



Letter to shareholders

Dear shareholders,

We are pleased to report that the Sonova Group has achieved another solid financial performance in the 2017/18 financial year, posting record sales and profits. The Group also reached a number of important milestones on the road to fulfilling its growth strategy through the continued launch of advanced new products, further expanding market access, and connecting consumers to Sonova through powerful eSolutions.

The launch of the unique SWORD™ (Sonova Wireless One Radio Digital) Made For All wireless chip sets a new industry benchmark: it provides direct connectivity to almost any cell phone, enabling hands-free calling, connection with televisions and other consumer electronic devices, and laying the foundation for a range of eSolutions.

We have made significant progress with integrating AudioNova, acquired in 2016, into Sonova's retail business, accelerating the implementation of our vertically integrated business model. Additional details about this and other developments are available in the "Strategy and businesses" section of this report.

In a different sort of milestone, we initiated a carefully planned transition at the CEO level, about which there are more details below and in the following letter from the Chairman.

As in past years, we would like to tell you how we operate in one of our key markets. This year the [feature story](#) will focus on Switzerland and Austria and offers further insight on local implementation of our global corporate strategies.

Hearing instruments segment

Sonova's hearing instruments business continued on its upward growth path, with a total sales increase of 9.0% in local currencies, reflecting positive contributions from both our hearing instruments and retail businesses. We maintained our rapid pace of innovation, introducing breakthrough products that set new standards for the industry.

The innovation highlight of 2017/18 was the launch of our new wireless chip, SWORD. This allows direct connectivity to virtually all cell phones currently in use, as well as to a broad range of other consumer electronic devices. Initially introduced in the Phonak Audéo™ B-Direct and subsequently available on the Unitron Moxi™ All, SWORD gives hearing aid wearers true hands-free telephone conversations with no need for a body-worn streaming device. In the future, SWORD will also open new ways for consumers to connect with the support and expertise of hearing care professionals.

After its transformation toward a vertically integrated business model, Sonova is well positioned for the next phase of growth.

Lukas Braunschweiler

I am impressed by Sonova's culture of innovation and see its strong potential to further improve hearing care solutions for consumers.

Arnd Kaldowski

LETTER TO SHAREHOLDERS

Unitron's Moxi All combines SWORD functionality with rechargeability, offering the two most consumer-requested features in one product. Phonak, with the launch of the lithium-ion rechargeable Naída™ B-R power and Phonak Sky™ B-PR pediatric hearing aids, now provides professionals the flexibility to offer rechargeability across the industry's most comprehensive suite of advanced hearing solutions.

The retail business forms a key element in Sonova's vertically integrated business model and provides us with direct access to the consumer, offering valuable insights that also help to drive our technological innovation. Operating 3,500 stores in 18 countries, this network of dedicated highly-trained hearing care professionals delivering advanced audiological services achieved significant progress in 2017/18, with sales growth accelerating over the course of the year.

The major focus of the year was the integration of AudioNova, acquired in September 2016. We made considerable progress in coordinating our global retail activities, harmonizing IT systems, consolidating headquarters, establishing a one-brand-per-country policy, and completing the transition of the product portfolio to Sonova technology. Ongoing restructuring in the Netherlands and further necessary IT harmonization have contributed to higher than planned integration costs, but many countries were delivering ahead of expectations, including France, Belgium, the UK, Canada, and New Zealand.

We have taken active steps to improve performance in challenging markets. In the US, we are consolidating our footprint in the demographically most promising areas of the so-called "Sun Belt" and rolling out a hub-and-spoke model with regional excellence centers. We are taking a similar approach in the Netherlands, adapting our business model to recent regulatory changes.

Cochlear implants segment

Sonova's cochlear implants business saw profitable sales growth of 8.6% in local currencies in 2017/18, with solid growth in new system sales and double-digit growth in upgrade sales. The synergies between Advanced Bionics and Phonak were further demonstrated by the launch of the Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for recipients who have a cochlear implant in one ear and no hearing in the other. The collaboration between Advanced Bionics and Phonak means that Sonova is uniquely able to address the full range of severe to complete hearing loss in either ear or both, for children and adults alike. In the second half of the year Advanced Bionics successfully introduced the HiFocus™ SlimJ electrode, featuring a slim, straight design welcomed by professionals for its ability to preserve residual hearing. We have continued to build partnerships with hearing care retailers (including our own retail business) and cochlear implant clinics to provide seamless service to the growing population of those whose increasing hearing loss requires a move from hearing aids to an implant.

Financial highlights

Consolidated sales for the year reached CHF 2,646 million, up 10.4% in Swiss francs and 9.0% in local currencies. The rise was driven both by organic growth and by acquisitions, particularly the effect of the AudioNova acquisition for five months of the year. Excluding one-time costs related to the acquisition of AudioNova, normalized operating profit before acquisition-related amortization (EBITA) was CHF 551.6 million, a rise of 12.3% in local currencies. Basic earnings per share reached CHF 6.13, up 14.6%. The Group achieved a solid cash flow. Net debt is down from the previous year's level to CHF 228 million. The balance sheet remains strong and the equity ratio stands at 57.5%.

Use of cash

Against a background of positive earnings development and continued strong cash generation, the Board of Directors proposes a dividend of CHF 2.60 per share, an increase of 13% and representing a normalized payout ratio of 41%. Excess cash will be used to further reduce net debt.

Corporate social responsibility

Sonova's sustainability initiatives are an integral part of our corporate strategy. We are committed to creating sustainable value for all our stakeholders and to conducting our business in a responsible manner.

The Hear the World Foundation has been one of the main pillars of the Sonova Group's CSR engagement for over ten years. It has supported over 90 separate projects with a focus on helping disadvantaged children with hearing loss in developing countries. Sonova covers all the Foundation's administrative costs and provides hearing solutions and professional support free of charge.

Thanks to Sonova's continuous improvement in sustainability, the company remains in the internationally recognized Dow Jones Sustainability and FTSE4Good Global indices. As part of our commitment to transparency, we report in accordance with the Global Reporting Initiative's Sustainability Reporting Standards. You will find more about our activities in our [CSR Report](#).

Leadership succession

In September 2017, Sonova announced that CEO Lukas Braunschweiler has decided to retire for age reasons after more than six years with the company. The Board of Directors appointed Arnd Kaldowski as his successor, taking on the CEO role on April 1, 2018. A proven and successful leader with a strong track record in the healthcare industry, Arnd Kaldowski initially joined the Group as COO on October 1, 2017. Technology and innovation, digitalization, and proximity to the consumer have been key elements throughout his career – a close fit with Sonova's strategic priorities.

To further support long-term leadership continuity and to secure the benefits of Lukas Braunschweiler's extensive industry insight, the Board of Directors will propose him for election as a member of the Board of Directors at the Annual General Shareholders' Meeting in June 2018.

Our thanks

Sonova's journey is powered by continuous, customer-focused innovation. We reach significant milestones every year because our employees keep the future constantly in mind: it is their knowledge, their passion, and their drive that set new benchmarks for our industry, time after time. Added to these qualities are the insights we gain from our close collaboration with hearing care professionals, and most of all from our consumers, whose right to fully enjoy the delight of hearing motivates us every day. As in every year, it is the support of our shareholders and the dedication of our employees that give us a solid base for future achievements. We thank you all.

In memory of Andy Rihs – Pioneer and visionary

Very special thanks are due to Andy Rihs, our long-time CEO and Chairman of the Board of Directors, who passed away on April 18, 2018. In Andy, we lost not just a very good friend and a visionary with an extraordinarily creative spirit but also a versatile and passionate entrepreneur, who, more than anyone else, shaped Sonova. For almost fifty years, he contributed with great energy and conviction to developing the Group into a successful market leader.

Remembering his contributions brings many milestones immediately to mind – all closely linked with Andy himself: the company’s humble beginnings, followed by numerous innovations in hearing solutions, such as Claro, the first fully digital hearing aid, and the establishment of Phonak Communications. The 1980s saw our first foreign sales subsidiaries and in 1994 the company became listed on the Swiss stock exchange, raising money for further investments. The 1990s witnessed our first step into the retail business with our own specialist audiology stores, and soon after 2000 we started setting up production facilities in Asia. And almost ten years ago, the Group entered the cochlear implants business.

Andy created a working culture based on trust, where every employee is equally appreciated. His slogan, “ohni Lüt gaht nüt” (“nothing happens without people”), remains a motto for Sonova. Thanks to him, our culture is still characterized by openness, simplicity, strong innovative thinking, high engagement, and teamwork. We are sure that his spirit lives on.

Outlook 2018/19

The global hearing care market continues to grow and to demand ever more innovative and comprehensive solutions. Our vertically integrated business model means that we benefit both from the innovation power of each business and the unique advantages of their collaboration and shared market insight. Continuous customer-driven innovation, multiple channels to market, and a versatile eSolutions platform connecting Sonova directly to consumers provide the solid foundation for continued growth. We expect to increase consolidated sales in 2018/19 by 2%-4% in local currencies, while further expanding profitability.



Robert Spoerry
Chairman of the
Board of Directors

Lukas Braunschweiler
Former CEO




Arnd Kaldowski
New CEO

Our thanks to Lukas Braunschweiler

On behalf of the Board of Directors, I would like to extend warm thanks to Lukas Braunschweiler, who is retiring as CEO after six and a half years' service. Under his leadership, the company has seen a substantial growth in sales and earnings, driven by a focused global growth strategy and sustained by a strong emphasis on innovative technology resulting in a broad portfolio of state-of-the-art solutions. Sonova has made great strides, not just in technology and vertical integration, but in the development of its global organization and leadership team; he leaves the Group in a strong position for future growth. Since Arnd Kaldowski joined the Group as COO, Lukas Braunschweiler has worked closely with him to ensure a smooth transition and to help him grow into his role as the new CEO.

I also want to thank Lukas Braunschweiler for his achievements, for his dedication to his task, and for the strong, consistent leadership that he has shown throughout his tenure. We wish him all the best for the future – and, if the Annual General Shareholders' Meeting elects him, we look forward to working with him in his new role as member of the Board of Directors. We know that we will benefit greatly from his deep knowledge both of the Sonova Group and of the hearing care industry.

A handwritten signature in black ink, appearing to read 'R. Spoerry', written in a cursive style.

Robert Spoerry
Chairman of the
Board of Directors