

Financial reporting

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Financial review

In the 2017/18 financial year, Sonova generated sales of CHF 2,645.9 million, an increase of 10.4% in Swiss francs or 9.0% in local currencies. Normalized for one-time costs, Group EBITA reached CHF 551.6 million, up 14.6% in Swiss francs or 12.3% in local currencies.

Sales driven by acquisitions and organic growth

In the 2017/18 fiscal year Sonova Group sales reached CHF 2,645.9 million, an increase of 10.4% in Swiss francs. In local currencies sales increased by 9.0%, representing an organic growth of 3.8% plus 6.0% growth from acquisitions, including those made in this reporting period and the full-year effect of prior year acquisitions. The full-year effect mainly consists of five additional months of AudioNova, acquired as of September 2016. Disposals reduced sales growth by 0.8%. Exchange rate fluctuations had a positive impact, and contributed 1.4% to the reported growth in Swiss francs, due to the strength of the Euro.

Strong momentum in the EMEA and APAC regions

Europe, Middle East and Africa (EMEA), the Group's largest region, provided a strong increase in sales of 16.3% in local currencies. We achieved solid organic growth in most markets within the region, supplemented by the full-year effect of the AudioNova acquisition and a further expansion of our retail footprint. This was partially offset by the effects of a difficult market environment in Germany and the Netherlands. The EMEA share of Group sales increased from 48% in 2016/17 to 53% in the period under review.

Sales in the United States declined by 1.8% in local currency from the prior year. Low single-digit growth in the hearing instruments and cochlear implants businesses was more than offset by a lower sales level in the retail network; our project to streamline and reposition this business, which had taken up a significant amount of management attention, is now well advanced. The region accounted for 28% of Group sales in 2017/18, down from 33% in the prior year. The rest of the Americas (excluding the US) achieved a 9.0% sales increase in local currencies, with accelerating growth in the second half year. The strong growth in this region was carried by all three businesses.

Sales in the Asia/Pacific (APAC) region rose by 9.4% in local currencies. Strong growth in Japan and China was partially offset by a weaker development in Australia. The cochlear implants business in China benefited from sales worth CHF 7.7 million made through a central government tender.

Sales by regions

| in CHF m | 2017/18 | | | 2016/17 | |
|----------------------|----------------|-------------|----------------------------|----------------|-------------|
| | Sales | Share | Growth in local currencies | Sales | Share |
| EMEA | 1,398.8 | 53% | 16.3% | 1,162.2 | 48% |
| USA | 759.6 | 28% | (1.8%) | 787.3 | 33% |
| Americas (excl. USA) | 230.8 | 9% | 9.0% | 210.9 | 9% |
| Asia/Pacific | 256.7 | 10% | 9.4% | 235.3 | 10% |
| Total sales | 2,645.9 | 100% | 9.0% | 2,395.7 | 100% |

Solid gross margin development driven by the hearing instruments segment

Gross profit reached CHF 1,868.2 million, an increase of 13.1% in Swiss francs and of 11.3% in local currencies. The gross profit margin was 70.6%, up from 68.9% in the prior year. This improvement was due both to a higher share of the retail business and an increase in average selling prices across the hearing instruments segment. In the cochlear implants segment, a higher share of upgrade revenues largely offset the impact from the lower-priced China tender.

Reported operating expenses, including other operating income, were CHF 1,335.7 million. This included one-time costs of CHF 19.2 million (2016/17: CHF 18.4 million) related to the AudioNova acquisition, specifically to integration and restructuring. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses rose by 12.5% in Swiss francs or by 10.8% in local currencies to CHF 1,316.6 million, reflecting the sales growth and a business mix effect from the higher relative share of retail business related to AudioNova.

Research and development (R&D) expenses were CHF 142.9 million, an increase of 4.3% in local currencies, underlining Sonova's continued commitment to innovation. Technology developments in the field of wireless connectivity again represented an important share of the R&D efforts. The increased relative share of the retail business means that R&D spending as a percentage of sales declined from 5.7% to 5.4%.

Normalized sales and marketing costs were up 12.3% in local currencies and reached CHF 928.2 million: 35.1% of sales, compared to 33.9% in the prior year. The higher cost ratio is driven by the increased relative share of retail business, which has a higher ratio of sales and marketing costs to sales than the rest of the Group.

Normalized general and administrative costs increased by 9.6% in local currencies to CHF 252.7 million, representing 9.5% of sales, which is unchanged from the prior year. The effect of a generally higher cost ratio from an increased retail business share was offset by firm cost management.

Other income for the current period was largely unchanged at CHF 7.2 million. Similarly to the prior year, this includes a capital gain of CHF 4.0 million (2016/17: CHF 3.9 million) from the sale of non-core retail activities in Europe, which had been part of the AudioNova acquisition.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 532.5 million (2016/17: CHF 463.0 million), an increase of 15.0% in Swiss francs or 12.7% in local currencies. Reported EBITA margin rose to 20.1% (2016/17: 19.3%), mainly reflecting solid operating leverage from organic growth supplemented by a minor benefit from the exchange rate developments. Normalized for one-time costs, EBITA increased by 14.6% in Swiss francs or 12.3% in local currencies to CHF 551.6 million, corresponding to a margin of 20.8%. Including the expected increase in acquisition-related amortization from the AudioNova acquisition, reported operating profit (EBIT) reached CHF 483.0 million (2016/17: CHF 423.7 million), up by 14.0%.

Sonova Group key figures

| in CHF m unless otherwise specified | 2017/18 | 2016/17 | Change in Swiss francs | Change in local currencies |
|---|---------|---------|------------------------|----------------------------|
| Sales | 2,645.9 | 2,395.7 | 10.4% | 9.0% |
| EBITA | 532.5 | 463.0 | 15.0% | 12.7% |
| EPS (CHF) | 6.13 | 5.35 | 14.6% | |
| Operating free cash flow | 419.2 | 424.8 | (1.3%) | |
| ROCE ¹⁾ | 18.4% | 20.4% | | |
| EBITA (normalized) ²⁾ | 551.6 | 481.4 | 14.6% | 12.3% |
| EBITA margin (normalized) ²⁾ | 20.8% | 20.1% | | |
| EPS (CHF) (normalized) ²⁾ | 6.36 | 5.58 | 14.0% | |

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

²⁾ Excluding one-time costs of CHF 19.2 million (prior year: 18.4 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Significant increase in earnings per share

Reflecting the strong growth in EBIT, basic earnings per share (EPS) reached CHF 6.13 (2016/17: CHF 5.35), a significant increase of 14.6% from the prior year. Normalized for one-time costs, EPS increased 14.0% to CHF 6.36. Net financial expenses, including the result from associates, decreased from CHF 6.3 million to CHF 4.0 million. The effective tax rate was 14.9% (2016/17: 14.7%); the increased rate reflects a negative impact from revaluation of tax loss carry forwards related to the US tax reform, mostly offset by the revaluation of other tax assets and liabilities. Income after taxes was therefore CHF 407.4 million (2016/17: CHF 356.2 million).

Minor increase in headcount

The Group's total workforce at the end of the 2017/18 financial year was 14,242 full-time equivalents, an increase of only 153 over the previous year after taking into account acquisitions and disposals, including the sale of our US Hearing Service Plan business at the end of the fiscal year. In line with our strategy, we continued to add staff in customer facing functions and in R&D. Good progress was made in directing new hires to lower-cost locations.

Hearing instruments segment – Acquisitions and new products driving growth

Sales in the hearing instruments segment grew by 10.6% in Swiss francs and 9.0% in local currencies to reported sales of CHF 2,423.1 million. Organic growth was 3.3%, while the contribution from acquisitions in the reporting period and the full-year effect of prior year acquisitions was 6.6% or CHF 143.8 million. Growth was reduced by 0.9% through disposals, mainly in the retail business. Exchange rate fluctuations, primarily a stronger Euro, contributed 1.6% to growth in Swiss francs.

As in the prior year, Premium hearing instruments achieved the strongest growth, with sales up 11.8% in local currencies. This was followed by the Advanced and Standard categories with an increase of 5.4% and 4.5% respectively in local currencies. The higher growth in the Premium category was driven by the continuing success of our innovative product portfolio, in particular the further expansion of our rechargeable solutions and the launch of our industry-first hearing aid with direct universal wireless connectivity functionalities, which generated ongoing improvement in the product mix and average selling prices. Sales of wireless communication systems showed good momentum with a rise of 7.7% in local currencies, almost exclusively from organic growth. Sales in the “miscellaneous” product category, which includes accessories, batteries, and services, increased strongly by 20.4% in local currencies, both from solid organic growth and the full-year effect of the AudioNova acquisition, which has a higher revenue share in this category.

Sales by product groups – Hearing instruments segment

| in CHF m | | 2017/18 | | 2016/17 | |
|--|----------------|-------------|----------------------------|----------------|-------------|
| | Sales | Share | Growth in local currencies | Sales | Share |
| Premium hearing instruments | 679.0 | 28% | 11.8% | 604.5 | 28% |
| Advanced hearing instruments | 497.7 | 21% | 5.4% | 464.7 | 21% |
| Standard hearing instruments | 761.3 | 31% | 4.5% | 713.9 | 32% |
| Wireless communication systems | 115.8 | 5% | 7.7% | 106.7 | 5% |
| Miscellaneous | 369.3 | 15% | 20.4% | 300.5 | 14% |
| Total hearing instruments segment | 2,423.1 | 100% | 9.0% | 2,190.3 | 100% |

The hearing instruments business, which includes sales to independent audiologists, retail chains, multinational, and government customers, but excludes our own retail business, grew 4.2% in local currencies to CHF 1,441.6 million. Organic growth was 4.7%, driven by the rechargeable and wireless connectivity innovations mentioned above, along with the further deployment of the Phonak Belong™ and the Unitron Tempus™ platforms. Solid growth was achieved across all regions, with double-digit organic growth in major markets including Canada, France, UK, Italy and Japan, partially held back by a more modest development in Germany and the United States.

The retail business increased sales by 17.2% in local currencies to CHF 981.5 million; growth was driven by acquisitions and improving organic sales development in the second half. Solid organic growth in a number of key markets, including UK, Belgium, Canada, France, Poland and New Zealand, was partially offset by a weaker development in Germany and Australia. In addition, business in the US and the Netherlands continued to be affected by the streamlining and strategic repositioning of our store networks, which is in an advanced stage. The integration of the AudioNova acquisition has further progressed and the conversion of its product portfolio to Sonova technology has been completed ahead of plan.

Growth was also affected by the sale of non-strategic retail assets, including the AudioNova businesses in France and Portugal in March and April 2017 respectively.

Sales by business – Hearing instruments segment

| in CHF m | 2017/18 | | | 2016/17 | |
|--|----------------|-------------|----------------------------|---------------------|---------------------|
| | Sales | Share | Growth in local currencies | Sales ¹⁾ | Share ¹⁾ |
| Hearing instruments business | 1,441.6 | 59% | 4.2% | 1,377.2 | 63% |
| Retail business | 981.5 | 41% | 17.2% | 813.1 | 37% |
| Total hearing instruments segment | 2,423.1 | 100% | 9.0% | 2,190.3 | 100% |

¹⁾ Reclassification of US insurance subcontracting business from Retail (as disclosed in the annual report 2016/17) to Hearing instruments business.

Reported EBITA for the hearing instruments segment amounted to CHF 520.6 million, up 12.1% in local currencies. The normalized EBITA increased by 11.7% in local currencies to CHF 539.7 million, corresponding to an EBITA margin of 22.3% (prior year: 21.6%). The segment achieved strong organic margin expansion through a positive product mix and strict cost control, partially offset by the expected margin effect of the increased share of retail business.

Cochlear implants segment – Growth driven by upgrade sales

The cochlear implants segment achieved sales of CHF 222.9 million, up 8.5% in Swiss francs and 8.6% in local currencies; the main driver was a 27.5% local currency growth in upgrade sales. After a double-digit increase in the prior year, sales growth in Western markets was slower, due to increased competition and strict internal price discipline. The Asia/Pacific region significantly outperformed, even excluding the CHF 7.7 million in sales related to the government tender in China. New systems sales rose by 3.3% in local currencies. The range of bimodal solutions was further expanded by the launch of the Phonak Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for unilateral cochlear implant candidates with no hearing in their opposite ear. The year also saw the successful introduction of the HiFocus™ SlimJ electrode, featuring a thin, straight design that helps to preserve residual hearing.

Sales by product groups – Cochlear implants segment

| in CHF m | 2017/18 | | | 2016/17 | |
|--|--------------|-------------|----------------------------|--------------|-------------|
| | Sales | Share | Growth in local currencies | Sales | Share |
| Cochlear implant systems | 165.1 | 74% | 3.3% | 160.0 | 78% |
| Upgrades and accessories | 57.8 | 26% | 27.5% | 45.4 | 22% |
| Total cochlear implants segment | 222.9 | 100% | 8.6% | 205.4 | 100% |

Stable average selling prices in developed markets and an increased share of high-margin upgrade sales largely offset the impact of the lower-priced China tender on the gross profit margin. Together with a good operating leverage, this resulted in an EBITA of CHF 11.9 million versus CHF 8.0 million in the prior year.

Stable cash flow

Cash flow from operating activities was CHF 523.4 million, compared to CHF 522.4 million in the prior year; higher profitability was offset by adverse changes in working capital and long-term provisions. Compared to the prior year, movements in trade payables, rebounding from an elevated prior year level, and lower income tax accruals reduced cash flow by a total of CHF 33.2 million. Two other items, each of which had a negative impact in the high single-digit millions, were higher accounts receivables, and the liquidation of AudioNova legacy equity plans. Net investments in tangible and intangible assets were largely unchanged at CHF 95.5 million, resulting in an operating free cash flow of CHF 419.2 million, down by 1.3%. Cash consideration for acquisitions amounted to CHF 82.5 million, compared to 675.3 million in the prior year, which had included the acquisition of AudioNova. Cash inflow from divestments was CHF 23.3 million, against CHF 17.8 million in the prior year. In summary, this resulted in a free cash flow of CHF 360.0 million, compared to a negative free cash flow of CHF 232.6 million in the prior year.

Cash outflow from financing activities was CHF 186.2 million, compared to a cash inflow of CHF 290.5 million in the prior year, which had included the bond issue related to the financing of the AudioNova acquisition. A net amount of CHF 26.3 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 20.8 million in the prior year. Cash outflow from financing also includes dividend payments of CHF 150.3 million.

Balance sheet remains strong

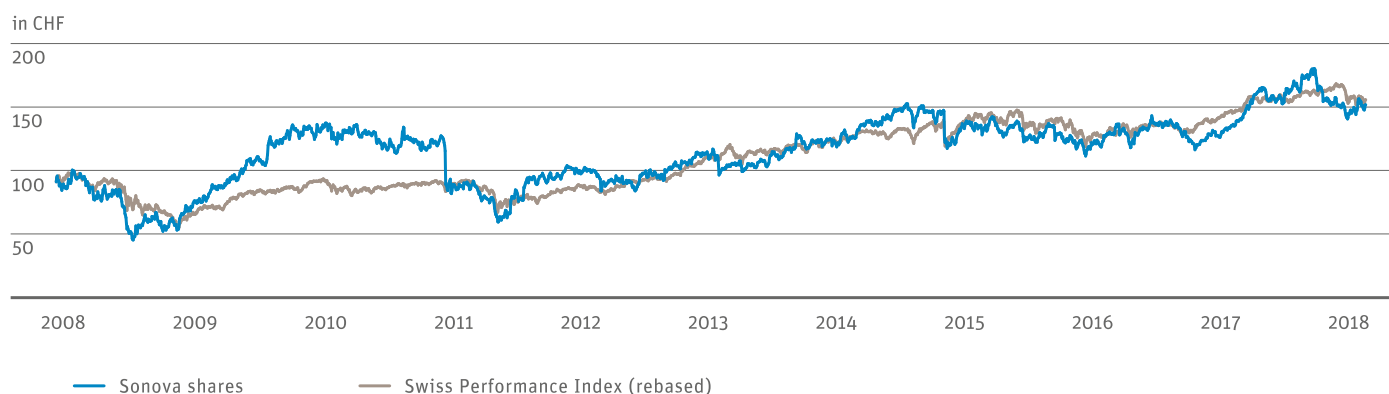
Reported net working capital was CHF 190.5 million, compared to CHF 169.7 million at the end of the prior year; this reflects a slight deterioration in working capital ratios and acquisition effects. Capital employed was CHF 2,702.9 million, compared to CHF 2,535.9 million in the prior year; the increase was largely driven by the acquisitions and currency effects on balance sheet positions. The Group's equity position amounted to CHF 2,474.9 million, resulting in a solid equity ratio of 57.5%. The net debt position stood at CHF 228.0 million, compared to CHF 404.6 million at the end of the prior year. Reflecting the full year impact of the acquisition of AudioNova, the return on capital employed (ROCE) showed an expected decrease to 18.4% from 20.4% in the prior year.

In light of the solid profitable growth and a healthy financial position, the Board of Directors will propose a dividend of CHF 2.60 to the Annual General Shareholders' Meeting on June 12, 2018. This proposed distribution is up 13% over the prior year, and represents a stable payout ratio, normalized for one-time cost, of 41% (reported: 42%).

Outlook 2018/19

We expect continued solid growth in sales and profitability across the hearing instruments and cochlear implants segments during 2018/19, supported by our attractive product and solutions portfolio and our continued commitment to innovation. The disposal of non-core retail assets and the US Hearing Service Plan business is expected to reduce growth by around 1% with a small impact on profitability. We therefore expect overall sales to grow in the range of 2%–4% in local currencies.

Share price development – Sonova versus Swiss Performance Index (rebased)

Share price performance history¹⁾

| | 10 years | 5 years | 3 years | 2 years | 1 year |
|---|----------|---------|---------|---------|--------|
| Sonova shares | 66.6% | 33.3% | 12.2% | 23.6% | 9.3% |
| Swiss Performance Index (SPI) ²⁾ | 70.9% | 40.7% | 11.5% | 22.5% | 5.7% |
| Sonova shares relative to the SPI | (4.3%) | (7.4%) | 0.7% | 1.1% | 3.6% |

¹⁾ Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2017/18 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

| April 1 to March 31, in 1,000 CHF unless otherwise specified | Normalized 2017/18 ¹⁾ | Reported 2017/18 | Normalized 2016/17 ¹⁾ | Reported 2016/17 | 2015/16 | 2014/15 | 2013/14 |
|---|-------------------------------------|---------------------------|-------------------------------------|---------------------|------------------|------------------|------------------|
| Sales | 2,645,926 | 2,645,926 | 2,395,650 | 2,395,650 | 2,071,930 | 2,035,085 | 1,951,312 |
| change compared to previous year (%) | 10.4 | 10.4 | 15.6 | 15.6 | 1.8 | 4.3 | 8.7 |
| Gross profit | 1,868,186 | 1,868,186 | 1,651,752 | 1,651,752 | 1,375,468 | 1,387,524 | 1,340,449 |
| change compared to previous year (%) | 13.1 | 13.1 | 20.1 | 20.1 | (0.9) | 3.5 | 8.1 |
| in % of sales | 70.6 | 70.6 | 68.9 | 68.9 | 66.4 | 68.2 | 68.7 |
| Research & development costs | 142,899 | 142,899 | 137,134 | 137,134 | 130,255 | 130,897 | 125,657 |
| in % of sales | 5.4 | 5.4 | 5.7 | 5.7 | 6.3 | 6.4 | 6.4 |
| Sales & marketing costs | 928,201 | 934,476 | 810,988 | 815,018 | 638,240 | 613,217 | 589,627 |
| in % of sales | 35.1 | 35.3 | 33.9 | 34.0 | 30.8 | 30.1 | 30.2 |
| Operating profit before acquisition-related amortization (EBITA) | 551,620 | 532,453 | 481,441 | 462,998 | 430,632 | 455,564 | 430,109 |
| change compared to previous year (%) | 14.6 | 15.0 | 11.8 | 7.5 | (5.5) | 5.9 | 11.6 |
| in % of sales | 20.8 | 20.1 | 20.1 | 19.3 | 20.8 | 22.4 | 22.0 |
| Operating profit (EBIT) | 502,144 | 482,977 | 442,120 | 423,677 | 403,437 | 429,069 | 404,030 |
| change compared to previous year (%) | 13.6 | 14.0 | 9.6 | 5.0 | (6.0) | 6.2 | 12.5 |
| in % of sales | 19.0 | 18.3 | 18.5 | 17.7 | 19.5 | 21.1 | 20.7 |
| Income after taxes | 422,740 | 407,435 | 371,484 | 356,176 | 345,847 | 368,323 | 347,382 |
| change compared to previous year (%) | 13.8 | 14.4 | 7.4 | 3.0 | (6.1) | 6.0 | 12.9 |
| in % of sales | 16.0 | 15.4 | 15.5 | 14.9 | 16.7 | 18.1 | 17.8 |
| Basic earnings per share (CHF) | 6.36 | 6.13 | 5.58 | 5.35 | 5.11 | 5.37 | 5.08 |
| Dividend/distribution per share (CHF) | 2.60¹⁰⁾ | 2.60¹⁰⁾ | 2.30 | 2.30 | 2.10 | 2.05 | 1.90 |
| Net cash/(debt)²⁾ | (227,982) | (227,982) | (404,634) | (404,634) | 298,274 | 382,343 | 311,525 |
| Net working capital ³⁾ | 190,477 | 190,477 | 169,706 | 169,706 | 185,459 | 181,379 | 190,571 |
| Capital expenditure (tangible and intangible assets) ⁴⁾ | 96,295 | 96,295 | 97,120 | 97,120 | 83,051 | 88,735 | 93,918 |
| Capital employed ⁵⁾ | 2,702,891 | 2,702,891 | 2,535,906 | 2,535,906 | 1,607,992 | 1,489,461 | 1,462,850 |
| Total assets | 4,301,978 | 4,301,978 | 3,935,680 | 3,935,680 | 2,751,611 | 2,691,631 | 2,593,748 |
| Equity | 2,474,909 | 2,474,909 | 2,131,272 | 2,131,272 | 1,906,266 | 1,871,804 | 1,774,375 |
| Equity financing ratio (%) ⁶⁾ | 57.5 | 57.5 | 54.2 | 54.2 | 69.3 | 69.5 | 68.4 |
| Free cash flow ⁷⁾ | 359,957 | 359,957 | (232,615) | (232,615) | 252,573 | 308,700 | 288,618 |
| Operating free cash flow⁸⁾ | 419,181 | 419,181 | 424,847 | 424,847 | 344,212 | 366,385 | 318,430 |
| in % of sales | 15.8 | 15.8 | 17.7 | 17.7 | 16.6 | 18.0 | 16.3 |
| Return on capital employed (%)⁹⁾ | 18.4 | 18.4 | 20.4 | 20.4 | 26.0 | 29.1 | 27.7 |
| Number of employees (average) | 14,073 | 14,073 | 12,802 | 12,802 | 10,697 | 9,960 | 9,175 |
| change compared to previous year (%) | 9.9 | 9.9 | 19.7 | 19.7 | 7.4 | 8.6 | 5.4 |
| Number of employees (end of period) | 14,242 | 14,242 | 14,089 | 14,089 | 10,894 | 10,184 | 9,529 |
| change compared to previous year (%) | 1.1 | 1.1 | 29.3 | 29.3 | 7.0 | 6.9 | 6.4 |

¹⁾ Excluding one-time costs of CHF 19.2 million in 2017/18 (2016/17: 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⁾ Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.

³⁾ Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

⁴⁾ Excluding goodwill and intangibles relating to acquisitions.

⁵⁾ Equity – net cash.

⁶⁾ Equity in % of total assets.

⁷⁾ Cash flow from operating activities + cash flow from investing activities.

⁸⁾ Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.

⁹⁾ EBIT in % of capital employed (average).

¹⁰⁾ Proposal to the Annual General Shareholders' Meeting of June 12, 2018.

Consolidated financial statements

Consolidated income statements

| April 1 to March 31, in 1,000 CHF | Notes | 2017/18 | 2016/17 |
|--|-----------|------------------|------------------|
| Sales | 6 | 2,645,926 | 2,395,650 |
| Cost of sales | | (777,740) | (743,898) |
| Gross profit | | 1,868,186 | 1,651,752 |
| Research and development | | (142,899) | (137,134) |
| Sales and marketing | | (934,476) | (815,018) |
| General and administration | | (265,542) | (242,893) |
| Other income/(expenses), net | 7 | 7,184 | 6,291 |
| Operating profit before acquisition-related amortization (EBITA)¹⁾ | | 532,453 | 462,998 |
| Acquisition-related amortization | 20 | (49,476) | (39,321) |
| Operating profit (EBIT)²⁾ | | 482,977 | 423,677 |
| Financial income | 8 | 2,130 | 7,393 |
| Financial expenses | 8 | (9,364) | (13,598) |
| Share of profit/(loss) in associates/joint ventures, net | 18 | 3,197 | (143) |
| Income before taxes | | 478,940 | 417,329 |
| Income taxes | 9 | (71,505) | (61,153) |
| Income after taxes | | 407,435 | 356,176 |
| Attributable to: | | | |
| Equity holders of the parent | | 400,135 | 349,172 |
| Non-controlling interests | | 7,300 | 7,004 |
| Basic earnings per share (CHF) | 10 | 6.13 | 5.35 |
| Diluted earnings per share (CHF) | 10 | 6.11 | 5.34 |

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

| April 1 to March 31, in 1,000 CHF | Notes | 2017/18 | 2016/17 |
|---|-------|----------------|----------------|
| Income after taxes | | 407,435 | 356,176 |
| Other comprehensive income | | | |
| Actuarial gain/(loss) from defined benefit plans, net | 29 | 15,000 | 39,448 |
| Tax effect on actuarial gain/(loss) from defined benefit plans, net | | (2,125) | (5,539) |
| Total items not to be reclassified to income statement in subsequent periods | | 12,875 | 33,909 |
| Currency translation differences | | 93,184 | (5,815) |
| Tax effect on currency translation items | | (381) | (2,040) |
| Total items to be reclassified to income statement in subsequent periods | | 92,803 | (7,855) |
| Other comprehensive income, net of tax | | 105,678 | 26,054 |
| Total comprehensive income | | 513,113 | 382,230 |
| Attributable to: | | | |
| Equity holders of the parent | | 504,028 | 377,154 |
| Non-controlling interests | | 9,085 | 5,076 |

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

Consolidated balance sheets

| Assets 1,000 CHF | Notes | 31.3.2018 | 31.3.2017 |
|--|-------|------------------|------------------|
| Cash and cash equivalents | 12 | 552,121 | 374,504 |
| Other current financial assets | 13 | 4,373 | 4,164 |
| Trade receivables | 14 | 449,545 | 413,375 |
| Current income tax receivables | | 6,708 | 6,426 |
| Other receivables and prepaid expenses | 15 | 90,615 | 86,328 |
| Inventories | 16 | 264,468 | 255,655 |
| Total current assets | | 1,367,830 | 1,140,452 |
| Property, plant and equipment | 17 | 315,493 | 310,321 |
| Intangible assets | 20 | 2,466,396 | 2,323,087 |
| Investments in associates/joint ventures | 18 | 13,700 | 11,471 |
| Other non-current financial assets | 19 | 23,914 | 20,365 |
| Deferred tax assets | 9 | 114,645 | 129,984 |
| Total non-current assets | | 2,934,148 | 2,795,228 |
| Total assets | | 4,301,978 | 3,935,680 |
| | | | |
| Liabilities and equity 1,000 CHF | Notes | 31.3.2018 | 31.3.2017 |
| Current financial liabilities | 22 | 161,637 | 13,355 |
| Trade payables | | 89,235 | 106,028 |
| Current income tax liabilities | | 141,812 | 117,583 |
| Other short-term liabilities | 23 | 275,670 | 259,175 |
| Short-term provisions | 21 | 117,922 | 112,279 |
| Total current liabilities | | 786,276 | 608,420 |
| Non-current financial liabilities | 22 | 619,059 | 766,960 |
| Long-term provisions | 21 | 166,540 | 185,929 |
| Other long-term liabilities | 25 | 113,878 | 106,278 |
| Deferred tax liabilities | 9 | 141,316 | 136,821 |
| Total non-current liabilities | | 1,040,793 | 1,195,988 |
| Total liabilities | | 1,827,069 | 1,804,408 |
| Share capital | 26 | 3,267 | 3,271 |
| Treasury shares | | (536) | (12,130) |
| Retained earnings and reserves | | 2,449,001 | 2,117,271 |
| Equity attributable to equity holders of the parent | | 2,451,732 | 2,108,412 |
| Non-controlling interests | | 23,177 | 22,860 |
| Equity | | 2,474,909 | 2,131,272 |
| Total liabilities and equity | | 4,301,978 | 3,935,680 |

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

Consolidated cash flow statements

| April 1 to March 31, in 1,000 CHF | Notes | | 2017/18 | | 2016/17 |
|---|-------|-----------|------------------|-----------|------------------|
| Income before taxes | | | 478,940 | | 417,329 |
| Depreciation, amortization and impairment of tangible and intangible assets | 17,20 | 134,763 | | 147,404 | |
| Loss on sale of tangible and intangible assets, net | | 472 | | 727 | |
| Share of (gain)/loss in associates/joint ventures, net | 18 | (3,197) | | 143 | |
| Decrease in long-term provisions | | (28,993) | | (38,384) | |
| Financial (income)/expense, net | 8 | 7,234 | | 6,205 | |
| Share based payments and other non-cash item | | 21,241 | | 19,985 | |
| Income taxes paid | | (46,752) | 84,768 | (36,353) | 99,727 |
| Cash flow before changes in net working capital | | | 563,708 | | 517,056 |
| Increase in trade receivables | | (31,200) | | (23,926) | |
| Decrease/(increase) in other receivables and prepaid expenses | | 10,372 | | (6,505) | |
| Decrease in inventories | | 2,186 | | 3,604 | |
| (Decrease)/increase in trade payables | | (8,296) | | 14,497 | |
| (Decrease)/increase in other payables, accruals and short-term provisions | | (13,393) | (40,331) | 17,665 | 5,335 |
| Cash flow from operating activities | | | 523,377 | | 522,391 |
| Purchase of tangible and intangible assets | | (96,295) | | (98,220) | |
| Proceeds from sale of tangible and intangible assets | | 824 | | 997 | |
| Cash consideration for acquisitions, net of cash acquired | 27 | (82,474) | | (675,283) | |
| Cash consideration from divestments, net of cash divested | 27 | 23,250 | | 17,821 | |
| Changes in other financial assets | | (10,107) | | (1,486) | |
| Interest received and realized gain from financial assets | | 1,382 | | 1,165 | |
| Cash flow from investing activities | | | (163,420) | | (755,006) |
| Proceeds from borrowings | | | | 880,493 | |
| Repayment of borrowings | | (145) | | (411,597) | |
| (Purchase)/sale of treasury shares, net | | (26,345) | | (32,603) | |
| Dividends paid by Sonova Holding AG | | (150,250) | | (137,178) | |
| Transactions with non-controlling interests | | (8,768) | | (6,150) | |
| Interest paid and other financial expenses | | (738) | | (2,443) | |
| Cash flow from financing activities | | | (186,246) | | 290,522 |
| Exchange gains/(losses) on cash and cash equivalents | | | 3,906 | | (669) |
| Increase in cash and cash equivalents | | | 177,617 | | 57,238 |
| Cash and cash equivalents at the beginning of the financial year | | | 374,504 | | 317,266 |
| Cash and cash equivalents at the end of the financial year | | | 552,121 | | 374,504 |

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 | | | | Non-controlling interests | Total equity |
|--|---|--------------------------------------|------------------------|-------------------------------|---------------------------|------------------|
| | Share capital | Retained earnings and other reserves | Translation adjustment | Treasury shares | | |
| 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 |
| Balance April 1, 2017 | 3,271 | 2,419,177 | (301,906) | (12,130)¹⁾ | 22,860 | 2,131,272 |
| Income for the period | | 400,135 | | | 7,300 | 407,435 |
| Actuarial gain from defined benefit plans, net | | 15,000 | | | | 15,000 |
| Tax effect on actuarial gain | | (2,125) | | | | (2,125) |
| Currency translation differences | | | 91,399 | | 1,785 | 93,184 |
| Tax effect on currency translation | | | (381) | | | (381) |
| Total comprehensive income | | 413,010 | 91,018 | | 9,085 | 513,113 |
| Capital decrease – share buy-back program | (4) | (11,785) | | 11,789 | | |
| Share-based payments | | 4,539 | | | | 4,539 |
| Sale of treasury shares | | (14,802) | | 50,317 | | 35,515 |
| Purchase of treasury shares | | | | (50,512) | | (50,512) |
| Dividend paid | | (150,250) | | | (8,768) | (159,018) |
| Balance March 31, 2018 | 3,267 | 2,659,889 | (210,888) | (536) | 23,177 | 2,474,909 |

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, 2018

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 which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared 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 16, 2018, and are subject to approval by the Annual General Shareholders’ Meeting on June 12, 2018.

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 consolidated companies is given in Note 34.

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 2017/18 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group's result and financial position:

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2018, as summarized below.

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, including a new expected credit loss model for calculating provisions for impairments on financial assets. The Group does not expect a significant impact on the Group's result and financial position 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 new single standard based on a five step approach. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied. The primary impact for the Group will be on the timing of revenue recognition for the performance obligations related to extended warranties, loss and damage, battery plans, loyalty programs, and on additional revenue related disclosures. The transition will decrease the Group's retained earnings for an estimated amount of CHF 125 million due to the recognition of contract assets/liabilities and release of provisions and deferred revenue. The impact on the income statement will not be material. The Group chose the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings and will implement the new standard on April 1, 2018.

Furthermore, the Group is also assessing other new and revised standards which are not mandatory until after the financial year 2018/2019, notably the impacts of IFRS 16 (refer below).

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, that requires 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. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The main impact for the Group will be on the recognition of new assets and liabilities for its property lease agreements. In addition, the nature of the expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. The current operating lease obligations (see Note 32) provide an indication of the impact of IFRS 16 on the Group's consolidated balance sheet. The Group will implement the new standard on 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 clearly demonstrate 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 transferred to the Group. Group companies divested during the year are excluded from the consolidation as of the date the Group ceased 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 recognized initially 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 with 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 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 and include 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 are transferred to the buyer, mainly upon delivery of products and services and reasonably assured collectability 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 is 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, with the cost of providing pensions 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 are mainly comprised of 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 29). 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 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, that 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 determined by using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction for impairment or uncollectability. 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. 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.

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 income statement. At the end of the 2017/18 financial year, such liabilities contingent on future events amount to CHF 6.1 million (previous year CHF 10.6 million) and are disclosed under other financial liabilities (Note 22).

Intangible assets, including goodwill

The Group has intangible assets with a carrying value of CHF 2,466.4 million (previous year CHF 2,323.1 million) as disclosed in Note 20.

Included in the intangible assets is goodwill amounting to CHF 1,947.2 million (previous year CHF 1,815.2 million).

Furthermore, intangible assets also include capitalized development costs in the amount of CHF 118.1 million (previous year CHF 100.6 million). The capitalized development costs are reviewed on a regular basis as a matter of a standard systematic procedure. In the current financial year the assessment of the capitalized cost did not lead to any value adjustment. Due to the revision of the Cochlear implants product roadmap in the 2016/17 financial year, Sonova identified in the previous year 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 in the previous year. 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 114.6 million (previous year CHF 130.0 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 2017/18 financial period amounts to CHF 373.0 million (previous year CHF 356.5 million) as disclosed in Note 29. This includes CHF 369.1 million (previous year CHF 353.3 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 29.

Provisions for warranty and returns

On March 31, 2018, the Group recorded provisions for warranty and returns of CHF 125.6 million (previous year CHF 117.5 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 2017/18 financial year is consistent to the prior year and considers claim rates and cost per case based on historical averages. Improvements in the expected number and cost of current and future claims led to a reversal of CHF 1.8 million in the current financial year 2017/18 (2016/17: reversal of CHF 37.4 million) which contributed to the profit in the same amount (disclosed in the annual income statement in the line "Other income/(expenses), net").

On March 31, 2018, the provision for the before mentioned cochlear implant product liabilities was CHF 118.4 million (previous year CHF 132.5 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 2017/18 and 2016/17 financial years, the Group entered into several business combinations. The companies acquired/divested are in the business of producing, distributing and servicing hearing instruments.

In the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific. Furthermore, the Group divested two smaller companies in Europe as well as one company in the US. Due to the size of these transactions, they had no material impact on the financial statements.

In the financial year 2016/17, the group entered into several business combinations and divested two smaller group companies. The main acquisition in the previous year was relating to the purchase of AudioNova International B.V.

The effect of the acquisitions and divestments for the 2017/18 and 2016/17 financial years is disclosed in Note 27.

4. Number of employees

On March 31, 2018, the Sonova Group employed the full time equivalent of 14,242 people (previous year 14,089). They were engaged in the following regions and activities:

| By region | 31.3.2018 | 31.3.2017 |
|---|---------------|---------------|
| Switzerland | 1,219 | 1,178 |
| EMEA (excl. Switzerland) | 6,471 | 6,399 |
| Americas | 3,539 | 3,538 |
| Asia/Pacific | 3,013 | 2,974 |
| Total | 14,242 | 14,089 |
| | | |
| By activity | | |
| Research and development | 774 | 742 |
| Operations | 4,391 | 4,369 |
| Sales and marketing, general and administration | 9,077 | 8,978 |
| Total | 14,242 | 14,089 |

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,073 (previous year 12,802). Total personnel expenses for the 2017/18 financial year amounted to CHF 939.5 million (previous year CHF 861.3 million).

5. Exchange rates

The following main exchange rates were used for currency translation:

| | 31.3.2018 | 31.3.2017 | 2017/18 | 2016/17 |
|---------|----------------|-----------|----------------------------|---------|
| | Year-end rates | | Average rates for the year | |
| AUD 1 | 0.73 | 0.77 | 0.75 | 0.74 |
| BRL 1 | 0.29 | 0.32 | 0.30 | 0.30 |
| CAD 1 | 0.74 | 0.75 | 0.76 | 0.75 |
| CNY 1 | 0.15 | 0.15 | 0.15 | 0.15 |
| EUR 1 | 1.18 | 1.07 | 1.14 | 1.08 |
| GBP 1 | 1.35 | 1.25 | 1.29 | 1.29 |
| JPY 100 | 0.90 | 0.90 | 0.88 | 0.91 |
| USD 1 | 0.96 | 1.00 | 0.97 | 0.99 |

6. Segment information

Information by business segments

The Group is active in the two business segments, hearing instruments and cochlear implants, which are reported separately to the Group's chief operating decision maker (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 activities of the design, development, manufacture, distribution and service of hearing instruments and related products. Research and development is centralized in Switzerland while some supporting activities are also performed in Canada and Sweden. Production of hearing instruments is concentrated in three production centers located 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, Germany and Sweden. The execution of marketing campaigns lies with the sales organizations in each market. Product distribution is done through sales organizations in the individual markets. The distribution channels of the Group vary in the individual markets depending on the sales strategy and the characteristics of the countries. The distribution channels can be split broadly 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 activities of the design, development, manufacture, distribution and service of hearing implants and related products. The segment consists of Advanced Bionics and the related sales organizations. Research and development as well as marketing activities of Advanced Bionics are centralized predominantly 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 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
|---|------------------------|------------------|----------------------|----------------|----------------------------|------------------|------------------|------------------|
| | Hearing instruments | | Cochlear implants | | Corporate/ Eliminations | | Total | |
| Segment sales | 2,425,201 | 2,191,985 | 225,828 | 207,244 | | | 2,651,029 | 2,399,229 |
| Intersegment sales | (2,129) | (1,688) | (2,974) | (1,891) | | | (5,103) | (3,579) |
| Sales | 2,423,072 | 2,190,297 | 222,854 | 205,353 | | | 2,645,926 | 2,395,650 |
| Operating profit before acquisition-related amortization (EBITA) | 520,560 | 454,993 | 11,893 | 8,005 | | | 532,453 | 462,998 |
| Depreciation, amortization and impairment | (112,783) | (92,767) | (21,980) | (54,637) | | | (134,763) | (147,404) |
| Segment assets | 3,780,657 | 3,552,007 | 608,275 | 588,382 | (767,419) | (720,668) | 3,621,513 | 3,419,721 |
| Unallocated assets ¹⁾ | | | | | | | 680,465 | 515,959 |
| Total assets | | | | | | | 4,301,978 | 3,935,680 |

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 | 2017/18 | 2016/17 |
|--|----------------|----------------|
| EBITA | 532,453 | 462,998 |
| Acquisition-related amortization | (49,476) | (39,321) |
| Financial costs, net | (7,234) | (6,205) |
| Share of gain/(loss) in associates/joint ventures, net | 3,197 | (143) |
| Income before taxes | 478,940 | 417,329 |

Entity-wide disclosures

| Sales by product groups 1,000 CHF | 2017/18 | 2016/17 |
|--|------------------|------------------|
| Premium hearing instruments | 679,017 | 604,506 |
| Advanced hearing instruments | 497,627 | 464,710 |
| Standard hearing instruments | 761,349 | 713,864 |
| Wireless communication systems | 115,816 | 106,684 |
| Miscellaneous | 369,263 | 300,533 |
| Total hearing instruments segment | 2,423,072 | 2,190,297 |
| Cochlear implant systems | 165,099 | 159,971 |
| Upgrades and accessories | 57,755 | 45,382 |
| Total cochlear implants segment | 222,854 | 205,353 |
| Total sales | 2,645,926 | 2,395,650 |

| Sales by business – hearing instruments segment 1,000 CHF | 2017/18 | 2016/17 ¹⁾ |
|---|------------------|-----------------------|
| Hearing instruments business | 1,441,570 | 1,377,228 |
| Retail business | 981,502 | 813,069 |
| Total hearing instruments segment | 2,423,072 | 2,190,297 |

¹⁾ Reclassification of US insurance subcontracting business from Retail (as disclosed in the annual report 2016/17) to Hearing instruments business.

| Sales and selected non-current assets by regions 1,000 CHF | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
|--|---------------------|------------------|---|------------------|
| Country/region | Sales ¹⁾ | | Selected non-current assets ²⁾ | |
| Switzerland | 29,613 | 26,837 | 251,353 | 241,460 |
| EMEA (excl. Switzerland) | 1,369,231 | 1,135,362 | 1,650,584 | 1,461,948 |
| USA | 759,610 | 787,324 | 655,239 | 700,766 |
| Americas (excl. USA) | 230,781 | 210,888 | 129,128 | 130,749 |
| Asia/Pacific | 256,691 | 235,239 | 109,286 | 109,967 |
| Total Group | 2,645,926 | 2,395,650 | 2,795,590 | 2,644,890 |

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 2017/18 financial year amounts to CHF 7.2 million (previous year CHF 6.3 million). The regular and systematic assessment of the provision for product liabilities in the Cochlear implants segment led to a release of CHF 1.8 million (previous year CHF 37.4 million). In addition, the divestment of two minor group companies in the EMEA region and the sale of a company in the USA led to a gain of CHF 5.4 million (previous year other income from divestments CHF 3.8 million). Furthermore in 2016/17 the “other expenses” also included 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”, Note 21 “Provisions” and Note 27 “Acquisitions/ Disposals of subsidiaries”.

8. Financial income/expenses, net

| 1,000 CHF | 2017/18 | 2016/17 |
|---|----------------|-----------------|
| Interest income | 1,624 | 3,797 |
| Other financial income | 506 | 3,596 |
| Total financial income | 2,130 | 7,393 |
| Interest expenses | (1,278) | (1,728) |
| Other financial expenses | (8,086) | (11,870) |
| Total financial expenses | (9,364) | (13,598) |
| Total financial income/expenses, net | (7,234) | (6,205) |

Other financial expenses in 2017/18 and 2016/17 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 | 2017/18 | 2016/17 |
|--|---------------|---------------|
| Income taxes | 60,433 | 49,235 |
| Change in deferred taxes | 11,072 | 11,918 |
| Total tax expense | 71,505 | 61,153 |
| Reconciliation of tax expense | | |
| Income before taxes | 478,940 | 417,329 |
| Group's expected average tax rate | 14.6% | 15.5% |
| Tax at expected average rate | 69,946 | 64,887 |
| +/- Effects of | | |
| Expenses not subject to tax, net | 3,994 | 3,564 |
| Changes of unrecognized loss carryforwards/deferred tax assets | (8) | (3,785) |
| Local actual tax rate different to Group's expected average tax rate | (24,278) | (12,759) |
| Change in tax rates on deferred tax balances ¹⁾ | 19,960 | 7,808 |
| Prior year adjustments and other items, net | 1,891 | 1,438 |
| Total tax expense | 71,505 | 61,153 |
| Weighted average effective tax rate | 14.9% | 14.7% |

¹⁾ 2017/18 change mainly relates to a reduction for US corporate income tax rates.

The Group's expected average tax rate is the aggregate rate 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 | | | | | 2017/18 |
|---|-----------------------------|-------------------|--|------------------------|-----------------|
| | Property, plant & equipment | Intangible assets | Inventories, receivables, provisions and other liabilities | Tax loss carryforwards | Total |
| Balance April 1 | (7,094) | (99,727) | 35,315 | 64,669 | (6,837) |
| Changes through business combinations | | (1,940) | 6,008 | | 4,068 |
| Deferred taxes recognized in the income statement | 256 | 5,281 | (4,152) | (12,457) | (11,072) |
| Deferred taxes recognized in OCI ¹⁾ | | | (2,125) | | (2,125) |
| Exchange differences | (299) | (7,591) | (3,199) | 384 | (10,705) |
| Balance March 31 | (7,137) | (103,977) | 31,847 | 52,596 | (26,671) |
| Amounts in the balance sheet | | | | | |
| Deferred tax assets | | | | | 114,645 |
| Deferred tax liabilities | | | | | (141,316) |
| Total deferred taxes, net | | | | | (26,671) |

¹⁾ Other comprehensive income.

| Deferred tax assets and (liabilities) 1,000 CHF | | | | | 2016/17 |
|---|-----------------------------|-------------------|--|------------------------|----------------|
| | 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 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 | 31.3.2018 | 31.3.2017 |
|-------------------|----------------|----------------|
| Within 1–3 years | 97,693 | 60,213 |
| Within 4 years | 10,918 | 39,851 |
| Within 5 years | 28,049 | 17,585 |
| More than 5 years | 449,355 | 416,462 |
| Total | 586,015 | 534,111 |

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 is 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 | 2017/18 | 2016/17 |
|---|-------------|-------------|
| Income after taxes (1,000 CHF) | 400,135 | 349,172 |
| Weighted average number of outstanding shares | 65,319,359 | 65,321,391 |
| Basic earnings per share (CHF) | 6.13 | 5.35 |

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 2018 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not 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 | 2017/18 | 2016/17 |
|--|-------------|-------------|
| Income after taxes (1,000 CHF) | 400,135 | 349,172 |
| Weighted average number of outstanding shares | 65,319,359 | 65,321,391 |
| Adjustment for dilutive share options | 216,787 | 91,619 |
| Adjusted weighted average number of outstanding shares | 65,536,146 | 65,413,010 |
| Diluted earnings per share (CHF) | 6.11 | 5.34 |

11. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 12, 2018, that a dividend of CHF 2.60 shall be distributed (previous year CHF 2.30).

12. Cash and cash equivalents

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|-----------------------|----------------|----------------|
| Cash on hand | 1,335 | 1,129 |
| Current bank accounts | 413,551 | 289,819 |
| Term deposits | 137,235 | 83,556 |
| Total | 552,121 | 374,504 |

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 | 31.3.2018 | 31.3.2017 |
|--|--------------|--------------|
| Marketable securities | 59 | 358 |
| Positive replacement value of forward foreign exchange contracts | 534 | 819 |
| Loans to third parties | 3,780 | 2,987 |
| Total | 4,373 | 4,164 |

14. Trade receivables

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|------------------------------------|----------------|----------------|
| Trade receivables | 481,470 | 439,453 |
| Provision for doubtful receivables | (31,925) | (26,078) |
| Total | 449,545 | 413,375 |

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 | 31.3.2018 | 31.3.2017 |
|-------------------------------------|----------------|----------------|
| Total trade receivables, net | 449,545 | 413,375 |
| of which: | | |
| Not overdue | 323,879 | 302,406 |
| Overdue 1–30 days | 64,384 | 54,547 |
| Overdue more than 30 days | 61,282 | 56,422 |
| Total | 449,545 | 413,375 |

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 | 2017/18 | 2016/17 |
|---|-----------------|-----------------|
| Provision for doubtful receivables, April 1 | (26,078) | (22,166) |
| Changes through business combinations | (45) | (3,039) |
| Utilization or reversal | 10,696 | 9,299 |
| Additions | (16,411) | (10,661) |
| Disposal | 84 | 979 |
| Exchange differences | (171) | (490) |
| Provision for doubtful receivables, March 31 | (31,925) | (26,078) |

During 2017/18, the Group utilized CHF 9.7 million (previous year CHF 7.3 million) of this provision to write-off receivables.

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

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|-------------------------------------|----------------|----------------|
| BRL | 18,765 | 22,155 |
| CAD | 21,547 | 24,546 |
| CHF | 14,611 | 13,625 |
| EUR | 177,604 | 139,628 |
| GBP | 17,774 | 12,859 |
| USD | 131,931 | 134,033 |
| Other | 67,313 | 66,529 |
| Total trade receivables, net | 449,545 | 413,375 |

15. Other receivables and prepaid expenses

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|-------------------|---------------|---------------|
| Other receivables | 64,482 | 65,240 |
| Prepaid expenses | 26,133 | 21,088 |
| Total | 90,615 | 86,328 |

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 | 31.3.2018 | 31.3.2017 |
|------------------------------|----------------|----------------|
| Raw materials and components | 45,030 | 40,905 |
| Work-in-process | 90,030 | 93,891 |
| Finished products | 168,883 | 156,871 |
| Allowances | (39,475) | (36,012) |
| Total | 264,468 | 255,655 |

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

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2017/18 to CHF 672.3 million (previous year CHF 639.2 million).

17. Property, plant and equipment

1,000 CHF

2017/18

| | Land & buildings | Machinery & technical equipment | Room installations & other equipment | Advance payments & assets under construction | Total |
|---------------------------------------|------------------|---------------------------------|--------------------------------------|--|------------------|
| Cost | | | | | |
| Balance April 1 | 195,039 | 277,262 | 313,340 | 5,433 | 791,074 |
| Changes through business combinations | 10 | 92 | 2,285 | | 2,387 |
| Additions | 1,428 | 22,261 | 26,660 | 10,860 | 61,209 |
| Disposals | (74) | (11,162) | (19,453) | | (30,689) |
| Transfers | (3,146) | 2,977 | 5,723 | (5,554) | |
| Exchange differences | 2,244 | 2,913 | 15,233 | (136) | 20,254 |
| Balance March 31 | 195,501 | 294,343 | 343,788 | 10,603 | 844,235 |
| Accumulated depreciation | | | | | |
| Balance April 1 | (69,201) | (203,090) | (208,462) | | (480,753) |
| Additions | (5,567) | (25,922) | (31,272) | | (62,761) |
| Disposals | 32 | 10,623 | 17,830 | | 28,485 |
| Transfers | 1,722 | 323 | (2,045) | | |
| Exchange differences | (1,004) | (1,934) | (10,775) | | (13,713) |
| Balance March 31 | (74,018) | (220,000) | (234,724) | | (528,742) |
| Net book value | | | | | |
| Balance April 1 | 125,838 | 74,172 | 104,878 | 5,433 | 310,321 |
| Balance March 31 | 121,483 | 74,343 | 109,064 | 10,603 | 315,493 |

| 1,000 CHF | | | | | | 2016/17 |
|---------------------------------------|------------------|---------------------------------|--------------------------------------|--|------------------|---------|
| | 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 | |

Pledged fixed assets amounted to CHF 0.1 million (previous year CHF 0.1 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 | 2017/18 | 2016/17 |
|--|--------------|--------------|
| Current assets | 1,558 | 919 |
| Non-current assets | 2,226 | 1,518 |
| Total assets | 3,784 | 2,437 |
| Current liabilities | (801) | (394) |
| Non-current liabilities | (35) | |
| Total liabilities | (836) | (394) |
| Net assets | 2,948 | 2,043 |
| | | |
| Income for the year | 5,804 | 2,170 |
| Expenses for the year | (2,607) | (2,313) |
| Profit for the year | 3,197 | (143) |
| | | |
| Net book value at year-end | 13,700 | 11,471 |
| Share of gain/(loss) recognized by the Group | 3,197 | (143) |

In the 2017/18 financial year, the Group acquired one associate and disposed a majority share (51%) of a previously fully consolidated company (resulting in a minority share and a reclassification to associates). Both transactions were for companies which are in the business of selling hearing instruments but had no significant effect on the financial statements for the group. The net consideration for the two transactions above amounted to CHF 1.2 million (previous year CHF 1.6 million). In the 2016/17 financial year, the Group acquired three and divested one associate.

Sales to associates/joint ventures in the 2017/18 financial year amounted to CHF 10.0 million (previous year CHF 7.3 million). At March 31, 2018, trade receivables towards associates/joint ventures amounted to CHF 2.3 million (previous year CHF 2.2 million).

At the end of the 2017/18 and 2016/17 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 13.7 million (previous year CHF 11.5 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2017.

19. Other non-current financial assets

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|---|---------------|---------------|
| Financial assets at fair value through profit or loss | 1,761 | 3,190 |
| Loans to associates | 6,713 | 7,855 |
| Loans to third parties | 12,124 | 7,722 |
| Rent deposits | 3,316 | 1,598 |
| Total | 23,914 | 20,365 |

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.

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, 2018, the respective repayment periods vary between one and seven 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 | | | | | 2017/18 |
|---------------------------------------|------------------|--|-------------------------------|--------------------------------|------------------|
| | Goodwill | Intangibles relating to acquisitions ¹⁾ | Capitalized development costs | Software and other intangibles | Total |
| Cost | | | | | |
| Balance April 1 | 1,969,218 | 606,961 | 135,083 | 87,482 | 2,798,744 |
| Changes through business combinations | 77,876 | 26,653 | | 72 | 104,601 |
| Additions | | | 30,092 | 4,994 | 35,086 |
| Disposals | (18,223) | (18,602) | | (8,115) | (44,940) |
| Exchange differences | 65,550 | 30,316 | (109) | 459 | 96,216 |
| Balance March 31 | 2,094,421 | 645,328 | 165,066 | 84,892 | 2,989,707 |
| Accumulated amortization | | | | | |
| Balance April 1 | (154,062) | (224,932) | (34,489) | (62,174) | (475,657) |
| Additions | | (49,476) ²⁾ | (12,462) | (10,064) | (72,002) |
| Disposals | | 11,135 | | 8,279 | 19,414 |
| Exchange differences | 6,823 | (958) | | (931) | 4,934 |
| Balance March 31 | (147,239) | (264,231) | (46,951) | (64,890) | (523,311) |
| Net book value | | | | | |
| Balance April 1 | 1,815,156 | 382,029 | 100,594 | 25,308 | 2,323,087 |
| Balance March 31 | 1,947,182 | 381,097 | 118,115 | 20,002 | 2,466,396 |

¹⁾ Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R&D and technology.

²⁾ Relates to research and development (CHF 1.1 million) and sales and marketing (CHF 48.4 million).

| 1,000 CHF | | | | | | 2016/17 |
|---|------------------|--|-------------------------------|--------------------------------|------------------|---------|
| | 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).

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).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2017/18 and 2016/17 financial years.

Hearing instruments

As of March 31, 2018, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,639.0 million (prior year CHF 1,492.7 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 2.2% (prior year 2.0%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.4% (prior year 9.2%) was used. The group performed a sensitivity analysis which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2018, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 308.2 million (prior year CHF 322.5 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 2.4% (prior year 2.1%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.6% (prior year 9.1%) was used. The group performed a sensitivity analysis which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. In the current financial year 2017/18, this review did not lead to any valuation adjustments. Due to the revision of the Cochlear implants product roadmap in the 2016/17 financial year, Sonova had identified the need of valuation adjustments on certain R & D projects. As a result, an impairment of previously capitalized development costs was recorded in previous year, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement 2016/17 in the line “other income/(expense), net”. The capitalized development costs are included in the reportable segment “Cochlear implants” disclosed in Note 6.

21. Provisions

| 1,000 CHF | | | | | 2017/18 |
|---------------------------------------|----------------------|----------------------------|---------------------|------------------|----------------|
| | Warranty and returns | Reimbursement to customers | Product liabilities | Other Provisions | Total |
| Balance April 1 | 117,489 | 11,186 | 132,525 | 37,008 | 298,208 |
| Changes through business combinations | 7,413 | 24 | | 413 | 7,850 |
| Amounts used | (64,787) | (6,404) | (7,245) | (18,243) | (96,679) |
| Reversals | (8,155) | (11) | (1,835) | (4,228) | (14,229) |
| Increases | 71,458 | 4,656 | | 15,641 | 91,755 |
| Disposals | | | | (334) | (334) |
| Present value adjustments | 2 | | 722 | (176) | 548 |
| Exchange differences | 2,180 | (290) | (5,743) | 1,196 | (2,657) |
| Balance March 31 | 125,600 | 9,161 | 118,424 | 31,277 | 284,462 |
| thereof short-term | 79,724 | 9,161 | 15,427 | 13,610 | 117,922 |
| thereof long-term | 45,876 | | 102,997 | 17,667 | 166,540 |

| 1,000 CHF | | | | | 2016/17 |
|---------------------------------------|----------------------|----------------------------|---------------------|------------------|----------------|
| | 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 |

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 1.8 million (previous year CHF 37.4 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 provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. The timing of cash outflows for the other provisions is expected to take place within the next two years.

22. Financial liabilities

In connection with the financing of the acquisition of AudioNova in the previous financial year, 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 (disclosed under current financial liabilities). The fair value as of March 31, 2018 amounts to CHF 150.0 million (100.30%).
- 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 (disclosed as non-current financial liabilities). The fair value as of March 31, 2018 amounts to CHF 250.0 million (100.58%).
- 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 (disclosed as non-current financial liabilities. Interests will be paid on an annual basis. The fair value as of March 31, 2018 amounts to CHF 360.0 million (100.28%).

Current financial liabilities

| Current financial liabilities 1,000 CHF | 31.3.2018 | 31.3.2017 |
|---|----------------|---------------|
| Bank debt | 18 | 19 |
| Bond | 150,100 | |
| Deferred payments and contingent considerations | 9,598 | 12,323 |
| Other current financial liabilities | 1,921 | 1,013 |
| Total | 161,637 | 13,355 |
| Unused borrowing facilities | 187,153 | 187,003 |

Besides the bond, 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. The credit facility was not used at balance sheet date.

Non-current financial liabilities

| Non-current financial liabilities 1,000 CHF | 31.3.2018 | 31.3.2017 |
|---|----------------|----------------|
| Bank debt | 62 | 78 |
| Bonds | 609,227 | 759,198 |
| Deferred payments and contingent considerations | 7,593 | 6,024 |
| Other non-current financial liabilities | 2,177 | 1,660 |
| Total | 619,059 | 766,960 |

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) (refer to Note 30).

| Analysis by currency 1,000 CHF | 31.3.2018 | | | | 31.3.2017 | | | |
|--------------------------------|-----------|----------------|---|----------------|-----------|----------------|---|----------------|
| | Bank debt | Bonds | Other non-current financial liabilities | Total | Bank debt | Bonds | Other non-current financial liabilities | Total |
| CHF | | 609,227 | 8,693 | 617,920 | | 759,198 | 5,944 | 765,142 |
| USD | | | 15 | 15 | | | 419 | 419 |
| EUR | | | 79 | 79 | | | | |
| Other | 62 | | 983 | 1,045 | 78 | | 1,321 | 1,399 |
| Total | 62 | 609,227 | 9,770 | 619,059 | 78 | 759,198 | 7,684 | 766,960 |

Reconciliation of financial liabilities

| Reconciliation of financial liabilities 1,000 CHF | 2017/18 | | | | |
|---|-----------|---|----------------|-----------------------------|----------------|
| | Bank debt | Deferred payments and contingent considerations | Bonds | Other financial liabilities | Total |
| Balance April 1 | 97 | 18,347 | 759,198 | 2,673 | 780,315 |
| Repayments | (22) | (108) | | (15) | (145) |
| Exchange differences | 5 | 163 | | (423) | (255) |
| Other | | (1,211) | 129 | 1,863 | 781 |
| Balance March 31 | 80 | 17,191 | 759,327 | 4,098 | 780,696 |
| thereof short-term | 18 | 9,598 | 150,100 | 1,921 | 161,637 |
| thereof long-term | 62 | 7,593 | 609,227 | 2,177 | 619,059 |

23. Other short-term liabilities

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|------------------|----------------|----------------|
| Other payables | 53,267 | 47,661 |
| Accrued expenses | 192,607 | 184,190 |
| Deferred income | 29,796 | 27,324 |
| Total | 275,670 | 259,175 |

Other payables include amounts to be remitted for 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. 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 is 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, 2018, forward currency contracts amounting to CHF 329.4 million (previous year CHF 201.8 million) were open. The open contracts on March 31, 2018 as well as on March 31, 2017 were all due within one year.

| Notional amount of forward contracts 1,000 CHF | 31.3.2018 | | 31.3.2017 | |
|--|----------------|----------------|----------------|-------------|
| | Total | Fair Value | Total | Fair Value |
| Positive replacement values | 61,024 | 534 | 57,513 | 819 |
| Negative replacement values | 268,337 | (1,740) | 102,597 | (870) |
| Total | 329,361 | (1,206) | 160,110 | (51) |

Foreign currency sensitivity analysis

| 1,000 CHF | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
|-----------------------|--|---------|------------------|----------|
| | Impact on income after taxes ¹⁾ | | Impact on equity | |
| Change in USD/CHF +5% | 4,302 | 1,181 | 14,290 | 32,494 |
| Change in USD/CHF -5% | (4,302) | (1,181) | (14,290) | (32,494) |
| Change in EUR/CHF +5% | 5,223 | 4,665 | 19,550 | 17,733 |
| Change in EUR/CHF -5% | (5,223) | (4,665) | (19,550) | (17,733) |

¹⁾ Excluding the impact of forward currency contracts.

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 2017/18 financial year of CHF 372 million (previous year CHF 236 million). On liabilities the most significant risk relates to the two year variable rate bond (see Note 22). If interest rates during the 2017/18 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 2.5 million. If interest rates had been 1% lower, the income would have been negatively impacted by CHF 2.0 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, 2018, the largest balance with a single counterparty amounted to 24% (previous year 19%) 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, 2018 and 2017:

| 1,000 CHF | | | | | 31.3.2018 |
|---|------------------------|------------------------|-----------------------|-----------------------|------------|
| | Due less than 3 months | Due 3 months to 1 year | Due 1 year to 5 years | Due more than 5 years | Total |
| Bonds | | 150,100 | | | 150,100 |
| Other current financial liabilities | 267 | (149,914) | | | (149,647) |
| Trade payables and other short-term liabilities | 480 | – | | | 480 |
| Total current financial liabilities | 747 | 186 | | | 933 |
| Bonds | | | (62) | | (62) |
| Other non-current financial liabilities | | | 62 | | 62 |
| Total non-current financial liabilities | | | – | | – |
| Total financial liabilities | 747 | 186 | 0 | | 933 |

| 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 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 |

Fair value hierarchy

The following table summarizes the financial instruments carried at fair value, by valuation method, as of March 31, 2018 and 2017. 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 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 | 31.3.2018 | | | |
|--------------------------------------|-----------|---------|--------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Financial assets | | | | |
| At fair value through profit or loss | 59 | | 2,295 | 2,354 |
| Total | 59 | | 2,295 | 2,354 |
| Financial liabilities | | | | |
| At fair value through profit or loss | | | (62) | (62) |
| Total | | | (62) | (62) |

| 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) |

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2018 and 2017:

| Financial assets at fair value through profit or loss 1,000 CHF | 2017/18 | 2016/17 |
|--|----------------|----------------|
| Balance April 1 | 1,531 | 6,474 |
| Additions/(disposals), net | 819 | (3,263) |
| Losses recognized in profit or loss | (55) | (1,680) |
| Balance March 31 | 2,295 | 1,531 |

| Financial liabilities at fair value through profit or loss 1,000 CHF | 2017/18 | 2016/17 |
|---|----------------|-----------------|
| Balance April 1 | (20,598) | (21,574) |
| (Additions)/disposals, net | 24,430 | 1,620 |
| Losses recognized in profit or loss | (3,894) | (644) |
| Balance March 31 | (62) | (20,598) |

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.

25. Other long-term liabilities

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|--------------------------------|------------------|------------------|
| Long-term deferred income | 106,487 | 80,697 |
| Retirement benefit obligations | 7,391 | 25,581 |
| Total | 113,878 | 106,278 |

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 2017/18 primarily relates to the finalization of the purchase accounting of the fair values assigned in regards to the acquisition of AudioNova. For further information, refer to Note 27.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 29.

26. Movements in share capital

| | Issued registered shares | Treasury shares ¹⁾ | Outstanding shares |
|---|--------------------------|-------------------------------------|----------------------------------|
| Issued registered shares | | | |
| Balance April 1, 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 |
| Purchase of shares intended to be cancelled ²⁾ | | (92,000) | (92,000) |
| Balance March 31, 2017 | 65,422,887 | (100,190) | 65,322,697 |
| Capital decrease – share buy-back program ²⁾ | (92,000) | 92,000 | |
| Purchase of treasury shares | | (318,675) | (318,675) |
| Sale/transfer of treasury shares | | 323,243 | 323,243 |
| Balance March 31, 2018 | 65,330,887 | (3,622) | 65,327,265 |
| Nominal value of share capital 1,000 CHF | Share Capital | Treasury shares¹⁾ | Outstanding share capital |
| Balance March 31, 2018 | 3,267 | (1) | 3,266 |

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, 2018. 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).

27. Acquisitions/Disposals of subsidiaries

In the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific. Furthermore, the Group divested of two smaller companies in Europe as well as one company in the US. All of these companies acquired/divested are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. The most significant of the businesses acquired related to the acquisition of the "Hörgeräte ISMA GmbH & Co. KG", a German retail company with 56 points of sale and 190 employees. During the financial year 2016/17 besides several small acquisitions/divestments, AudioNova International B.V. 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 | 2017/18 | | | 2016/17 |
|---|---------------|-----------------|---------------|-----------------|
| | Total | AudioNova | Others | Total |
| Trade receivables | 2,270 | 32,486 | 333 | 32,819 |
| Other current assets | 17,435 | 77,152 | 2,444 | 79,596 |
| Property, plant & equipment | 2,387 | 45,572 | 1,090 | 46,662 |
| Intangible assets | 26,725 | 275,742 | 15,126 | 290,868 |
| Other non-current assets | 553 | 28,010 | 2,183 | 30,193 |
| Current liabilities | (14,592) | (35,307) | (3,450) | (38,757) |
| Non-current liabilities | (27,969) | (460,818) | (5,117) | (465,935) |
| Net assets | 6,809 | (37,163) | 12,609 | (24,554) |
| Goodwill | 77,876 | 720,610 | 33,246 | 753,856 |
| Purchase consideration | 84,685 | 683,447 | 45,855 | 729,302 |
| Liabilities for contingent considerations and deferred payments ¹⁾ | (5,766) | | (1,487) | (1,487) |
| Cash and cash equivalents acquired | (3,423) | (53,022) | (1,359) | (54,381) |
| Cash outflow for investments in associates, contingent considerations and deferred payments | 6,978 | | 1,849 | 1,849 |
| Cash consideration for acquisitions, net of cash acquired | 82,474 | 630,425 | 44,858 | 675,283 |
| Settlement of pre-existing HAL intragroup financing | | 290,794 | | 290,794 |
| Total consideration paid, net of cash acquired | 82,474 | 921,219 | 44,858 | 966,077 |

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.

In the 2017/18 reporting period, recognized acquisition-related intangible assets mainly relate to customer relationships. In the financial year 2016/17, 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 0.5 million (prior year period CHF 8.8 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.

| April 1 to March 31, 1,000 CHF | 2017/18 | | | 2016/17 |
|--|---------|-----------|--------|---------|
| | Total | AudioNova | Others | Total |
| Contribution of acquired companies from date of acquisition | | | | |
| Sales | 17,675 | 218,086 | 12,661 | 230,747 |
| Net income | 1,745 | 11,589 | 1,269 | 12,858 |
| Contribution, if the acquisitions occurred on April 1 | | | | |
| Sales | 34,778 | 361,867 | 19,754 | 381,621 |
| Net income ¹⁾ | 6,337 | 9,304 | 3,230 | 12,534 |

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 March 30, 2018, Sonova Holding AG signed an agreement to divest Ear Professional International Corporation ("EPIC"), representing the Group's US insurance subcontracting business. Further in the 2017/18 reporting period, the Group divested two minor group companies in the EMEA region. The total purchase price consideration for the divestments amounted to CHF 23.2 million. The carrying amount of the disposed net assets amounted to CHF 17.8 million including cash and cash equivalents of CHF 0.8 million. The net gain from these transactions of CHF 5.4 million has been recognized in the income statement and is included in "other income/(expense), net". These transactions have no material impact on the financial statements.

In the financial year 2016/17, the Group divested two minor group companies in the EMEA and 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".

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

| 1,000 CHF | 2017/18 | 2016/17 | 2017/18 | 2016/17 | 2017/18 | 2016/17 |
|------------------------------|------------------|---------------|--------------------|--------------|---------------|---------------|
| | Management Board | | Board of Directors | | Total | |
| Short-term employee benefits | 9,309 | 8,199 | 1,552 | 1,519 | 10,861 | 9,718 |
| Post-employment benefits | 883 | 828 | | | 883 | 828 |
| Share based payments | 6,646 | 5,064 | 1,390 | 1,362 | 8,036 | 6,426 |
| Total | 16,838 | 14,091 | 2,942 | 2,881 | 19,780 | 16,972 |

The total compensation to the Management Board for the 2017/18 reporting period, as shown above, relates to 10 members (including two members of the Management Board who joined in October 2017) and two former members of the Management Board until contractual end date. The total compensation to the Management Board for the 2016/17 reporting period, as shown above, related to 10 members.

The total compensation to the Board of Directors for the 2017/18 reporting period, as shown above, relates to eight current members (previous year also eight members).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 29.

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.

29. Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Israel. These plans are both funded and unfunded and governed 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 369.1 million or 99.6% (previous year CHF 353.3 million or 99.6%) 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 as 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, to further reduce the financial risks of the pension fund, the foundation has decided that, above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. In the previous year, the foundation decided to reduce the annuity rate of 5.8% applied to the individual accumulated retirement saving gradually over-time. After 5.8% that was applied for 2016/17, an annuity rate of 5.6% was applied for the financial year 2017/18.

As of March 31, 2018, 1,254 employees (previous year 1,210 employees) and 119 beneficiaries (previous year 107 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.4 years (previous year 14.3 years).

The results of all defined benefit plans are summarized below:

| Amounts recognized in the balance sheet CHF 1,000 | 31.3.2018 | 31.3.2017 |
|---|----------------|-----------------|
| Present value of funded obligations | (370,714) | (354,721) |
| Fair value of plan assets | 365,616 | 330,864 |
| Net present value of funded plans | (5,098) | (23,857) |
| Present value of unfunded obligations | (2,293) | (1,724) |
| Total liabilities, net | (7,391) | (25,581) |
| Amounts in the balance sheet: | | |
| Retirement benefit obligation | (7,391) | (25,581) |

| Remeasurements recognized in equity CHF 1,000 | 2017/18 | 2016/17 |
|---|---------------|---------------|
| Balance April 1 | 30,049 | 69,497 |
| Actuarial (gains)/losses from | | |
| – changes in demographic assumptions | | (6,775) |
| – changes in financial assumptions | (12,525) | (4,125) |
| – changes in experience adjustments | 12,564 | (4,789) |
| Return on plan assets excluding interest income | (15,039) | (23,759) |
| Balance March 31 | 15,049 | 30,049 |

| Amounts recognized in the income statement CHF 1,000 | 2017/18 | 2016/17 |
|--|---------------|---------------|
| Current service cost ¹⁾ | 21,331 | 23,982 |
| Participants' contributions | (10,973) | (10,633) |
| Net interest cost | 187 | 435 |
| Total employee benefit expenses²⁾ | 10,545 | 13,784 |

¹⁾ Current service cost for the 2017/18 financial year contains the effect of the pension plan change as described above. 2016/17 contains the effect of a gradual reduction of the annuity rate.

²⁾ The amount recognized in the consolidated income statement 2017/18 has been charged to:

- cost of sales CHF 1.9 million (previous year CHF 2.4 million);
- research and development CHF 3.5 million (previous year 4.3 million);
- sales and marketing CHF 2.1 million (previous year 2.7 million);
- general and administration CHF 2.9 million (previous year CHF 4.0 million);
- financial expenses CHF 0.2 million (previous year CHF 0.4 million).

| Movement in the present value of the defined benefit obligations CHF 1,000 | 2017/18 | 2016/17 |
|--|----------------|----------------|
| Beginning of the year | 356,452 | 361,122 |
| Interest cost | 2,215 | 2,243 |
| Current service cost | 21,331 | 23,982 |
| Benefits paid, net | (7,197) | (15,377) |
| Actuarial loss on obligations | 39 | (15,689) |
| Changes through business combinations | | 104 |
| Exchange differences | 167 | 67 |
| Present value of obligations at end of period | 373,007 | 356,452 |

| Movement in the fair value of the plan assets CHF 1,000 | 2017/18 | 2016/17 |
|--|----------------|----------------|
| Beginning of the year | 330,759 | 295,778 |
| Interest income on plan asset | 2,028 | 1,808 |
| Employer's contributions paid | 13,992 | 13,944 |
| Participants' contributions | 10,973 | 10,633 |
| Benefits paid, net | (7,162) | (15,218) |
| Return on plan assets excluding interest income | 15,039 | 23,759 |
| Changes through business combinations | | 110 |
| Exchange differences | (13) | (55) |
| Fair value of plan assets at end of period | 365,616 | 330,759 |

| The plan assets consist of: | 31.3.2018 | 31.3.2017 |
|------------------------------------|------------------|------------------|
| Cash | 4.5% | 1.4% |
| Domestic bonds | 17.9% | 20.0% |
| Foreign bonds | 7.6% | 8.4% |
| Domestic equities | 12.9% | 13.8% |
| Foreign equities | 31.9% | 32.1% |
| Real estates | 14.3% | 15.0% |
| Alternative investments | 10.9% | 9.3% |

The actual return on plan assets amounted to CHF 17.1 million (previous year CHF 25.4 million). The expected employer's contributions to be paid in the 2018/19 financial year amount to CHF 14.0 million.

| Principal actuarial assumptions (weighted average) | 2017/18 | 2016/17 |
|---|----------------|----------------|
| Discount rate | 0.85% | 0.60% |
| Future salary increases | 1.00% | 1.00% |
| Future pension increases | 0% | 0% |
| Fluctuation rate | 10% | 10% |
| Demography | BVG 2015GT | BVG 2015GT |

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 interdependencies were taken into account.

| Sensitivity analysis – Impact on defined benefit obligation CHF 1,000 | 31.3.2018 | 31.3.2017 |
|--|------------------|------------------|
| Discount rate | | |
| Discount rate +0.25% | (11,432) | (11,694) |
| Discount rate –0.25% | 12,930 | 13,315 |
| Salary growth | | |
| Salary growth +0.25% | 651 | 823 |
| Salary growth –0.25% | (623) | (802) |
| Pension growth | | |
| Pension growth +0.5% | 26,426 | 13,485 |
| Pension growth –0.5% | (26,426) | (13,485) |
| Fluctuation rate | | |
| Fluctuation rate +5% | (11,307) | (14,357) |
| Fluctuation rate –5% | 19,365 | 24,750 |

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 19.1 million in the year ended March 31, 2018 (previous year CHF 17.7 million) and are recognized directly in the income statement.

30. 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 2017/18 and 2016/17 financial years, Sonova granted restricted shares, restricted share units (RSUs), options, and for US employees, share appreciation rights (SARs). In 2017/2018, grants made to the members of the Management Board (excluding CEO) under the Executive Equity Award Plan (EEAP) consist of options as well as performance share units (PSUs), which generally replace restricted share units (RSUs). Options as well as PSUs granted to the Management Board (excluding CEO) in 2017/2018 include a performance criterion. Grants to the CEO in the financial year 2017/18 consist of RSUs as well as options (both containing performance criteria). In addition, in the current financial year a non-recurring performance option grant was made to the COO.

For further details on the different instruments granted (especially in regards to performance criteria) to the members of the Management Board, please refer to the [compensation report](#).

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

| 1,000 CHF | 2017/18 | 2016/17 |
|--|---------------|---------------|
| Equity-settled share-based payment costs | 17,920 | 18,708 |
| Cash-settled share-based payment costs | 308 | 254 |
| Total share-based payment costs | 18,228 | 18,962 |

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2012 to 2018. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the COO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2018:

| 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 | 34,958 | 0.8 | 34,958 |
| 2012/13 | Options/SARs | 1.6.2014 31.1.2020 | 227,188 | 109.10 | 56,573 | 1.8 | 56,573 |
| 2013/14 | Options/SARs ¹⁾ | 1.6.2015 31.1.2021 | 242,673 | 124.60 | 102,945 | 2.8 | 62,734 |
| 2014/15 | Options/SARs ²⁾ | 1.6.2016 31.1.2022 | 308,459 | 121.10 | 165,014 | 3.8 | 52,534 |
| 2015/16 | Options/SARs ³⁾ | 1.6.2017 31.1.2023 | 298,520 | 124.20 | 208,139 | 4.8 | 35,128 |
| 2016/17 | Options/SARs ⁴⁾ | 1.6.2018 31.1.2024 | 378,652 | 130.00 | 342,825 | 5.8 | |
| 2017/18 | Options ⁵⁾ | 1.4.2023 30.9.2027 | 47,415 | 147.85 | 47,415 | 9.5 | |
| 2017/18 | Options/SARs ⁶⁾ | 1.6.2019 31.1.2028 | 341,943 | 147.85 | 341,943 | 9.8 | |
| Total | | | 2,143,324 | 123.57 | 1,299,812⁷⁾ | 6.0 | 241,927⁸⁾ |
| Thereof: | | | | | | | |
| Equity-settled | | | 1,908,819 | | 1,197,443 | | 227,885 |
| Cash-settled | | | 234,505 | | 102,369 | | 14,042 |

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⁾ Non-recurring performance options, granted to the COO.

⁶⁾ Including 150,114 performance options, granted to the CEO and MB members.

⁷⁾ Weighted average exercise price of outstanding options/SARs amounts to CHF 131.03.

⁸⁾ Weighted average exercise price for exercisable options/SARs amounts to CHF 116.00.

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. The main valuation assumptions used for the options and/or SARs granted in the current and in the previous financial year are as follows:

| Assumptions for valuation at grant date | EEAP 2018 Options/SARs | EEAP 2018 Performance Options COO | EEAP 2017 Options/SARs |
|---|---------------------------|---|---------------------------|
| Valuation date | 1.2.2018 | 1.2.2018 | 1.2.2017 |
| Expiry date | 31.1.2028 | 30.9.2027 | 31.1.2024 |
| Share price on grant date | CHF 147.85 | CHF 147.85 | CHF 130.00 |
| Exercise price | CHF 147.85 | CHF 147.85 | CHF 130.00 |
| Volatility | 20.1% | 20.1% | 21.7% |
| Expected dividend yield | 1.9% | 1.9% | 2.1% |
| Weighted risk free interest rate | 0.2% | 0.3% | (0.3%) |
| Weighted average fair value of options/SARs issued | 20.77 | 21.09 | CHF 16.99 |

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 re-assessments 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: | 2017/18 | | 2016/17 | |
|--|----------------------|--|----------------------|--|
| | Number of options | Weighted average exercise price (CHF) | Number of options | Weighted average exercise price (CHF) |
| Outstanding options at April 1 | 1,123,708 | 122.03 | 1,010,026 | 117.07 |
| Granted ¹⁾ | 357,319 | 147.85 | 334,440 | 130.00 |
| Exercised/sold ²⁾ | (211,026) | 114.36 | (168,642) | 108.20 |
| Forfeited | (72,558) | 125.60 | (52,116) | 121.82 |
| Outstanding options at March 31 | 1,197,443 | 130.87 | 1,123,708 | 122.03 |
| Exercisable at March 31 | 227,885 | 115.77 | 239,356 | 110.71 |

¹⁾ 2017/18 includes 150,114 performance options (previous year 147,948 performance options), granted to the CEO and MB members as well as 47,415 non-recurring performance options granted to the COO.

²⁾ The total consideration from options exercised amounted to CHF 24.1 million (previous year CHF 32.5 million). The weighted average share price of the options exercised during the year 2017/18 was CHF 159.16 (previous year CHF 132.29).

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: | | 2017/18 | 2016/17 | |
|--|----------------|---------------------------------------|----------------|---------------------------------------|
| | Number of SARs | Weighted average exercise price (CHF) | Number of SARs | Weighted average exercise price (CHF) |
| Outstanding SARs at April 1 | 102,364 | 125.00 | 103,956 | 119.45 |
| Granted | 32,039 | 147.85 | 44,212 | 130.00 |
| Exercised/sold | (11,957) | 117.19 | (19,963) | 110.83 |
| Forfeited | (20,077) | 125.84 | (25,841) | 122.18 |
| Outstanding SARs at March 31¹⁾ | 102,369 | 132.90 | 102,364 | 125.00 |
| Exercisable at March 31²⁾ | 14,042 | 119.84 | 11,402 | 115.43 |

¹⁾ The carrying amount of the liability relating to the SARs at March 31, 2018 is CHF 1.1 million (previous year CHF 1.2 million).

²⁾ The intrinsic value of the SARs exercisable at March 31, 2018 amounts to CHF 0.4 million (previous year CHF 0.3 million).

Performance share units (PSUs)/Restricted share units (RSUs)/Restricted shares

Under the EEAP grants 2012 to 2018, 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 RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. In 2018, grants made to the members of the Management Board (excluding CEO) under the EEAP consist of performance share units (PSUs), which generally replace RSUs. The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a "Monte-Carlo valuation". PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion.

In addition to the PSUs/RSUs granted in respect to the EEAP 2018, 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 PSUs/RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the PSUs/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 rTSR targets for performance of PSUs and ROCE targets for performance of 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 2017/18 financial year as these shares have no vesting period.

| Changes in outstanding PSUs/RSUs/Restricted shares: | 2017/18 | 2016/17 |
|---|---------------------------------------|----------------------------------|
| | Number of PSUs/RSUs/Restricted shares | Number of RSUs/Restricted shares |
| RSUs/Restricted shares at April 1 | 457,669 | 458,436 |
| Granted ¹⁾ | 126,931 | 135,286 |
| Released | (115,014) | (110,627) |
| Forfeited | (34,080) | (25,426) |
| PSUs/RSUs/Restricted Shares at March 31 | 435,506 | 457,669 |

¹⁾ 2017/18 includes 18,001 PSUs, granted to the MB members (excluding CEO) as well as 2,800 RSUs granted to the CEO. In the previous year, 17,907 RSUs were granted to the MB members and the CEO.

31. Contingent liabilities

At March 31, 2018 and 2017, 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. The credit facility was not used at the balance sheet date.

Deposits in the amount of CHF 3.7 million (previous year CHF 2.7 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 0.9 million at March 31, 2018 (previous year CHF 0.8 million). Open purchase orders as of March 31, 2018 and 2017, were related to recurring business activities.

32. Leasing liabilities

At March 31, 2018, the following non-cancellable minimum operating lease obligations - existed:

| Financial year 1'000 CHF | 31.3.2018 | 31.3.2017 |
|--------------------------|----------------|----------------|
| 2017/18 | | 69,320 |
| 2018/19 | 77,591 | 50,229 |
| 2019/20 | 56,173 | 38,743 |
| 2020/21 | 37,072 | 26,593 |
| 2021/22 | 27,004 | 21,391 |
| 2022/23 | 21,444 | 14,233 |
| thereafter | 27,684 | 11,757 |
| Total | 246,968 | 232,266 |

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

In the 2017/18 financial year, CHF 101.2 million was recognized as expenses for leases in the consolidated income statement (previous year CHF 79.6 million). The increase compared to 2016/17 is mainly related to the annualization effect of the acquisition of AudioNova and the increase in the CHF/EUR exchange rate.

As of March 31, 2018 and 2017, the Group had no financial lease obligations.

33. Events after balance sheet date

There have been no material events after the balance sheet date.

34. 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 3,267 | |
| Sonova AG | A, B, C, D | Stäfa | CHF 2,500 | 100% |
| Advanced Bionics AG | A, B | Stäfa | CHF 4,350 | 100% |
| Sonova Retail Holding 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% |
| Sonova Deutschland GmbH | B | Fellbach-Oeffingen (DE) | EUR 41 | 100% |
| Hansaton Akustik GmbH | B | Hamburg (DE) | EUR 1,000 | 100% |
| Vitakustik GmbH | B | München (DE) | EUR 500 | 100% |
| Hörgeräte ISMA GmbH & Co. KG | B | Sonnenberg (DE) | EUR 120 | 100% |
| Sonova Retail Deutschland GmbH | B | Dortmund (DE) | EUR 1,000 | 100% |
| Sonova Ibérica S.A. | B | Alicante (ES) | EUR 7,000 | 100% |
| Audition Santé SAS | B | Cahors (FR) | EUR 28,800 | 100% |
| Sonova France S.A.S. | B | Bron-Lyon (FR) | EUR 1,000 | 100% |
| Sonova Italia Srl | B | Milan (IT) | EUR 1,040 | 100% |
| Schoonenberg Hoorcomfort B.V. | B | Dordrecht (NL) | EUR 19 | 100% |
| AudioNova NV/SA, BE | B | Groot-Bijgaarden (NL) | EUR 3,562 | 100% |
| AudioNova Italia | B | Milan (IT) | EUR 1,166 | 100% |
| AudioNova Aps, DK | B | Klampenborg (DK) | DKK 1,561 | 100% |
| Geers Akustyka, PL | B | Lodz (PL) | PLN 678 | 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 67,179 | 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% |
| Sonova USA, 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% |
| 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 35,000 | 100% |
| Sonova Australia Pty Ltd | B | Baulkham Hills (AU) | AUD 750 | 100% |
| Sonova Japan Co., Ltd. | B | Tokyo (JP) | JPY 10,000 | 100% |
| Sonova (Shanghai) Co., Ltd. | B | Shanghai (CN) | CNY 20,041 | 100% |
| Sonova 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

Report of the statutory auditor on the consolidated financial statement



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

Staeefa

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 2018 and the consolidated income statement, 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 2018 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 21.3 million

We concluded full scope audit work at 28 reporting units in 13 countries. Our audit scope addressed over 68% of the Group's revenue and 74% of the Group's assets.

In addition, specified procedures were performed for 5 reporting units in 4 countries representing a further 4% of the Group's revenue and 2% 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 9% of the Group's assets.

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

- Goodwill impairment assessment
- Provisions for product liabilities

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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.

| | |
|--|--|
| <i>Overall Group materiality</i> | CHF 21.3 million |
| <i>How we determined it</i> | 5% of average profit before tax of the last three years |
| <i>Rationale for the materiality benchmark applied</i> | 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 avoids 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



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

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|---|--|
| <p>The Group has goodwill of CHF 1,947.2 million at March 31, 2018.</p> <p>The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgements and estimates made by Management. The judgements and estimates include the initial valuation and subsequent determination of the timing and measurement of an impairment charge, if any. Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied.</p> <p>Refer to note 2.7 (Significant accounting judgements and estimates), and note 20 (Intangible assets).</p> | <p>We have obtained impairment assessments for the CGU Hearing Instruments and the CGU Cochlear Implants from Management and performed the following procedures, amongst other:</p> <p>We assessed and tested the design and operating effectiveness of the controls over the Group's Budget- and Management Reporting process which is the basis for the future cash flow forecasts. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which included the timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets.</p> <p>In addition, we focused on whether 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 do not generate independent cash flows. Therefore, our work focused on confirming Management's position that the Hearing Instruments and Cochlear Implants CGU's are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.</p> <p>We evaluated and challenged the reasonableness of Management's key assumptions applied in its impairment assessments for:</p> <ul style="list-style-type: none"> • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the key assumptions had, with hindsight, been reasonable. • Any significant changes to key assumptions from prior periods by considering whether they had been applied appropriately in the cash flow projection. • Growth rates, by comparing them to economic and industry forecasts and operating margins with comparable companies. • Discount rate, with support of our valuation experts, by assessing the risk adjusted |



cost of capital used to derive the discount rate for the Group and comparable organisations.

We performed our own sensitivity analysis around the key 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 the financial statements.

We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.

Provisions for product liabilities

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|---|
| <p>Provisions for product liabilities amounted to CHF 118.4 million as of March 31, 2018.</p> <p>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 note 2.7 (Significant accounting judgements and estimates), 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.</p> <p>Refer to note 2.7 (Significant accounting judgements and estimates), and note 21 (Provisions) for more information.</p> | <p>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.</p> <p>We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors. We also received external legal confirmation letters from relevant external legal counsels.</p> <p>Management use a developed model to calculate the product liability (the Model). Generally the key assumptions within the Model are consistent to the prior year.</p> <p>The provision is based on historical average claim rates and costs per claim. We tested the Model's mathematical integrity, the accuracy of the underlying calculation and the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We selected samples for settlements and insurance payments and assessed whether the settlements support the key determining factors used in the Model. Furthermore we assessed if the discounting of the provision was in accordance with</p> |



IAS 37 (provisions, contingent liabilities and contingent assets).

Based on our procedures performed, the provision had been reasonably based on the information currently available to Management and after proper consideration of the legal advice received.

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 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 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 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

A handwritten signature in black ink, appearing to read 'S. Boehm', written over a horizontal line.

Sandra Boehm
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'C. Berchtold', written over a horizontal line.

Claudio Berchtold
Audit expert

Zürich, 16 May 2018

Enclosure:

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

Financial statements of Sonova Holding AG

Income statements

| 1,000 CHF | Notes | 2017/18 | 2016/17 |
|--------------------------------|-------|-----------------|-----------------|
| Income | | | |
| Investment income | | 276,144 | 125,729 |
| License income | | 6,523 | 12,168 |
| Financial income | 2.1 | 27,872 | 31,738 |
| Total income | | 310,539 | 169,635 |
| Expenses | | | |
| Administration expenses | | (8,272) | (8,858) |
| Other expenses | | (1,004) | (1,014) |
| Financial expenses | 2.1 | (19,280) | (15,587) |
| Direct taxes | | (914) | (1,497) |
| Total expenses | | (29,470) | (26,956) |
| Net profit for the year | | 281,069 | 142,679 |

Balance sheets

| Assets 1,000 CHF | Notes | 31.3.2018 | 31.3.2017 |
|---------------------------------|-------|------------------|------------------|
| Cash and cash equivalents | | 34,420 | 8,514 |
| Other receivables | | | |
| – Third parties | | 2,765 | 2,531 |
| – Group companies | | 6,379 | 6,105 |
| Prepaid expenses | | 17 | 16 |
| Total current assets | | 43,581 | 17,166 |
| Financial assets | 2.2 | | |
| – Third parties | | 772 | 1,019 |
| – Group companies | | 2,310,209 | 2,193,035 |
| Investments | 2.3 | 324,296 | 319,071 |
| Total non-current assets | | 2,635,277 | 2,513,125 |
| Total assets | | 2,678,858 | 2,530,291 |

| Liabilities and shareholders' equity 1,000 CHF | Notes | 31.3.2018 | 31.3.2017 |
|---|-------|------------------|------------------|
| Trade account payables | | | |
| – Third parties | | 74 | 22 |
| – Group Companies | | 23 | |
| Short-term interest-bearing liabilities | | | |
| – Third parties | | 17 | 17 |
| – Group companies | | 17,641 | 1,443 |
| Bond | 2.4 | 150,000 | |
| Other short-term liabilities to third parties | | 207 | 64 |
| Accrued liabilities | | 5,480 | 4,470 |
| Total short-term liabilities | | 173,442 | 6,016 |
| Bonds | 2.4 | 610,000 | 760,000 |
| Other long-term liabilities to third parties | | | 217 |
| Total long-term liabilities | | 610,000 | 760,217 |
| Total liabilities | | 783,442 | 766,233 |
| Share capital | | 3,267 | 3,271 |
| Legal reserves | | | |
| – Reserves from capital contribution | | 18,634 | 18,630 |
| – General reserves | | 1,800 | 1,800 |
| Statutory retained earnings | | | |
| – Balance carried forward | | 1,591,182 | 1,610,541 |
| – Net profit for the year | | 281,069 | 142,679 |
| Treasury shares | 2.5 | (536) | (12,863) |
| Total shareholders' equity | | 1,895,416 | 1,764,058 |
| Total liabilities and shareholders' equity | | 2,678,858 | 2,530,291 |

Notes to the financial statements of Sonova Holding AG as of March 31, 2018

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 (disclosed under short-term liabilities).
- 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 (disclosed under long-term liabilities).
- 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 (disclosed under long-term liabilities).

3.2 Treasury shares

In accordance with the acceptance of the annual general meeting on June 13, 2017, 92,000 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 117.34 and the average purchase price to CHF 158.51.

Number/1,000 CHF

| | Number | Treasury shares at cost |
|-----------------------------------|--------------|-------------------------|
| Balance April 1, 2017 | 100,190 | 12,863 |
| Purchase of treasury shares | 318,675 | 50,512 |
| Sale/Transfer of treasury shares | (323,243) | (37,928) |
| Cancellation of treasury shares | (92,000) | (11,789) |
| Loss from sale of treasury shares | | (13,122) |
| Balance March 31, 2018 | 3,622 | 536 |

3.3 Contingent liabilities

| 1,000 CHF | 31.3.2018 | 31.3.2017 |
|--|-----------|-----------|
| Guarantees given in respect of rental obligations of Group Companies | 1,173 | 2,038 |

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. 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 cash pool 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) | | | | |
| Sonova France SAS | 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 15,311 | 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 1,854 | 49% ²⁾ |
| 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 Felelősségű 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 28,800 | 15% ²⁾ |
| HIMSA A/S | A | Copenhagen (DK) | DKK 250 | 25% |

For significant indirect investments refer to Note 34 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

| 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 ³⁾ 100% |
| Sonova United States Hearing Instruments, LLC | B | Warrenville (US) | USD | 0 ³⁾ 85% ²⁾ |
| Sound Pharmaceuticals, Inc. | A | Seattle (US) | USD | 13,105 31% |
| Sonova Canada Inc. | B | Mississauga (CA) | CAD | 0 ³⁾ 85% ²⁾ |
| Phonak Mexicana S.A. de C.V. | B | Mexico DF (MX) | MXN | 94,050 85% ²⁾ |
| AudioNova Mexico S.A. de C.V. | B | Mexico DF (MX) | MXN | 66,100 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% |
| Sonova Japan Co., Ltd. | B | Tokyo (JP) | JPY | 10,000 100% |
| Sonova 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 | 2,439 64% ²⁾ |
| Sonova Operation Center Vietnam Co., Ltd. | C | Binh Duong (VN) | VND | 36,156,000 100% |
| Sonova Vietnam Company Limited | B | Ho Chi Minh City (VN) | VND | 2,088,000 70% ²⁾ |

For significant indirect investments refer to Note 34 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.

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) 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".

| | 31.3.2018 | 31.3.2017 |
|---|-----------|-----------|
| Beda Diethelm | 10.19% | 10.17% |
| Chase Nominees Ltd. ¹⁾ | 8.59% | 8.54% |
| Hans-Ueli Rihs | 5.71% | 5.84% |
| Nortrust Nominees Ltd. ¹⁾ | 4.41% | 4.63% |
| Andy Rihs | 3.08% | 3.16% |
| Registered shareholders with less than 3% | 35.93% | 35.42% |
| Not registered | 32.09% | 32.24% |

¹⁾ Registered without voting rights.

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

| | 31.03.2018 | | | | 31.03.2017 | | | |
|--------------------|----------------|-----------------------------------|-------------------------|------------------------------------|---------------|-----------------------------------|--------------------|------------------------------------|
| | Shares | Restricted Shares ¹⁾²⁾ | PSUs/RSUs ²⁾ | Options (incl. SARs) ²⁾ | Shares | Restricted Shares ¹⁾²⁾ | RSUs ²⁾ | Options (incl. SARs) ²⁾ |
| Board of Directors | 42,720 | 66,126 | | 2,558 | 31,215 | 65,462 | | 12,788 |
| Management Board | 62,892 | | 56,137 | 613,440 | 52,243 | | 56,026 | 533,765 |
| Total | 105,612 | 66,126 | 56,137 | 615,998 | 83,458 | 65,462 | 56,026 | 546,553 |

¹⁾ These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.

²⁾ For further details see also Note 30 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 12, 2018:

| 1,000 CHF | 31.3.2018 |
|--|------------------|
| Balance carried forward from previous year | 1,591,182 |
| Net profit for the year | 281,069 |
| Statutory retained earnings | 1,872,251 |
| Dividend distribution ¹⁾ | (169,851) |
| Balance to be carried forward | 1,702,400 |

¹⁾ If the Annual Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 2.60 per registered share of CHF 0.05 will be paid out (previous year distribution of CHF 2.30).

Report of the statutory auditor on the financial statements



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

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 2018, 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 2018 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 11.7 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

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.

| | |
|--|---|
| <i>Overall materiality</i> | CHF 11.7 million |
| <i>How we determined it</i> | 5% of average profit before tax of last three years |
| <i>Rationale for the materiality benchmark applied</i> | 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

| <i>Key audit matter</i> | <i>How our audit addressed the key audit matter</i> |
|--|---|
| The investments in subsidiaries amount to CHF 324.3 million (12.1 % of assets) as of March 31, 2018. 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. This accounting policy is referenced in note 2. Accounting Principles. | We performed the following audit procedures, amongst others: We assessed the appropriateness of the grouping of the investments on their level of homogeneity in nature. We did this by critically reviewing the different elements of Management's assessment and validating them with evidence and our understanding of the economic links among the Sonova Group companies. |



We consider the valuation of the investments as a key audit matter due to the size of the carrying value and the judgement involved in assessing the valuation of these assets.

To identify indicators for individual impairments of investments in subsidiaries, Management compared the investment value with the shareholders equity and financial performance of the respective subsidiaries.

We evaluated and tested the assessment by re-performing the comparison undertaken by Management for an appropriate sample of investments.

For the overall value of the investments in subsidiaries we additionally considered the market capitalisation of the Group.

We found that Management's assessments were based upon reasonable assumptions and were consistently applied.

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 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

A handwritten signature in black ink, appearing to read 'S. Boehm', with a long horizontal flourish extending to the right.

Sandra Boehm
Audit expert
Auditor in charge

A handwritten signature in black ink, appearing to read 'C. Berchtold', with a long horizontal flourish extending to the right.

Claudio Berchtold
Audit expert

Zürich, 16 May 2018

Enclosures:

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

Investor information

Financial calendar

June 12, 2018

General Shareholders' Meeting of Sonova Holding AG
at Messe Zurich, Halle 7, Zurich-Oerlikon

November 20, 2018

Publication of Semi-Annual Report as of September 30, 2018
Media and Analyst Conference Call

May 21, 2019

Publication of Annual Report as of March 31, 2019
Media and Analyst Conference

June 13, 2019

General Shareholders' Meeting of Sonova Holding AG
Messe Zurich, Halle 7, Zurich-Oerlikon

Financial information

Corporate & ad hoc news

Annual Reports

Semi-Annual Reports

IR presentations

www.sonova.com/en/investors

Information on the General Shareholders' Meeting

Invitation and agenda

General Shareholders' Meeting presentations

General Shareholders' Meeting minutes

www.sonova.com/en/AGM

IR online news service

IR News Service

www.sonova.com/en/registration

Capital structure and shareholder rights

Share data

www.sonova.com/en/investors/share-data

Shareholder structure

www.sonova.com/en/investors/shareholder-structure

Shareholder participation rights

www.sonova.com/en/investors/shareholder-participation-rights

Regulations and principles

Articles of Association

Organizational Regulations

Rules on Board Operations and Procedures

Committee Charters

Code of Conduct

Supplier Principles

www.sonova.com/en/investors/articles-association

Contact form

www.sonova.com/en/contact-us

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Investor Relations Associates

Nicole Jenni

Corinne Hofmann

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