

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⁾

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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', written in a cursive style.

Sandra Boehm
Audit expert
Auditor in charge

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

Claudio Berchtold
Audit expert

Zürich, 16 May 2018

Enclosures:

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