our audit scope addressed over 64% of the Group's revenue and 74% of the Group's assets.

In addition, specified procedures were performed for 6 reporting units in 5 countries representing a further 6% of the Group's revenue and 3% of the Group's assets and limited reviews for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 8% of the Group's assets.

As key audit matters the following areas of focus have been identified:

- Goodwill impairment assessment
- Provision for product liabilities
- Acquisition of AudioNova – Business Combination

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group is primarily structured across two operating segments: Hearing Instruments and Cochlear Implants. Both segments are active in several markets, mainly Americas, Europe, Asia, Australia and South East Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, by component auditors from PwC network firms and component auditors from other firms operating under our instructions. The group consolidation, financial statement disclosures, goodwill and deferred tax assets are audited by the group engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Our Group engagement team's involvement included various conference calls with component auditors during the planning phase, interim and final audit.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 20.5 million
How we determined it	5% of average profit before tax of the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years helps dampen volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

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context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group has goodwill of CHF 1,815.2 million at March 31, 2017. The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgments and estimates made by management. The judgements include the initial valuation and subsequent determination of timing and measurement of an impairment charge, if any, including the determination of cash generating units, the future cash flow forecasts and discount rates applied. Refer to page 98 (Significant accounting judgements and estimates), and pages 110-112 (notes).	We assessed and tested the design and operating effectiveness of the Group's controls over the Budget- and Management Reporting process which is the basis for the future cash flow forecast. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which was subject to timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets. In addition, we focused on whether the Management had identified all relevant CGUs. The Group operates as a fully integrated system provider in the respective segments covering the whole value chain. Individual entities or elements of the business are not generating independent cash flows. Therefore, our work focused on confirming management's position that the CGU's Hearing Instruments and Cochlear Implants are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. We evaluated and challenged the reasonableness of management's key assumptions applied in its impairment assessment for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the assumptions had, with hindsight, been reasonable. • Mid and long term growth rates, by comparing them to economic and industry forecasts. • Discount rate, with support of our valuation specialists, by assessing the cost of capital for the company and comparable organisations. We performed our own sensitivity analysis around the assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. Sufficient headroom remained between our own value in use calculation used for sensitivity analysis and the carrying value of the CGUs in

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	the financial statements. We also found that the assessments were based upon reasonable assumptions consistently applied and concur with management's assessment.

Provisions for product liabilities

Key audit matter	*How our audit addressed the key audit matter*
Provisions for product liabilities amounted to CHF 132.5 million as of March 31, 2017. We focused on the provision for product liabilities related to the voluntary product recall of Advanced Bionics LLC in 2006 (for further details refer to page 99), due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially impact the Group's result. Refer to page 99 (Significant accounting judgements and estimates), and page 112-113 (notes) for more information.	In response to the risk, our audit procedures included, assessing management's process around the identification and evaluation of respective claims, proceedings and investigations at different levels in the organisation and the recording and continuous re-assessment of the related provision and disclosures. We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We also inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors as well as received external legal confirmation letters from a selection of external legal counsel. Management used a developed model to calculate the product liability. Generally the model is consistent to prior year except for a change in the claim rates and costs per case used to calculate the provision. Due to more available historical data about the claims and costs per case to date, Management decided to calculate the provision based on historical average claim rates and costs per claim instead of a claim rate and cost estimation. This results in a reversal of the provision amounting of CHF 37.4 million. The general model used has been examined carefully and represents management's best estimate for the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We have selected samples for settlements and insurance payments and assessed whether the settlements support the key determining factors used for the calculation model. Furthermore we assessed if the discounting of the provision was in accordance with IAS 37. Based on our procedures performed, the provision had been arrived based on the information currently available to the Management and after proper consideration of the legal advice received.

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Acquisition of AudioNova – Business Combination

Key audit matter	*How our audit addressed the key audit matter*
On September 14, 2016, following regulatory approvals, Sonova AG completed the acquisition of AudioNova International B.V., a Rotterdam (Netherlands) based hearing aid retailer. The company is one of Europe's leading hearing aid retailers and service providers. Accounting for business combinations and especially the allocation of the purchase price to identified assets and goodwill involves significant judgements and estimates, and has a significant impact on the current and future year's financial statements. Management determined that the fair value of the net identifiable assets acquired is CHF -37.2 million which includes an amount of CHF 142.3 million relating to trademarks and CHF 131.5 million relating to customer relationships. The Goodwill arising from the acquisition amounts of CHF 720.6 million. The valuation of the Goodwill and intangible assets was performed as part of the Purchase Price Allocation and the values have been provisionally determined in accordance with IFRS 3 pending the final completion of the valuation exercise. Refer to page 98 (Critical accounting estimates and judgements), and pages 120-121 (notes) for more information.	We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by reviewing the procedures performed by management to identify the assets and liabilities and reviewed the clauses laid out in the Asset Purchase Agreement. We performed audit procedures on the purchase price allocation prepared by management and management's external expert. In doing so we evaluated the professional competence and objectivity of that expert and performed the following audit procedures with support of our valuation team: • We assessed the completeness of identifiable net assets, including intangible assets, and liabilities against our own expectations, formed from discussions with the Management and the review of the due diligence report prepared during the acquisition as well as the industry expertise of our valuation team. • We performed various substantive audit procedures to ensure completeness and adequate valuation of the identified assets and liabilities acquired. • We involved our valuation experts to support us in our audit of the allocation of the purchase consideration to the acquired assets and liabilities. • Assessment of the methodologies used for the fair value estimation of the trademarks (Relief from Royalty Method) and customer relationship (Multi-period Excess Earnings Method) and assessment of their application. • Challenged the management assumptions in the business plan used for the valuation by comparing them to the past performance of the Group as well as significant assumptions applied for future cash flows. • Assessed key assumptions of the valuation. This included the major elements of the discount rates and royalty rates applied. Furthermore we have re-performed critical aspects of the valuation.

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- Verification of the technical accuracy of the calculations performed including mathematical correctness.

Based on the work done we have addressed the risk of inappropriate identification and valuation of relevant intangible assets and the related deferred taxes with no issues noted.

We tested the calculation of the goodwill arising from the acquisition of AudioNova, being the difference between the total purchase consideration and the fair value of the net identifiable assets and noted that management's computation was in line with IFRS 3. The final goodwill arising from the acquisition is dependent on the completion of the valuation of the intangible assets, the values of which have been provisionally determined as at the balance sheet date.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Sonova Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always de-

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tect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

Sandra Boehm	Kai Mauden
Audit expert Auditor in charge	

Zürich, 9 May 2017

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

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Financial statements of Sonova Holding AG

Income statements

1,000 CHF	Notes	2016/17	2015/16
Income			
Investment income		125,729	279,257
License income		12,168	16,866
Financial income	2.1	31,738	39,575
Total income		**169,635**	**335,698**
Expenses			
Administration expenses		(8,858)	(7,571)
Other expenses		(1,014)	(1,053)
Financial expenses	2.1	(15,587)	(33,559)
Direct taxes		(1,497)	(1,508)
Total expenses		**(26,956)**	**(43,691)**
Net profit for the year		**142,679**	**292,007**

Balance sheets

Assets 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Cash and cash equivalents		8,514	71,347
Other receivables			
– Third parties		2,531	2,812
– Group companies		6,105	9,323
Prepaid expenses		16	30
Total current assets		**17,166**	**83,512**
Financial assets	2.2		
– Third parties		1,019	389
– Group companies		2,193,035	1,386,107
Investments	2.3	319,071	321,355
Total non-current assets		**2,513,125**	**1,707,851**
Total assets		**2,530,291**	**1,791,363**

Liabilities and shareholders' equity 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Trade account payables			
– Third parties		22	112
– Group Companies			2,132
Short-term interest-bearing liabilities			
– Third parties		17	
– Group Companies		1,443	10,554
Other short-term liabilities to third parties		64	4,128
Accrued liabilities		4,470	3,786
Total short-term liabilities		**6,016**	**20,712**
Bonds	2.4	760,000	
Other long-term liabilities to third parties		217	
Total long-term liabilities		**760,217**	
Total liabilities		**766,233**	**20,712**
Share capital		3,271	3,331
Legal reserves			
– Reserves from capital contribution		18,630	18,570
– General reserves		1,800	1,800
Statutory retained earnings			
– Balance carried forward		1,610,541	1,611,352
– Net profit for the year		142,679	292,007
Treasury shares	2.5	(12,863)	(156,409)
Total shareholders' equity		**1,764,058**	**1,770,651**
Total liabilities and shareholders' equity		**2,530,291**	**1,791,363**

Notes to the financial statements as of March 31, 2017

1. General information

The financial statements of Sonova Holding AG, with registered office in Stäfa, comply with the requirements of Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations, 'SCO'). The company does not have any employees.

2. Accounting principles

2.1 Financial income / expenses

Financial income / expenses consists primarily of realized / unrealized foreign exchange gains and losses as well as interest income / expenses.

2.2 Financial assets

Financial assets contain loans to third parties as well as to Group companies and are recognized at cost less adjustments for foreign currency losses and impairment of value. Loans granted in foreign currency are translated at balance sheet date.

2.3 Investments

Investments consists mainly of participations in fully consolidated Group companies. They are in general subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.

2.4 Bonds

Bonds are valued at nominal value. Any bond premium/discount is accrued/capitalized and released/amortized linearly over the term.

2.5 Treasury shares

Treasury shares are recognized at cost and deducted from shareholders' equity. The gain or loss from sale is recognized in the income statement as financial gain or financial loss.

3. Information on income statement and balance sheet items

3. 1 Bonds

On October 11, 2016, the Sonova Group issued bonds in three tranches with different coupons and terms:

- A 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 bps 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.
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15 % with 0.00 % interest payment and maturity on October 11, 2019.
- A 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.

3. 2 Treasury shares

Out of total treasury shares amounting to 100,190 shares on March 31, 2017, 92,000 shares were purchased by the company as part of the share buyback program. In accordance with the acceptance of the annual general meeting on June 14, 2016, 1,203,500 treasury shares have been cancelled with the effect of a decrease in share capital. Consequently the reserves from capital contribution increased by the same amount. The average selling price amounted to CHF 110.94 and the average purchase price to CHF 133.82.

Number / 1,000 CHF

	Number	Treasury shares at cost
Balance April 1, 2016	1,209,989	156,409
Purchase of treasury shares from share buyback	92,000	11,789
Purchase of treasury shares	294,791	39,085
Sale / Transfer of treasury shares	(293,090)	(32,516)
Cancellation of treasury shares	(1,203,500)	(155,639)
Loss from sale of treasury shares		(6,265)
Balance March 31, 2017	**100,190**	**12,863**

3. 3 Contingent liabilities

1,000 CHF	**31.3.2017**	**31.3.2016**
Guarantees given in respect of rental obligations of Group Companies	2,038	2,894

In the 2015 / 16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at the balance sheet date.

The Swiss Sonova entities form a VAT group and, hence, every company participating in the group is jointly and severally liable for VAT debt of other group participants. Further Sonova Group companies participating in the cashpool are jointly and severally liable for any debit position or outstanding overdraft in connection with them.

3.4 List of investments

Company name	Activity	Domicile	Share / paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Sonova AG	A, B,C,D	Stäfa	CHF	2,500	100 %
Phonak AG	A	Stäfa	CHF	100	100 %
Phonak Communications AG	B, C, D	Murten	CHF	500	100 %
Unitron Hearing GmbH	B	Stäfa	CHF	20	100 %
Verve Hearing Systems AG	A	Stäfa	CHF	100	100 %
EMEA (excluding Switzerland)					
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000	30 %[2]
SCI Du Triangle De Bron	A	Bron-Lyon (FR)	EUR	46	100 %
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	85 %[2]
Sonova Italia S.R.L.	B	Milan (IT)	EUR	1,040	100 %
Sonova Nederland B.V.	B	Vianen (NL)	EUR	227	100 %
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100 %
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0[3]	51 %
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR	5,000	100 %
Sonova Denmark A / S	B	Middelfart (DK)	DKK	11,075	100 %
Sonova Nordic AB	B	Stockholm (SE)	SEK	200	85 %[2]
Sonova Sweden AB	B	Stockholm (SE)	SEK	100	100 %
Sonova Norway AS	B	Oslo (NO)	NOK	900	100 %
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Sonova Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100 %
Warsaw Service Center Sp.Z.o.o.	A	Warsaw (PL)	PLN	100	100 %
Sonova Hungary Korlátolt Felelösségü Társaság	B	Budapest (HU)	HUF	5,000	100 %
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100 %
Audition Santé SAS	B	Cahors (FR)	EUR	18,800	15 %[2]
HIMSA A / S	A	Copenhagen (DK)	DKK	250	25 %

For significant indirect investments refer to Note 35 of the consolidated financial statements of Sonova Holding AG.

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] Share / paid in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
[2] The remaining shares are held by a subsidiary of Sonova Holding AG.
[3] GBP 133
[4] Shares without par value

Company name	Activity	Domicile	Share / paid-in capital [1] Local currency 1,000		Shares held by Sonova Holding
Americas					
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0 [4]	100 %
Sonova United States Hearing Instruments, LLC	B	Warrenville (US)	USD	0 [4]	85 % [2]
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD	13,105	31 %
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0 [4]	85 % [2]
Phonak Mexicana S.A. de C.V.	B	Mexico DF (MX)	MXN	94,050	85 % [2]
Connect Hearing Mexico S.A. de C.V.	B	Mexico DF (MX)	MXN	66,050	99 % [2]
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL	37,106	100 %
Asia / Pacific					
Advanced Bionics Medical Instruments (Suzhou) Co., Ltd.	B	Suzhou (CN)	CNY	4,617	70 % [2]
Sonova Australia Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD	250	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100 %
Sichuan i-Hear Co., Ltd.	A	Chengdu (CN)	CNY	42,802	100 %
Sonova (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100 %
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD	3,100	100 %
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD	250	100 %
Sonova Korea Ltd.	B	Seoul (KR)	KRW	50,000	100 %
Sonova India Private Limited	B	Mumbai (IN)	INR	100	56 % [2]
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100 %
Sonova Viet Nam Company Limited	B	Ho Chi Minh City (VN)	VND	2,088,000	70 % [2]

For significant indirect investments refer to Note 35 of the consolidated financial statements of Sonova Holding AG.
Description:
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C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.

1) Share / paid in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) GBP 133
4) Shares without par value

3.5 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”.

	31.3.2017	31.3.2016
Beda Diethelm	10.17 %	9.98 %
Chase Nominees Ltd.[1]	8.54 %	9.84 %
Hans-Ueli Rihs	5.84 %	6.02 %
Nortrust Nominees Ltd.[1]	4.63 %	3.96 %
Andy Rihs	3.16 %	3.52 %
Registered shareholders with less than 3 %	35.42 %	34.09 %
Not registered	32.24 %	32.59 %

1) Registered without voting rights.

3.6 Shareholdings and participations of the Board of Directors and the Management Board

	31.03.2017				31.03.2016			
	Shares	Restricted Shares[1] [2]	RSUs[2]	Options (incl. SARs)[2]	Shares	Restricted Shares[1] [2]	RSUs[2]	Options[2]
Board of Directors	31,215	65,462		12,788	30,207	58,454	1,044	14,067
Management Board	52,243		56,026	533,765	53,542		68,456	505,697
Total	**83,458**	**65,462**	**56,026**	**546,553**	**83,749**	**58,454**	**69,500**	**519,764**

1) These shares are subject to a restriction period which varies from June 1, 2017 to June 1, 2022 depending on the grant date.
2) For further details see also Note 31 in the consolidated financial statements.

For further details to shareholdings in the company by members of the Board of Directors and by members of the Management Board, in accordance with Swiss Code of Obligation article 663c, refer to the Compensation report of Sonova Holding AG.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 13, 2017:

1,000 CHF	**31.3.2017**
Balance carried forward from previous year	1,610,541
Net profit for the year	142,679
Statutory retained earnings	**1,753,220**
Cancellation of treasury shares	(11,789)
Dividend distribution[1]	(150,241)
Balance to be carried forward	**1,591,190**

[1] If the Annual Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 2.30 per registered share of CHF 0.05 will be paid out (previous year distribution of CHF 2.10).

Report of the statutory auditor
on the financial statements

Report of the statutory auditor
to the General Meeting of Sonova Holding AG
Staefa

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Sonova Holding AG, which comprise the balance sheet as at 31 March 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

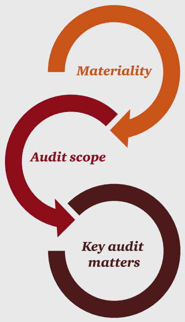
In our opinion, the accompanying financial statements as at 31 March 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 11.6 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Valuation of investments in subsidiaries and loans to group companies

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example,

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in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 11.6 million
How we determined it	5% of average profit before tax of the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years helps dampen volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries and loans to group companies

Key audit matter	*How our audit addressed the key audit matter*
The investments in subsidiaries and loans to group companies amount to CHF 2,512.1 million (99% of assets) as of March 31, 2017. In general the valuation of the investments is subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.	To identify indicators for impairments of investments and/or loans to group companies, management compared the investment value and/or loans with the shareholders equity of the respective investments. We evaluated and tested the assessment by re-performing the comparison for an appropriate sample of investments/loans. In addition, we reviewed

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We consider the valuation of investments and loans to group companies as a particularly significant area due to the size of the carrying value and judgement involved in assessing the recoverability of these assets. Investments are typically not subject to scheduled depreciation, but impaired for possible value adjustments. The valuation methods used involve considerable judgment with respect to assumptions about the future results of the business.	management's assessment if other qualitative indicators for impairments exist. For investments and/or loans to group companies with indicators for impairment, management followed a process for estimating future cash flows. The overall budget for the Group, including cash flows for these critical investments, was subject to timely oversight and discussion with the Board of Directors and was consistent with the Board of Directors approved budgets. We evaluated and challenged the reasonableness of management's key assumptions applied in its impairment assessment for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the assumptions had, with hindsight, been reasonable. • Mid and long term growth rates, by comparing them to economic and industry forecasts. • Discount rate, by assessing the cost of capital for the company and comparable organisations. We performed our own sensitivity analysis around the assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for investments/loans to be impaired. We found that the assessments were based upon reasonable assumptions and were consistently applied and therefore we concur with management's assessment.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

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conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

Sandra Boehm	Kai Mauden
Audit expert Auditor in charge	

Zürich, 9 May 2017

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

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