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Financial report

Financial review

In the 2019/20 financial year, Sonova achieved sales of CHF 2,916.9 million, an increase of 8.7% in local currencies and 5.6% in Swiss francs. The Group performed well above expectations until the global health and economic crisis resulting from the COVID-19 pandemic severely affected the Group's business activities in the final weeks of the financial year.

Strong organic growth, partly offset in March by COVID-19

In the 2019/20 financial year, Sonova Group reported sales reached CHF 2,916.9 million, an increase of 8.7% in local currencies or 5.6% in Swiss francs. Returns for credit related to the voluntary field corrective action in the Cochlear Implants segment reduced sales by CHF 11.1 million or 0.4%, resulting in adjusted sales of CHF 2,928.0 million, up 9.1% in local currencies or 6.0% in Swiss francs. Adjusted organic growth reached 8.1%, while the net impact of acquisitions and divestments contributed growth of 1.0%. Exchange rate fluctuations had a significant negative impact, reducing growth by 3.1% due to a strengthening of the Swiss franc against most major currencies. In March 2020, most key markets were impacted by significantly lower in-store consumer traffic as a result of restrictions on movement, as well as by reduced cochlear implant surgeries.

Sales by regions

in CHF m

	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,544.4	53%	5.8%	1,521.0	55%
USA	877.6	30%	18.0%	746.7	27%
Americas (excl. USA)	220.9	8%	(0.3%)	228.5	8%
Asia/Pacific	274.0	9%	6.7%	267.0	10%
Total sales	2,916.9	100%	8.7%	2,763.2	100%

Sales driven by strong performance in North America and solid EMEA and APAC development

Europe, Middle East and Africa (EMEA), the Group's largest region, showed a solid increase in sales of 5.8% in local currencies. Sales were driven by improvements in commercial excellence and further supported by the continued success of Phonak Marvel and the introduction of Marvel 2.0 in August 2019. The performance of the Hearing Instruments business was driven by strong growth in France, the Nordics, and in developing markets. The Audiological Care business benefited from targeted growth initiatives across the region. Sales in the Cochlear Implants business were largely driven by upgrade sales. The EMEA share of Group sales decreased from 55% in 2018/19 to 53% in 2019/20.

Sales in the United States increased by 18.0% in local currency, resulting in solid market share gains. Supported by the continued success of the Phonak Marvel platform and investment in the sales team, the Hearing Instruments business achieved a double-digit increase. Other growth drivers included the introduction of Phonak Audéo™ Marvel to the US Department of Veterans Affairs (VA) in May 2019 and a new private label contract with a large US hearing aid retailer. The Cochlear Implants segment started the year strongly supported by the success of the HiRes™ Ultra 3D implant and strong upgrade sales, but slowed down in the second half. The region accounted for 30% of Group sales in 2019/20 versus 27% in the prior year. Sales in the rest of the Americas (excluding the US) were flat in local currencies. Strong growth of our Audiological Care and Cochlear Implants business in Brazil was offset by the discontinuation of distribution of certain non-Sonova products in the country.

Sales in the Asia/Pacific (APAC) region rose by 6.7% in local currencies, driven by double-digit growth in the Hearing Instruments business. Strong growth in Australia, Korea and India were partly offset by the COVID-19 impact on China starting in February and by weaker growth in New Zealand.

Sonova Group key figures

in CHF m unless otherwise specified	2019/20	2018/19	Change in Swiss francs	Change in local currencies
Sales	2,916.9	2,763.2	5.6%	8.7%
Gross profit	2,083.6	1,966.2	6.0%	9.7%
EBITA ¹⁾	554.3	582.5	(4.8%)	1.0%
EBIT ¹⁾	510.0	536.2	(4.9%)	1.2%
Basic earnings per share (CHF)	7.61	6.98	9.0%	16.7%
Operating free cash flow ¹⁾	638.5	411.8	55.1%	
ROCE ¹⁾	18.2%	20.6%		
Sales (adjusted) ¹⁾	2,928.0	2,763.2	6.0%	9.1%
Gross profit (adjusted) ¹⁾	2,106.9	1,975.1	6.7%	10.4%
EBITA (adjusted) ¹⁾	620.8	594.0	4.5%	10.4%
EBITA margin (adjusted)	21.2%	21.5%		
Basic earnings per share (CHF) (adjusted) ¹⁾	7.39	7.11	4.0%	11.6%

¹⁾ For detailed definitions, please refer to "5 year key figures".

Operating margin affected by significant FX headwinds

Reported gross profit reached CHF 2,083.6 million. In addition to the above mentioned returns for credit, this included restructuring costs of CHF 1.5 million related to further improving the operating structure and one-time costs of CHF 10.8 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 8.8 million). Adjusted for these costs, gross profit reached CHF 2,106.9 million, an increase of 10.4% in local currencies and 6.7% in Swiss francs. The adjusted gross profit margin was 72.0%, up from 71.5% in the prior year. The improvement was driven by higher unit volumes and a rise in average sales price (ASP) in the Hearing Instruments business, reflecting the continued positive market response to the Marvel platform as well as operating improvements. This was partly offset by a significant headwind from currency exchange rates and additional costs because of the higher proportion of rechargeable products.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,529.3 million (2018/19: CHF 1,383.7 million). These included restructuring costs of CHF 17.2 million as well as one-time costs of CHF 26.0 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 2.6 million). In the following, we refer to operating expenses adjusted for these items. Adjusted operating expenses before acquisition-related amortization rose by 10.4% in local currencies or by 7.6% in Swiss francs to CHF 1,486.2 million.

Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 163.2 million, outpacing sales growth with an increase of 10.8% in local currencies, underpinning Sonova's ambition to lead innovation in audiological performance and consumer experience. Technology developments in apps, connectivity, reliability, and comfort represented an important share of R&D efforts. R&D spending as a percentage of sales increased to 5.6% (2018/19: 5.4%).

Adjusted sales and marketing costs before acquisition-related amortization were up 9.1% in local currencies to CHF 1,023.8 million. The increase reflects continued investment in strengthening Audiological Care's store network and lead generation capabilities, as well as expanding the customer-facing sales force of the Hearing Instruments and Cochlear Implants businesses to increase coverage and improve commercial execution.

Adjusted general and administrative costs increased by 13.5% in local currencies to CHF 299.3 million, representing 10.2% of sales, up from 9.7% in the prior year. This includes an increase in the allowance for doubtful receivables of CHF 20.3 million, largely reflecting a higher customer default risk related to the COVID-19 pandemic. The remaining increase of 5.6% in local currencies includes investment in a new integrated IT platform for the Audiological Care business and provisions for contract obligations to health insurance providers in the first half of the financial year.

Adjusted other income for the current period was CHF 0.1 million. This compares to CHF 4.4 million in the prior year, which was mainly related to a release of provisions for cochlear implant product liabilities.

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 620.8 million (2018/19: CHF 594.0 million), an increase of 10.4% in local currencies or 4.5% in Swiss francs. The adjusted EBITA margin was 21.2% (2018/19: 21.5%). A solid underlying margin development was more than offset by significant currency headwinds and the increase in the allowance for doubtful receivables related to the COVID-19 pandemic, which together reduced the adjusted EBITA margin by 1.2 percentage points. The reported EBITA increased by 1.0% in local currencies but declined by 4.8% in Swiss francs to CHF 554.3 million, corresponding to a margin of 19.0%. Acquisition-related amortization amounted to CHF 44.4 million (2018/19: CHF 46.3 million). Reported operating profit (EBIT) reached CHF 510.0 million (2018/19: CHF 536.2 million), down 4.9% in Swiss francs.

Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 6.6 million to CHF 7.6 million. As a result of the Swiss tax reform, income taxes were affected positively by CHF 64.1 million, reflecting a revaluation of the Swiss deferred tax positions and a resulting one-time deferred tax income. Excluding this one-time transition impact, the tax rate was 15.3% (2018/19: 13.1%). Income after taxes was CHF 489.5 million (2018/19: CHF 460.2 million). Basic earnings per share (EPS) reached CHF 7.61 (2018/19: CHF 6.98), an increase of 9.0% from the prior year. The adjusted EPS increased 11.6% in local currencies or 4.0% in Swiss francs to CHF 7.39.

Headcount

At the end of March 2020, the Group's total workforce was 15,184 full-time equivalents. This represents a rise of 444 or 3%, well below the local currency sales growth of 8.7%. This was largely driven by increases in R&D and in customer-facing staff in the Audiological Care and Hearing Instruments businesses. Despite a significant growth in volumes, employee numbers in manufacturing were largely unchanged, benefitting from efficiencies and the optimization initiatives announced in March and November 2019. Sonova continues to make progress in its drive to concentrate new hiring in lower-cost locations.

Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment grew by 9.6% in local currencies and 6.4% in Swiss francs to CHF 2,686.2 million. Organic growth was 8.5%, while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) was 1.2%. Prior year disposals reduced growth by 0.1%. Exchange rate fluctuations reduced growth by 3.2% in Swiss francs. As a result of restrictions on movement imposed in March in most major markets in response to the COVID-19 pandemic, audiology stores – both our own and third-party owned – were temporarily closed or operating with reduced hours, representing a significant headwind in the final weeks of 2019/20.

The Hearing Instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own Audiological Care business, maintained its strong momentum: Sales reached CHF 1,613.0 million, an increase of 11.8% in local currencies, driven by growth in both the number of units sold and ASPs. Strong double-digit growth in the US led to market share gains in all channels including a strong rebound in Sonova's share of business with the US Department of Veterans Affairs (VA). Further contributions came from a new private label contract with a large US hearing aid retailer and increased coverage by managed care. Strong growth in Australia was a further highlight, while growth in Germany was hampered by a temporary decline due to replacement of consignment inventory with loaner products.

The Audiological Care business increased sales by 6.5% in local currencies to CHF 1,073.2 million; the increase was driven by organic growth of 4.0%, supplemented by bolt-on acquisitions accounting for 2.9% of growth; prior-year disposals reduced growth by 0.3%. Most key markets – including the UK, the Netherlands, the Nordics, France, Italy, Brazil, Poland and Austria – achieved above-market growth rates. Improved in-store sales conversion and increasingly centralized lead generation management continued to drive sales. The positive market response to Phonak Marvel also supported growth and helped to increase Phonak's consumer brand awareness.

Sales by business – Hearing Instruments segment

in CHF m	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	1,613.0	60%	11.8%	1,474.7	58%
Audiological Care business	1,073.2	40%	6.5%	1,050.1	42%
Total Hearing Instruments segment	2,686.2	100%	9.6%	2,524.8	100%

Reported EBITA for the Hearing Instruments segment amounted to CHF 601.6 million, up 12.5% in local currencies. The structural cost initiatives announced in March and November 2019 progressed according to plan and yielded year-on-year cost improvements of over CHF 10 million with additional savings expected in financial year 2020/21.

Restructuring costs related to these initiatives amounted to of CHF 18.6 million (2018/19: CHF 11.5 million). Excluding these restructuring costs, the adjusted EBITA increased by 13.5% in local currencies to CHF 620.3 million, corresponding to an EBITA margin of 23.1% (2018/19: 22.8%).

Cochlear Implants segment – Flat system sales from COVID-19 and voluntary field action, strong upgrade sales

The Cochlear Implants business achieved sales of CHF 230.7 million versus CHF 238.4 in the prior year. This includes returns for credit of CHF 11.1 million in conjunction with the voluntary field corrective action announced in February 2020, which involved the retrieval of un-implanted devices from the initial version of the HiRes Ultra and Ultra 3D cochlear implants. Excluding this, adjusted sales reached CHF 241.8 million, up 3.4% in local currencies and 1.4% in Swiss francs. A strong performance through most of 2019/20 was offset toward the year-end by lower demand related to the postponement of non-essential surgeries in countries affected by COVID-19, as well as by lower demand following the voluntary field corrective action. As a result, system sales were essentially flat for the year in local currencies. Double-digit growth in upgrade revenues was driven by strong momentum in the US and in Germany.

Sales by product groups – Cochlear Implants segment (adjusted)¹⁾

in CHF m	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	175.0	72%	(0.4%)	178.9	75%
Upgrades and accessories	66.8	28%	14.8%	59.5	25%
Total Cochlear Implants segment	241.8	100%	3.4%	238.4	100%

¹⁾ In 2019/20, excluding impacts from returns for credit related to the voluntary field corrective action of CHF 11.1 million.

The reported EBITA loss of CHF 46.2 million includes returns for credit of CHF 11.1 million as well as one-time costs of CHF 36.7 million, both related to the voluntary field corrective action. Excluding these items, the adjusted EBITA for the year was CHF 1.6 million versus CHF 19.7 million in the prior year, resulting in a margin of 0.7% (2018/19: 8.2%). A solid performance in the first half of the year, driven by higher volume, operational efficiency improvements and higher ASPs on upgrades and systems, was offset by a sharp decline in adjusted sales toward the year-end.

Strong growth in cash flow

Cash flow from operating activities was CHF 843.3 million, compared to CHF 533.2 million in the prior year. Growth was largely driven by improvements in working capital changes of CHF 194.7 million, in large part from better receivables collections. In addition, the adoption of IFRS 16 resulted in a positive one-time effect of CHF 68.3 million with a corresponding offset in the cash outflow from financing activities. Net investments in tangible and intangible assets increased to CHF 127.7 million from CHF 117.3 million in the prior year, mainly as a result of investments in IT systems and store improvements in the Audiological Care business.

Operating free cash flow, including payments for lease liabilities of CHF 68.3 million, reached CHF 638.5 million, up by 55.1% over the prior year and resulting in a strong cash conversion of 103%. Cash consideration for acquisitions net of disposals amounted to CHF 74.8 million, up from 64.9 million in the prior year. In summary, this resulted in a free cash flow of CHF 563.7 million, up by 62.5% over the prior year.

Cash outflow from financing activities was CHF 550.4 million, compared to CHF 522.1 million in the prior year. This largely reflects net share repurchases of CHF 470.1 million, mainly related to the share buyback program prior to its suspension in February. Cash outflow from financing also includes dividend payments of CHF 186.5 million and CHF 68.3 million for leases, based on IFRS 16, which was adopted for the first time this fiscal year.

Balance sheet remains strong

Reported net working capital was negative at CHF –18.9 million, compared to CHF 163.0 million at the end of the prior year. This is due to a CHF 138.5 million reduction in accounts receivables, stemming both from improved collection throughout the year, including during the slowdown in March, and from lower sales towards the end of the year. Despite significant sales growth, inventories were reduced by CHF 16.6 million year-on-year through better inventory management. Capital employed was CHF 2,692.5 million, a slight increase from CHF 2,630.0 million in the prior year. An increase from the adoption of IFRS 16 and a one-time capitalization of deferred tax assets as a result of the Swiss tax reform was largely offset by the impact of the strength of the Swiss franc on assets held in foreign currencies.

The Group's equity position amounted to CHF 2,029.4 million, down from CHF 2,376.1 million in the previous year, partly as a result of the share buyback program (which was paused on March 16, 2020 to avoid cash outflow during the COVID-19 crisis); the result was an equity ratio of 45.2%. The net debt position stood at CHF 663.0 million, compared to CHF 253.9 million at the end of the prior year. This increase was expected as a result of the share buyback and was in line with a previously announced debt leverage target. The return on capital employed (ROCE) decreased to 18.2% from 20.6% in the prior year, primarily driven by the adoption of IFRS 16 and further impacted by the strength of the Swiss Franc.

Dividend proposal

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. The required number of Sonova shares would be sourced from shares bought back under the recent share buyback program, which have not yet been canceled. Each shareholder would be entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash. This represents a further measure to ensure a good liquidity level for Sonova and an attractive alternative for our shareholders during these challenging times.

Outlook

Global uncertainty about the development of the COVID-19 pandemic prevents accurate guidance for the 2020/21 financial year. However, the attractive fundamentals of the hearing care market remain very much intact and the Group is confident that the market will rebound following these temporary challenges. Sonova is well prepared to master these difficult times and expects that the Group will continue to grow faster than the market and will further expand its strong competitive position.

Reconciliation of non-GAAP financial measures

April 1 to March 31, CHF million

				2019/20	
	Income statement as reported	Acquis. related amortization	Income statement EBITA separation	Adjustments ³⁾	Income statement adjusted
Sales	2,916.9		2,916.9	11.1	2,928.0
Cost of sales	(833.3)		(833.3)	12.2	(821.1)
Gross profit	2,083.6		2,083.6	23.3	2,106.9
Research and development	(167.0)	0.9	(166.1)	2.9	(163.2)
Sales and marketing	(1,074.3)	43.5	(1,030.8)	6.9	(1,023.8)
General and administration	(309.0)		(309.0)	9.7	(299.3)
Other income/(expenses), net	(23.4)		(23.4)	23.6	0.1
Operating profit before acquisition-related amortization (EBITA)¹⁾			554.3	66.4	620.8
Acquisition-related amortization		(44.4)	(44.4)		(44.4)
Operating profit (EBIT)²⁾	510.0		510.0	66.4	576.4
Basic earnings per share (CHF)			7.61	(0.22)	7.39

April 1 to March 31, CHF million

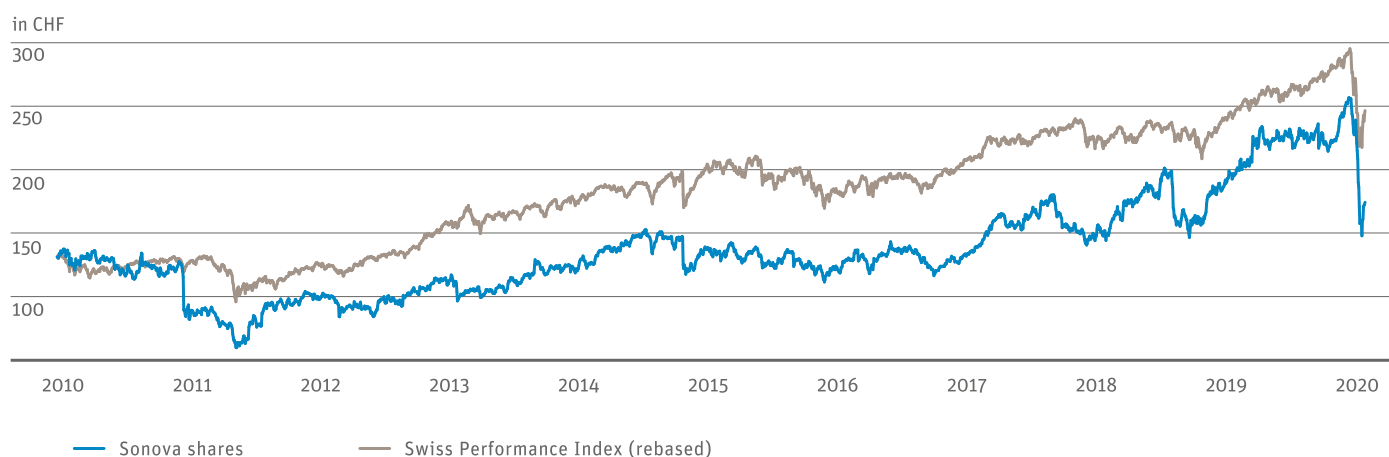
				2018/19	
	Income statement as reported	Acquis. related amortization	Income statement EBITA separation	Adjustments ³⁾	Income statement adjusted
Sales	2,763.2		2,763.2		2,763.2
Cost of sales	(797.0)		(797.0)	8.8	(788.1)
Gross profit	1,966.2		1,966.2	8.8	1,975.1
Research and development	(149.4)	1.0	(148.4)	0.6	(147.8)
Sales and marketing	(1,015.7)	45.4	(970.3)	1.3	(969.1)
General and administration	(269.3)		(269.3)	0.8	(268.6)
Other income/(expenses), net	4.4		4.4		4.4
Operating profit before acquisition-related amortization (EBITA)¹⁾			582.5	11.5	594.0
Acquisition-related amortization		(46.3)	(46.3)		(46.3)
Operating profit (EBIT)²⁾	536.2		536.2	11.5	547.7
Basic earnings per share (CHF)	6.98		6.98	0.13	7.11

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).

³⁾ In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 47.8 million and restructuring costs in the Hearing Instruments segment of CHF 18.6 million (2018/19: CHF 11.5 million).

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	33.1%	28.9%	25.6%	14.9%	-11.5%
Swiss Performance Index (SPI) ²⁾	88.4%	23.9%	17.4%	11.1%	0.7%
Sonova shares relative to the SPI	-55.3%	+5.0%	+8.1%	+3.8%	-12.2%

¹⁾ Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2019/20 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 CHF million unless otherwise specified	2019/20	2018/19	2017/18	2016/17	2015/16
Sales	2,916.9	2,763.2	2,645.9	2,395.7	2,071.9
change compared to previous year (%)	5.6	4.4	10.4	15.6	1.8
Sales (adjusted)¹⁾	2,928.0	2,763.2	2,645.9	2,395.7	2,071.9
change compared to previous year (%)	6.0	4.4	10.4	15.6	1.8
Gross profit	2,083.6	1,966.2	1,868.2	1,651.8	1,375.5
in % of sales	71.4	71.2	70.6	68.9	66.4
Gross profit (adjusted)²⁾	2,106.9	1,975.1	1,868.2	1,651.8	1,375.5
in % of sales (adjusted)	72.0	71.5	70.6	68.9	66.4
Research & development costs	166.1	148.4	142.9	137.1	130.3
in % of sales	5.7	5.4	5.4	5.7	6.3
Sales & marketing costs	1,030.8	970.3	934.5	815.0	638.2
in % of sales	35.3	35.1	35.3	34.0	30.8
Operating profit before acquisition-related amortization (EBITA)	554.3	582.5	532.5	463.0	430.6
in % of sales	19.0	21.1	20.1	19.3	20.8
Operating profit before acquisition-related amortization (EBITA) (adjusted)³⁾	620.8	594.0	551.6	481.4	430.6
in % of sales (adjusted)	21.2	21.5	20.8	20.1	20.8
Operating profit (EBIT)	510.0	536.2	483.0	423.7	403.4
in % of sales	17.5	19.4	18.3	17.7	19.5
Income after taxes⁴⁾	489.5	460.2	407.4	356.2	345.8
in % of sales	16.8	16.7	15.4	14.9	16.7
Income after taxes (adjusted)⁴⁾	475.5	468.5	422.7	371.5	345.8
in % of sales (adjusted)	16.2	17.0	16.0	15.5	16.7
Basic earnings per share (CHF)⁵⁾	7.61	6.98	6.13	5.35	5.11
Basic earnings per share (CHF) (adjusted)⁵⁾	7.39	7.11	6.36	5.58	5.11
Dividend/distribution per share (CHF)	Stock Div.⁵⁾	2.90	2.60	2.30	2.10

¹⁾ In 2019/20, excluding impacts from returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 11.1 million.

²⁾ In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 21.8 million and restructuring costs in the Hearing Instruments segment of CHF 1.5 million (2018/19: CHF 8.8 million).

³⁾ In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 47.8 million and restructuring costs in the Hearing Instruments segment of CHF 18.6 million (2018/19: CHF 11.5 million). In 2017/18 (CHF 19.2 million) and 2016/17 (CHF 18.4 million) consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

⁴⁾ In 2019/20, reported income after taxes and reported basic earnings per share consider one-time positive transition impacts of the Swiss tax reform of CHF 64.1 million (2018/19: none) and negative impacts of the one-time costs and impacts from returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 36.5 million and from restructuring costs in the Hearing Instruments segment (incl. tax impact) of CHF 13.7 million (2018/19: CHF 8.3 million), which have been excluded in adjusted income after taxes and adjusted basic earnings per share. In 2017/18 and 2016/17 adjusted for transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

⁵⁾ Stock dividend proposal to the Annual General Shareholders' Meeting of June 11, 2020.

5 YEAR KEY FIGURES

April 1 to March 31, in CHF million unless otherwise specified	2019/20	2018/19	2017/18	2016/17	2015/16
Net cash/(debt)⁶⁾	(663.0)	(253.9)	(228.0)	(404.6)	298.3
Net working capital ⁷⁾	(18.9)	163.0	190.5	169.7	185.5
Capital expenditure (tangible and intangible assets) ⁸⁾	128.8	117.9	96.3	97.1	83.1
Capital employed ⁹⁾	2,692.5	2,630.0	2,702.9	2,535.9	1,608.0
Total assets	4,486.5	4,292.5	4,302.0	3,935.7	2,751.6
Equity	2,029.4	2,376.1	2,474.9	2,131.3	1,906.3
Equity financing ratio (%) ¹⁰⁾	45.2	55.4	57.5	54.2	69.3
Free cash flow ¹¹⁾	563.7	346.9	360.0	(232.6)	252.6
Operating free cash flow¹²⁾	638.5	411.8	419.2	424.8	344.2
Return on capital employed (%)¹³⁾	18.2	20.6	18.4	20.4	26.0
Number of employees (end of period)	15,184	14,740	14,242	14,089	10,894

⁶⁾ Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.

⁷⁾ Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.

⁸⁾ Excluding goodwill and intangibles relating to acquisitions.

⁹⁾ Equity – net cash/(debt).

¹⁰⁾ Equity in % of total assets.

¹¹⁾ Cash flow from operating activities + cash flow from investing activities + payments for lease liabilities.

¹²⁾ Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.

¹³⁾ EBIT in % of capital employed (average). IFRS 16 opening adjustment on April 1, 2019 has been considered in average capital employed.

Consolidated financial statements

Consolidated income statements

April 1 to March 31, in CHF million	Notes	2019/20	2018/19
Sales	2.2, 2.3	2,916.9	2,763.2
Cost of sales		(833.3)	(797.0)
Gross profit		2,083.6	1,966.2
Research and development ¹⁾		(167.0)	(149.4)
Sales and marketing ¹⁾		(1,074.3)	(1,015.7)
General and administration		(309.0)	(269.3)
Other income/(expenses), net	2.4	(23.4)	4.4
Operating profit (EBIT)²⁾		510.0	536.2
Financial income	4.2	2.9	3.4
Financial expenses	4.2	(12.9)	(12.1)
Share of profit/(loss) in associates/joint ventures, net	6.2	2.4	2.1
Income before taxes		502.4	529.6
Income taxes	5.1	(12.9)	(69.4)
Income after taxes		489.5	460.2
Attributable to:			
Equity holders of the parent		483.2	454.1
Non-controlling interests		6.3	6.1
Basic earnings per share (CHF)	2.5	7.61	6.98
Diluted earnings per share (CHF)	2.5	7.57	6.95

¹⁾ Includes acquisition-related amortization of CHF 0.9 million (previous year: CHF 1.0 million) in "Research and development" and CHF 43.5 million (previous year: CHF 45.4 million) in "Sales and marketing". EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) amounts to CHF 554.3 million (previous year: CHF 582.5 million). Refer to Note 2.1

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 CHF million	Notes	2019/20	2018/19
Income after taxes		489.5	460.2
Other comprehensive income			
Actuarial (loss)/gain from defined benefit plans, net	7.3	(45.1)	(16.9)
Tax effect on actuarial result from defined benefit plans, net		4.9	2.3
Fair value adjustment of financial liabilities at fair value through other comprehensive income (FVOCI)		4.8	
Total items not to be reclassified to income statement in subsequent periods		(35.3)	(14.6)
Currency translation differences		(145.4)	(58.0)
Tax effect on currency translation items		3.7	1.3
Total items to be reclassified to income statement in subsequent periods		(141.7)	(56.7)
Other comprehensive income, net of tax		(177.0)	(71.3)
Total comprehensive income		312.5	388.9
Attributable to:			
Equity holders of the parent		308.0	383.6
Non-controlling interests		4.5	5.3

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

Consolidated balance sheets

Assets CHF million	Notes	31.3.2020	31.3.2019
Cash and cash equivalents	4.1	450.2	374.8
Other current financial assets	4.4	7.7	11.0
Trade receivables	3.1	382.1	520.6
Current income tax receivables		13.6	9.2
Inventories	3.2	265.4	282.1
Other current operating assets	3.6	101.9	114.3
Total current assets		1,221.1	1,311.9
Property, plant and equipment	3.3	332.8	324.9
Right-of-use assets ¹⁾	3.4	260.6	
Intangible assets	3.5	2,420.2	2,463.2
Investments in associates/joint ventures	6.2	17.4	12.8
Other non-current financial assets	4.4	30.0	29.0
Other non-current operating assets	3.6	6.4	6.5
Deferred tax assets ²⁾	5.1	198.0	144.2
Total non-current assets		3,265.4	2,980.6
Total assets		4,486.5	4,292.5
Liabilities and equity CHF million	Notes	31.3.2020	31.3.2019
Current financial liabilities	4.5	254.9	256.4
Current lease liabilities ¹⁾	3.4	61.2	
Trade payables		104.3	102.8
Current income tax liabilities		154.8	139.2
Short-term contract liabilities	2.3	105.6	106.5
Other short-term operating liabilities	3.8	297.5	296.0
Short-term provisions ¹⁾	3.7	125.2	129.2
Total current liabilities		1,103.4	1,030.1
Non-current financial liabilities	4.5	591.8	372.6
Non-current lease liabilities ¹⁾	3.4	207.8	
Long-term provisions ¹⁾	3.7	143.4	122.9
Long-term contract liabilities	2.3	212.8	226.1
Other long-term operating liabilities	3.8	73.5	26.0
Deferred tax liabilities	5.1	124.5	138.6
Total non-current liabilities		1,353.7	886.3
Total liabilities		2,457.1	1,916.3
Share capital	4.6	3.2	3.3
Treasury shares		(447.5)	(166.9)
Retained earnings and reserves		2,455.5	2,517.5
Equity attributable to equity holders of the parent		2,011.2	2,353.8
Non-controlling interests		18.2	22.3
Equity		2,029.4	2,376.1
Total liabilities and equity		4,486.5	4,292.5

¹⁾ Impacted by the implementation of IFRS 16 "Leases", for further information refer to Note 3.4 and 7.8.

²⁾ In 2019/20, including one-time positive transition impacts of the Swiss tax reform of CHF 60.5 million. Excluding these effects, deferred tax assets amount to CHF 137.5 million.

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

Consolidated cash flow statements

April 1 to March 31, in CHF million	Notes		2019/20	2018/19
Income before taxes			502.4	529.6
Depreciation and amortization of tangible and intangible assets and right-of-use assets ¹⁾	3.3,3.4,3.5	200.1		127.6
Loss on sale of tangible and intangible assets, net		1.3		0.4
Share of gain in associates/joint ventures, net	6.2	(2.4)		(2.1)
Increase/(decrease) in long-term provisions and long-term contract liabilities ¹⁾		22.2		(16.3)
Financial (income)/expense, net ¹⁾	4.2	10.0		8.7
Share based payments		19.9		19.3
Other non-cash items		5.4		(19.4)
Income taxes paid		(60.1)	196.5	(64.4)
Cash flow before changes in net working capital			698.9	583.5
Decrease/(increase) in trade receivables		112.4		(84.5)
Decrease/(increase) in other receivables and prepaid expenses		2.9		(20.7)
Decrease/(increase) in inventories		9.2		(15.2)
Increase in trade payables		4.8		12.2
Increase in other payables, accruals, short-term provisions and short-term contract liabilities		15.2	144.4	57.9
Cash flow from operating activities			843.3	533.2
Purchase of tangible and intangible assets	3.3,3.5	(128.8)		(117.9)
Proceeds from sale of tangible and intangible assets		1.1		0.6
Cash consideration for acquisitions, net of cash acquired	6.1	(74.8)		(66.4)
Cash consideration from divestments, net of cash divested	6.1			1.5
Changes in other financial assets		(10.9)		(5.2)
Interest received		2.1		1.1
Cash flow from investing activities			(211.3)	(186.3)
Proceeds from borrowings	4.5	433.8		
Repayment of borrowings	4.5	(249.8)		(150.6)
Repayment of lease liabilities ¹⁾	3.4	(64.3)		
Share buyback program	4.6	(402.7)		(157.8)
Sale of treasury shares	4.6	31.4		27.9
Purchase of treasury shares	4.6	(98.8)		(64.7)
Dividends paid by Sonova Holding AG		(186.5)		(169.8)
Dividends to non-controlling interests		(8.6)		(6.1)
Interest paid ¹⁾		(5.0)		(1.2)
Cash flow from financing activities			(550.4)	(522.1)
Exchange losses on cash and cash equivalents			(6.1)	(2.2)
Increase/(decrease) in cash and cash equivalents			75.5	(177.4)
Cash and cash equivalents at the beginning of the financial year			374.8	552.1
Cash and cash equivalents at the end of the financial year			450.2	374.8

¹⁾ Impacted by the implementation of IFRS 16 "Leases", for further information refer to Note 3.4 and 7.8. The Notes are an integral part of the consolidated financial statements.

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					Total equity
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	
Balance April 1, 2018	3.3	2,659.9	(210.9)	(0.5)	23.2	2,474.9
Effect on initial application of IFRS 15 and IFRS 9		(132.9)			(0.1)	(133.1)
Adjusted balance April 1, 2018	3.3	2,527.0	(210.9)	(0.5)	23.1	2,341.9
Income for the period		454.1			6.1	460.2
Actuarial loss from defined benefit plans, net		(16.9)				(16.9)
Tax effect on actuarial result		2.3				2.3
Currency translation differences			(57.2)		(0.8)	(58.0)
Tax effect on currency translation			1.3			1.3
Total comprehensive income		439.5	(56.0)		5.3	388.9
Share-based payments		4.9		13.9		18.8
Sale of treasury shares ¹⁾		(17.3)		45.2		27.9
Purchase of treasury shares ²⁾				(225.5)		(225.5)
Dividend paid		(169.8)			(6.1)	(175.8)
Balance March 31, 2019	3.3	2,784.3	(266.8)	(166.9)	22.3	2,376.1
Balance April 1, 2019	3.3	2,784.3	(266.8)	(166.9)	22.3	2,376.1
Income for the period		483.2			6.3	489.5
Actuarial loss from defined benefit plans, net		(45.1)				(45.1)
Tax effect on actuarial result		4.9				4.9
Fair value adjustment of financial liabilities at FVOCI		4.8				4.8
Currency translation differences			(143.7)		(1.8)	(145.4)
Tax effect on currency translation			3.7			3.7
Total comprehensive income		447.9	(139.9)		4.5	312.5
Capital decrease – share buyback program	(0.0)	(157.8)		157.9		
Share-based payments		6.4		13.0		19.4
Sale of treasury shares ¹⁾		(32.0)		63.4		31.4
Purchase of treasury shares ²⁾				(514.9)		(514.9)
Dividend paid		(186.5)			(8.6)	(195.1)
Balance March 31, 2020	3.2	2,862.3	(406.8)	(447.5)	18.2	2,029.4

¹⁾ In relation to long-term equity incentive plans.

²⁾ Further information on the share buyback program are disclosed in Note 4.6. The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2020

1. Basis for preparation

1.1 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.

1.2 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 14, 2020, and are subject to approval by the Annual General Shareholders’ Meeting on June 11, 2020.

The consolidated financial statements are presented in millions of Swiss Francs (CHF) and rounded to the nearest hundred thousand. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amounts.

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 7.6](#).

Accounting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

1.3 Significant accounting judgments and estimates

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 a significant risk of resulting in a material adjustment are described in the following notes:

Description	Further information
Allocation of the transaction price to performance obligations	Note 2.3: Revenue
Renewal options in leases	Note 3.4: Leases
Capitalization of development costs	Note 3.5: Intangible assets
Impairment test	Note 3.5: Intangible assets
Provisions for warranty, returns and product liabilities	Note 3.7: Provisions
Deferred tax assets	Note 5.1: Taxes
Business combinations	Note 6.1: Acquisitions/disposals of subsidiaries
Defined benefit plans	Note 7.3: Employee benefits

The current economic crisis and uncertainties resulting from the COVID-19 pandemic required management to make estimates and assumptions that significantly affected the financial statements for the financial year 2019/20. In particular, it affected cash flow projections in the goodwill impairment testing (described in [Note 3.5](#)) and allowances on receivables (described in [Note 3.1](#) and [Note 4.7](#)). Furthermore, it also led to a suspension of the Group's share buyback program (described in [Note 4.6](#)) and additional financing requirements (described in [Note 4.5](#) and [Note 7.5](#)).

1.4 Changes in accounting policies

The Group has adopted IFRS 16 “Leases” beginning April 1, 2019 as described in [Note 7.8](#).

In addition, in 2019/20 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:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

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, 2020 and beyond. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. Operating result

2.1 Income statement reconciliation

The Group presents the “Consolidated income statement” based on a classification of costs by function and is continuously amending its business portfolio with acquisitions, resulting in acquisition-related intangibles (see section “Intangible assets” in [Note 3.5](#)) and related amortization charges. To calculate EBITA¹⁾, which is the key profit metric for internal (refer to [Note 2.2](#)) as well as external purposes, acquisition-related amortization is separated from the individual functions as disclosed below.

April 1 to March 31, CHF million

			2019/20
	Income statement as reported	Acquis. related amortization	Income statement EBITA separation
Sales	2,916.9		2,916.9
Cost of sales	(833.3)		(833.3)
Gross profit	2,083.6		2,083.6
Research and development	(167.0)	0.9	(166.1)
Sales and marketing	(1,074.3)	43.5	(1,030.8)
General and administration	(309.0)		(309.0)
Other income/(expenses), net	(23.4)		(23.4)
Operating profit before acquisition-related amortization (EBITA)¹⁾			554.3
Acquisition-related amortization		(44.4)	(44.4)
Operating profit (EBIT)²⁾	510.0		510.0

April 1 to March 31, CHF million

			2018/19
	Income statement as reported	Acquis. related amortization	Income statement EBITA separation
Sales	2,763.2		2,763.2
Cost of sales	(797.0)		(797.0)
Gross profit	1,966.2		1,966.2
Research and development	(149.4)	1.0	(148.4)
Sales and marketing	(1,015.7)	45.4	(970.3)
General and administration	(269.3)		(269.3)
Other income/(expenses), net	4.4		4.4
Operating profit before acquisition-related amortization (EBITA)¹⁾			582.5
Acquisition-related amortization		(46.3)	(46.3)
Operating profit (EBIT)²⁾	536.2		536.2

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).

2.2 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. The Group uses EBITA as key metric to measure profit or loss for both segments (refer to [Note 2.1](#)). Transactions between segments are based on market terms.

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, Sweden and Germany. 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.

CHF million	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	Hearing Instruments		Cochlear Implants		Corporate/ Eliminations		Total	
Segment sales	2,700.7	2,527.2	233.5	241.1			2,934.1	2,768.3
Intersegment sales	(14.5)	(2.4)	(2.7)	(2.7)			(17.2)	(5.0)
Sales	2,686.2	2,524.8	230.7	238.4			2,916.9	2,763.2
Timing of revenue recognition								
At point in time	2,530.0	2,361.1	222.3	230.6			2,752.4	2,591.8
Over time	156.2	163.7	8.4	7.8			164.5	171.5
Total sales	2,686.2	2,524.8	230.7	238.4			2,916.9	2,763.2
Operating profit before acquisition-related amortization (EBITA)								
	601.6	563.1	(46.2)	19.7	(1.1)	(0.2)	554.3	582.5
Depreciation, amortization and impairment	(171.5)	(107.2)	(28.6)	(20.4)			(200.1)	(127.6)
Segment assets	4,018.3	3,921.0	613.0	632.3	(810.5)	(792.6)	3,820.9	3,760.7
Unallocated assets ¹⁾							665.6	531.8
Total assets							4,486.5	4,292.5

¹⁾ Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates/joint ventures and deferred tax assets.

Reconciliation of reportable segment profit CHF million	2019/20	2018/19
EBITA	554.3	582.5
Acquisition-related amortization	(44.4)	(46.3)
Financial costs, net	(10.0)	(8.7)
Share of gain in associates/joint ventures, net	2.4	2.1
Income before taxes	502.4	529.6

Entity-wide disclosures

Sales by business CHF million	2019/20	2018/19
Hearing Instruments business	1,613.0	1,474.7
Audiological Care business	1,073.2	1,050.1
Total Hearing Instruments segment	2,686.2	2,524.8
Cochlear Implant systems	163.9	178.9
Upgrades and accessories	66.8	59.5
Total Cochlear Implants segment	230.7	238.4
Total sales	2,916.9	2,763.2

Sales and selected non-current assets by regions CHF million	2019/20	2018/19	2019/20	2018/19
Country/region	Sales ¹⁾		Selected non-current assets ²⁾	
Switzerland	29.5	31.5	283.8	274.1
EMEA (excl. Switzerland)	1,514.9	1,489.5	1,755.1	1,585.7
USA	877.6	746.7	706.7	674.3
Americas (excl. USA)	220.9	228.5	167.0	150.4
Asia/Pacific	274.0	267.0	118.4	116.5
Total Group	2,916.9	2,763.2	3,031.1	2,800.9

¹⁾ Sales based on location of customers.

²⁾ Total of property, plant & equipment, right-of-use assets, 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.

2.3 Revenue

The Group generates revenue primarily from the sale of hearing instruments, cochlear implants and related services. A disaggregation of revenue from contracts with customers is included in [Note 2.2](#). The following provides information about the Groups revenue recognition policies, performance obligations and related contract assets and liabilities.

The following table summarizes the contract assets and contract liabilities related to contracts with customers:

Contract balances CHF million	31.3.2020	31.3.2019
Contract assets	9.3	9.4
Contract liabilities	318.4	332.7

Contract liabilities relate to advance consideration received from customers for the Group's various services, such as extended warranties, loss and damage and battery plans. In addition to the contract liabilities, the Group also recognizes contract assets that relate to loss and damage services. Contract assets are presented within other operating assets (refer to [Note 3.6](#)) in the consolidated balance sheets.

Significant changes in the contract liabilities during the period are as follows:

Movement in contract liabilities CHF million	2019/20	2018/19
Balance April 1	332.7	335.0
Changes through business combinations	0.8	(0.2)
Increase due to advance consideration received in the period	169.5	175.9
Decrease due to revenue recognized in the period that,		
– was included in the contract liabilities at the beginning of the period	(132.8)	(105.9)
– relates to consideration received in the period	(33.2)	(65.6)
Exchange differences	(18.4)	(6.6)
Balance March 31	318.4	332.7
Expectation on timing of revenue recognition:		
Within 1 year	105.6	106.5
Within 2 years	95.7	120.6
Within 3 years	56.9	51.3
Within 4 years	26.5	21.0
More than 4 years	33.6	33.2

No material revenue was recognized in the current period from performance obligations satisfied in previous periods.

Accounting policies

The Group recognizes revenue at point in time when ownership of the products is transferred to the buyer, mainly upon delivery. The transaction price is adjusted for any variable elements, such as rebates and discounts. For audiological care customers, revenue recognition usually occurs after fitting of the device or when the trial period lapses. For hearing instruments sold in bundled packages (i.e. including accessories and services), the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of all performance obligations in the contract.

For cochlear implants, sales are generally recognized at point in time when ownership of the products is transferred to the buyer (mainly hospitals), either at delivery or after surgery.

When the customer has a right to return the product within a given period, the amount of revenue is adjusted for expected returns, which are estimated based on historical product return rates. A return provision for the expected returns is recognized as an adjustment to revenue. In addition, an asset for the right to recover returned goods is recognized, measured by reference to the carrying amount, which is presented as part of other current operating assets.

The Group also offers various services, such as extended warranties, loss and damage and battery plans. Revenue for these services is predominantly recognized on a straight-line basis over the service period. In the majority of countries in which the Group operates, the standard warranty period is two years and the extended warranty covers periods beyond the second year. Loss and damage is offered in some, but not all countries, in which the Group operates. This service assures replacement of hearing instruments that are not covered by the warranty. In some countries, the Group reinsures loss and damage. Insurance costs are capitalized as contract assets and are recognized as cost of sales over the loss and damage service period.

Payment terms vary significantly across countries and also depend on whether the customer is a private or public customer.

Accounting judgements and estimates

In order to allocate the transaction price to each performance obligation in a contract, management estimates the standalone selling price of the products and services at contract inception. Mostly, the standalone selling price is based on established price lists. For loss and damage services, management considers the likelihood of a customer claim in the calculation of the standalone selling price.

If the sum of the standalone selling prices of a bundle of goods or services exceeds the consideration in a contract, the discount is allocated proportionally to all of the performance obligations in the contract unless there is observable evidence that the discount relates to only one or some of the performance obligations.

2.4 Other income/expenses, net

“Other income/expenses, net” in the 2019/20 financial year shows net costs of CHF 23.4 million (previous year income of CHF 4.4 million). The regular and systematic assessment of the provision for product liabilities in the cochlear implants segment in relation to the voluntary recall of cochlear implant products in 2006 led to a release of CHF 0.8 million (previous year CHF 4.1 million). In addition, as announced on February 18, 2020, the group informed of a voluntary field corrective action by its US subsidiary Advanced Bionics LLC (AB). For potential product liability claims in connection with this voluntary field corrective action, a provision in the amount of CHF 24.1 million has been set up and the respective costs have been considered as “other expenses” (for further information refer to [Note 3.7 “Provisions”](#)). In the 2018/19 financial year, the divestment of audiological care stores in the USA led to a gain of CHF 0.3 million.

2.5 Earnings per share

Basic earnings per share	2019/20	2018/19
Income after taxes (CHF million)	483.2	454.1
Weighted average number of outstanding shares	63,511,720	65,066,736
Basic earnings per share (CHF)	7.61	6.98

Diluted earnings per share	2019/20	2018/19
Income after taxes (CHF million)	483.2	454.1
Weighted average number of outstanding shares	63,511,720	65,066,736
Adjustment for dilutive share options	356,738	268,205
Adjusted weighted average number of outstanding shares	63,868,458	65,334,941
Diluted earnings per share (CHF)	7.57	6.95

Accounting policies

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.

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 2013 through to 2020 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.

3. Operating assets and liabilities

3.1 Trade receivables

CHF million	31.3.2020	31.3.2019
Trade receivables	434.0	559.6
Loss allowance for doubtful receivables	(51.9)	(39.0)
Total	382.1	520.6

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk. In the context of the COVID-19 impacts as of March 31, 2020, the allowance for doubtful receivables has been significantly increased. For further information on the process of the re-assessment of the allowance at the end of the financial year and for information about the aging of the trade receivables and related allowances please refer to [Note 4.7](#).

During 2019/20, the Group utilized CHF 6.4 million (previous year CHF 2.2 million) of the loss allowance for doubtful receivables to write-off receivables.

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

CHF million	31.3.2020	31.3.2019
BRL	10.9	18.2
CAD	15.8	22.4
CHF	12.5	20.9
EUR	155.5	203.3
GBP	11.1	22.0
USD	122.4	164.2
Other	53.9	69.8
Total trade receivables, net	382.1	520.6

Accounting policies

Trade receivables are initially recorded at original invoice amount and subsequently measured at amortized cost using the effective interest method, less loss allowance. The Group applies the IFRS 9 simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for trade receivables. This approach considers historical credit loss experience as well as forward-looking factors (see [Note 4.7](#)). The charges to the income statement are included in general and administration costs. Due to the short-term nature of trade receivables, their carrying amount is considered to approximate their fair value.

3.2 Inventories

CHF million	31.3.2020	31.3.2019
Raw materials and components	34.6	49.6
Work-in-process	110.9	96.6
Finished products	167.1	172.6
Allowances	(47.1)	(36.8)
Total	265.4	282.1

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2019/20 to CHF 700.0 million (previous year CHF 666.0 million). The Group recognized write-downs of CHF 45.7 million (previous year CHF 29.4 million) on inventories in cost of sales.

Accounting policies

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.

Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. 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.

Allowances are established for slow moving, phase out and obsolete stock.

3.3 Property, plant and equipment

CHF million					2019/20
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	199.0	306.0	357.2	9.8	872.1
Changes through business combinations		0.6	0.6		1.2
Additions	8.6	27.0	36.9	16.3	88.7
Disposals	(0.1)	(14.2)	(9.7)		(24.0)
Transfers	1.7	(8.5)	16.3	(9.6)	
Exchange differences	(3.5)	(10.5)	(18.2)	(0.6)	(32.7)
Balance March 31	205.7	300.4	383.2	15.9	905.3
Accumulated depreciation					
Balance April 1	(79.2)	(226.1)	(242.0)		(547.2)
Additions	(5.8)	(26.3)	(34.1)		(66.2)
Disposals	0.1	13.5	8.5		22.1
Transfers	0.1	6.2	(6.3)		
Exchange differences	1.5	7.3	10.2		18.9
Balance March 31	(83.3)	(225.4)	(263.7)		(572.4)
Net book value					
Balance April 1	119.8	79.9	115.3	9.8	324.9
Balance March 31	122.4	75.0	119.6	15.9	332.8

CHF million					2018/19
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195.5	294.3	343.8	10.6	844.2
Changes through business combinations		0.6	1.4		2.0
Additions	4.8	28.8	35.4	8.1	77.0
Disposals		(16.3)	(20.0)		(36.4)
Transfers		1.3	7.4	(8.7)	
Exchange differences	(1.3)	(2.6)	(10.7)	(0.1)	(14.7)
Balance March 31	199.0	306.0	357.2	9.8	872.1
Accumulated depreciation					
Balance April 1	(74.0)	(220.0)	(234.7)		(528.7)
Additions	(5.8)	(25.5)	(31.5)		(62.8)
Disposals		15.3	19.3		34.6
Transfers		2.5	(2.5)		
Exchange differences	0.6	1.6	7.4		9.7
Balance March 31	(79.2)	(226.1)	(242.0)		(547.2)
Net book value					
Balance April 1	121.5	74.3	109.1	10.6	315.5
Balance March 31	119.8	79.9	115.3	9.8	324.9

Accounting policies

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.

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. If the recoverable amount is lower than carrying amount, an impairment loss is recognized.

3.4 Leases

Right-of-use assets CHF million				2019/20
	Properties	Vehicles	Other assets	Total
Cost				
Balance April 1				
Effect on initial application of IFRS 16 "Leases"	269.3	7.5	1.3	278.1
Changes through business combinations	0.7			0.7
Additions	81.5	2.3	0.4	84.1
Exchange differences	(38.4)	(1.0)	(0.2)	(39.6)
Balance March 31	313.1	8.7	1.5	323.3
Accumulated depreciation				
Balance April 1				
Additions	(63.8)	(1.8)	(0.3)	(65.9)
Exchange differences	3.1	0.1	0.0	3.2
Balance March 31	(60.7)	(1.7)	(0.3)	(62.7)
Net book value				
Balance April 1				
Balance March 31	252.4	7.0	1.2	260.6

Lease liabilities CHF million	2019/20
Balance April 1	
Effect on initial application of IFRS 16 "Leases"	285.0
Changes through business combinations	0.7
Additions	84.1
Interest expense	4.0
Payments	(68.3)
Exchange differences	(36.5)
Balance March 31	269.0
thereof short-term	61.2
thereof long-term	207.8

The maturity analysis of lease liabilities are disclosed in [Note 4.7](#)

Lease disclosures CHF million	2019/20
Expenses relating to short-term leases	13.4
Expenses relating to leases of low-value assets (excluding short-term leases of low-value assets)	0.6
Expenses relating to variable lease payments	0.3

The total cash outflow for leases in the financial year 2019/20 amounted to CHF 68.3 million and is included in the cash flow from financing activities.

The Group has various lease contracts that as of March 31, 2020, have not yet commenced. The future lease payments for these non-cancellable lease contracts amount to CHF 17.2 million. The future lease payments relating to variable lease payments amount to CHF 0.3 million.

Accounting policies

The group leases properties for retail stores as well as for office, laboratory, manufacturing and storage use. The leasing terms vary significantly across countries. The leases of office space typically run for a period of up to 10 years, and leases of retail stores typically for a period of 3 to 5 years. Leases of vehicles and other assets have an average lease term of 3.5 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and, subsequently at cost less accumulated depreciation and impairment losses and also includes adjustments for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and are discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Accounting judgements and estimates

The Group uses judgement to determine the lease term for some lease contracts which include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term which significantly affects the amount of lease liabilities and right-of-use assets recognized. Extension options and termination options are re-assessed only when a significant event or change in circumstances occurs that is within the control of the Group and affects whether it is reasonably certain to exercise an option.

3.5 Intangible assets

CHF million					2019/20
	Goodwill	Intangibles relating to acquisitions ¹⁾	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	2,116.7	636.0	195.5	91.9	3,040.1
Changes through business combinations	97.4	17.1		0.0	114.6
Additions			28.8	11.3	40.1
Disposals	0.0	(0.4)		(1.5)	(2.0)
Exchange differences	(113.9)	(37.2)	(0.5)	(1.1)	(152.7)
Balance March 31	2,100.2	615.5	223.9	100.5	3,040.1
Accumulated amortization and impairments					
Balance April 1	(153.4)	(296.8)	(59.2)	(67.5)	(576.9)
Additions		(44.4) ²⁾	(16.1)	(7.4)	(67.9)
Disposals		0.0		1.4	1.4
Exchange differences	4.6	18.5		0.6	23.6
Balance March 31	(148.8)	(322.7)	(75.3)	(73.0)	(619.8)
Net book value					
Balance April 1	1,963.3	339.1	136.3	24.4	2,463.2
Balance March 31	1,951.4	292.7	148.5	27.5	2,420.2

¹⁾ Intangibles relating to acquisitions consists of customer relationships (CHF 178.1 million), trademarks (CHF 106.8 million) and R&D in process (CHF 7.8 million).

²⁾ Relates to research and development (CHF 0.9 million) and sales and marketing (CHF 43.5 million).

CHF million					2018/19
	Goodwill	Intangibles relating to acquisitions ¹⁾	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	2,094.4	645.3	165.1	84.9	2,989.7
Changes through business combinations	55.4	22.3	0.0	0.1	77.8
Additions	0.0	0.0	30.4	10.5	40.9
Disposals	(0.3)	(6.5)	0.0	(3.2)	(10.0)
Exchange differences	(32.9)	(25.2)	0.1	(0.4)	(58.4)
Balance March 31	2,116.7	636.0	195.5	91.9	3,040.1
Accumulated amortization and impairments					
Balance April 1	(147.2)	(264.2)	(47.0)	(64.9)	(523.3)
Additions		(46.3) ²⁾	(12.3)	(6.2)	(64.8)
Disposals		4.3	0.0	3.1	7.4
Exchange differences	(6.1)	9.4	0.0	0.5	3.8
Balance March 31	(153.4)	(296.8)	(59.2)	(67.5)	(576.9)
Net book value					
Balance April 1	1,947.2	381.1	118.1	20.0	2,466.4
Balance March 31	1,963.3	339.1	136.3	24.4	2,463.2

¹⁾ Intangibles relating to acquisitions consists of customer relationships (CHF 221.7 million), trademarks (CHF 115.1 million) and R&D in process (CHF 2.3 million).

²⁾ Relates to research and development (CHF 1.0 million) and sales and marketing (CHF 45.4 million).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2019/20 and 2018/19 financial years.

The cash flow projections used for impairment testing, were based on the most recent business plan, and considers impacts from COVID-19 and from the voluntary field corrective action as announced on February 18, 2020. The business plan was projected over a five year period.

Hearing instruments

As of March 31, 2020, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,639.9 million (prior year CHF 1,642.4 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.1% (prior year 2.2%) that represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.3% (prior year 8.4%) 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, 2020, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 311.5 million (prior year CHF 320.9 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.3% (prior year 2.4%) that represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.0% (prior year 8.7%) 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 2019/20, this review did not lead to any valuation adjustments. The capitalized development costs are included in the reportable segment “cochlear implants” disclosed in [Note 2.2](#).

Accounting policies

Goodwill

Goodwill is recognized for any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities (refer to accounting policies in [Note 6.1](#)). 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. 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 is compared to the carrying amount. The carrying amount is determined based on a value-in-use calculation considering a five-year cash flow projection period and extrapolated using a terminal value for cash flows beyond the planning period. The cash flow projections are estimated on the basis of the strategic plan approved by the Board of Directors. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM).

Intangibles, excluding goodwill

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 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.

Accounting judgements and estimates

Goodwill

The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations and as such is significantly impacted by the projected cash flows, the discount rate, and the long-term growth rate, which are subject to management judgment. Actual cash flows as well as other input parameters could vary significantly from these estimates.

Capitalized development costs

The Group capitalizes costs relating to the development of cochlear implants. The capitalized development costs are reviewed on a regular basis as a matter of a standard systematic procedure. In determining the commercial as well as the technical feasibility, management judgment may be required.

3.6 Other operating assets

Other current operating assets CHF million	31.3.2020	31.3.2019
Other receivables	57.6	69.0
Prepaid expenses	31.5	32.0
Contract assets	2.9	2.9
Right to recover products	9.9	10.4
Total	101.9	114.3

Other non-current operating assets CHF million	31.3.2020	31.3.2019
Contract assets	6.4	6.5
Total	6.4	6.5

The largest individual items included in other receivables are recoverable value added taxes and deposits. Prepaid expenses mainly consist of advances to suppliers. Contract assets relate to reinsurance of loss and damage services and rights to recover returned goods relate to hearing instrument sales with a right of return (refer to [Note 2.3](#)).

3.7 Provisions

CHF million					2019/20
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	111.3	7.7	100.9	32.2	252.1
Effect on initial application of IFRS 16 "Leases"				(6.9)	(6.9)
Changes through business combinations				1.2	1.2
Amounts used	(71.6)	(5.3)	(1.2)	(10.8)	(89.0)
Reversals	(3.3)	(1.2)	(0.9)	(1.9)	(7.4)
Increases	82.4	4.2	24.6	19.2	130.5
Present value adjustments	0.0		0.6		0.6
Exchange differences	(7.2)	(0.3)	(3.5)	(1.5)	(12.5)
Balance March 31	111.6	5.0	120.4	31.5	268.6
thereof short-term	85.6	5.0	11.1	23.5	125.2
thereof long-term	26.0		109.3	8.0	143.4

CHF million					2018/19
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	125.6	9.2	118.4	31.3	284.5
Effect on initial application of IFRS 15	(19.8)				(19.8)
Changes through business combinations		0.0		0.8	0.8
Amounts used	(71.2)	(4.3)	(19.0)	(13.3)	(107.8)
Reversals	(3.2)	(2.3)	(4.1)	(5.0)	(14.5)
Increases	80.8	5.0		18.9	104.7
Present value adjustments	0.0		0.7		0.7
Exchange differences	(1.0)	0.1	4.8	(0.4)	3.5
Balance March 31	111.3	7.7	100.9	32.2	252.1
thereof short-term	87.6	7.7	15.0	19.0	129.2
thereof long-term	23.7		85.9	13.3	122.9

Warranty and returns

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. The calculation is based on turnover, past experience and projected number and cost of warranty claims and returns. In the 2018/19 financial year, the decrease in provision for warranty was due to the implementation of IFRS 15 as of April 1, 2018. Under IFRS 15, extended warranty is treated as a separate performance obligation with revenue being allocated to contract liabilities.

Reimbursement to customers

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.

Product liabilities

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics in 2006 and Advanced Bionics voluntary field corrective action regarding cochlear implant products, as announced on February 18, 2020.

For the claims regarding the voluntary recall of AB products in 2006, the calculation of this provision is based on past experience regarding the number and cost of current and future claims and is estimated based on a financial model. The model used to calculate the provision for the end of the 2019/20 financial year is consistent to the prior year. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. The provision is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a slight reduction of CHF 0.8 million (previous year CHF 4.1 million) in "other income/(expense), net". As per March 31, 2020 the product liability in relation to the voluntary recall amounts to CHF 96.3 million (previous year CHF 100.9 million). 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. Considering periods of limitation, claims will have to be filed until 2026 in most jurisdictions. However, depending on the length of proceedings and negotiations, further years may pass until all claims are settled. We expect the main cash outflow relating to this provision to occur within the next 7 years.

For potential claims regarding the voluntary field corrective action as announced on February 18, 2020, the calculation follows a similar financial model as applied for the voluntary recall of AB products in 2006 and is estimated based on an expected number and cost for potential future claims. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. As per March 31, 2020 the product liability in relation to the voluntary field corrective action amounts to CHF 24.1 million. 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. We expect the main cash outflow relating to this provision to occur within the next 10–15 years.

Other provisions

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.

Accounting policies

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.

Accounting judgements and estimates

Provisions are based upon management's best estimate, taking into consideration past experience regarding the number and cost of claims. Management believes that the provisions are adequate based upon currently available information. However, given that judgment has to be applied, the actual costs and results may differ from these estimates.

3.8 Other operating liabilities

Other short-term operating liabilities CHF million	31.3.2020	31.3.2019
Other payables	72.9	74.2
Accrued expenses	224.2	221.7
Deferred income	0.4	0.1
Total	297.5	296.0

Other long-term operating liabilities CHF million	31.3.2020	31.3.2019
Retirement benefit obligations	73.5	26.0
Total	73.5	26.0

Other payables include amounts to be remitted for withholding taxes, value added taxes, social security payments and employees' income taxes deducted at source. Accrued expenses include salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers.

The retirement benefit obligation relates to defined benefit plans. For details refer to [Note 7.3](#).

3.9 Contingent assets and liabilities

Guarantees

At March 31, 2020 and 2019, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 1.8 million (previous year CHF 5.1 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.7 million at March 31, 2020 (previous year CHF 0.8 million). Open purchase orders as of March 31, 2020 and 2019, were related to recurring business activities.

Lawsuits and disputes

In 2007, the Alfred E. Mann Foundation for Scientific Research (AMF) initiated a lawsuit claiming patent infringement by Cochlear Ltd. on two patents. Advanced Bionics LLC had exclusively licensed the patents in question from AMF and joined AMF as a plaintiff. On November 4, 2018, a U.S. District Court reinstated a jury verdict from 2014 and awarded damages of USD 268 million. Cochlear's appeal of the District Court judgement was dismissed in March 2020, and Cochlear has announced that it will seek an 'en banc' review by the Court of Appeals. Advanced Bionics expects that such review will be concluded in the first half of 2020. Advanced Bionics will be entitled to a portion of any damages awarded once the verdict is final.

On October 4, 2018 MED-EL Elektronische Geräte GmbH and MED-EL Corporation, US, filed a complaint against Advanced Bionics LLC in the US federal court for the district of Delaware for alleged patent infringement of two MED-EL patents related to a recently launched product. Advanced Bionics believes the complaint has no merits and is vigorously defending its position and intellectual property.

On January 20, 2020, Advanced Bionics Corporation ("AB"), Delaware, received a subpoena from the Office of the Inspector General at the U.S. Department of Health and Human Services, (the "HHS-OIG"). The subpoena requests documents relating to AB's testing of radio frequency emissions of its devices and AB's reporting of those test results in submissions to the U.S. Food and Drug Administration from 2010 to the present. AB is cooperating fully with the HHS-OIG and the U.S. Department of Justice in connection with this subpoena and is currently unable to predict the timing or outcome of this investigation.

4. Capital structure and financial management

4.1 Cash and cash equivalents

CHF million	31.3.2020	31.3.2019
Cash on hand	0.9	1.2
Current bank accounts	448.5	312.2
Term deposits	0.8	61.4
Total	450.2	374.8

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD. The assessment on the credit risk related to cash and cash equivalents is disclosed in [Note 4.7](#).

Accounting policies

Cash and cash equivalents 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.

4.2 Financial income/expenses, net

CHF million	2019/20	2018/19
Interest income	2.5	1.6
Other financial income	0.4	1.8
Total financial income	2.9	3.4
Interest expenses	(2.1)	(1.7)
Interest expenses on lease liabilities	(4.0)	
Unwinding of the discount on provisions	(0.6)	(0.7)
Foreign exchange hedge costs	(3.4)	(6.3)
Other financial expenses	(2.7)	(3.4)
Total financial expenses	(12.9)	(12.1)
Total financial income/expenses, net	(10.0)	(8.7)

Other financial expenses in 2019/20 include, amongst other items, primarily the fair value adjustments of financial instruments.

4.3 Dividend per share

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. This would be met from shares bought back under the recent share buyback program, which have not yet been canceled. Each shareholder would be entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash. In the financial year 2019/20 a cash dividend in the amount of CHF 2.90 was paid out.

4.4 Other financial assets

Other current financial assets

CHF million	31.3.2020			31.3.2019		
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Marketable securities		0.2	0.2		0.0	0.0
Positive replacement value of forward foreign exchange contracts		2.3	2.3		0.3	0.3
Loans to third parties	5.3		5.3	10.6		10.6
Total	5.3	2.5	7.7	10.6	0.3	11.0

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 principles. Gains and losses on these transactions are recognized directly in the income statement (refer to [Note 4.7](#)).

Other non-current financial assets

CHF million	31.3.2020			31.3.2019		
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Loans to associates	4.5		4.5	9.3		9.3
Loans to third parties	20.0		20.0	14.2		14.2
Rent deposits	3.8		3.8	3.7		3.7
Other non-current financial assets		1.7	1.7		1.8	1.8
Total	28.3	1.7	30.0	27.2	1.8	29.0

The loans are primarily denominated in CAD, CHF, EUR, GBP, JPY and USD. Loans to third parties consist mainly of loans to customers. As of March 31, 2020, the respective repayment periods vary between one and nine years and the interest rates vary generally between 1% and 5%.

Other non-current financial assets mainly consist of certain minority interests in patent and software development companies specific to the hearing aid industry.

Accounting policies

Financial assets are classified into the following three categories:

- *Financial assets at amortized cost*
- *Financial assets at fair value through profit or loss (FVPL)*
- *Financial assets at fair value through other comprehensive income (FVOCI).*

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded either in the income statement or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model changes for managing those assets.

At initial recognition, the Group measures a financial asset at its fair value. In the case of financial assets at amortized cost and FVOCI the fair value includes transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Financial assets at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement.

Financial assets at fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the income statement in the period in which it arises.

Financial assets at fair value through other comprehensive income (FVOCI) and equity instruments

The Group currently holds no financial assets at fair value through other comprehensive income (FVOCI) and has not elected to account for equity instruments in this category.

4.5 Financial liabilities

During the 2019/20 financial year, the Group had the following bonds outstanding:

- 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. The bond was repaid on October 11, 2019.
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.
- A 10 year fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041592) issued at 100% with a 0.00% interest rate and maturity on October 11, 2029.
- A 15 years fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041600) issued at 100% with interest of 0.40% p.a. and maturity on October 11, 2034. Interests will be paid on an annual basis.

During the 2019/20 financial year, the Group entered into an agreement for a syndicated credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The option to increase the credit facility was exercised in March 2020 and the increased credit facility will become available in May 2020. The agreement ends on June 30, 2022 with an additional option to extend until August 31, 2024. As of March 31, 2020 CHF 150 million of the credit facility was drawn.

The Group maintains further uncommitted credit facilities from various lenders. The credit facilities are denominated in CHF and can be cancelled at short notice. As of March 31, 2020 CHF 80 million were drawn with a one to three months maturity.

Furthermore, in the context of the COVID-19 impacts, in April 2020 the Group has obtained additional financing and new credit lines (refer to [Note 7.5](#)).

Current financial liabilities

CHF million	31.3.2020				31.03.2019		
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	230.2			230.2	0.3		0.3
Bond					250.0		250.0
Deferred payments and contingent considerations	8.0	4.1	10.0	22.1	0.5	5.5	6.0
Other current financial liabilities		2.6		2.6		0.1	0.1
Total	238.2	6.7	10.0	254.9	250.7	5.6	256.4
Unused borrowing facilities				111.0			36.2

Non-current financial liabilities

CHF million	31.3.2020				31.03.2019		
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.0			0.0	0.0		0.0
Bonds	559.1			559.1	359.5		359.5
Deferred payments and contingent considerations	9.9	1.2	19.1	30.2	7.4	1.4	8.8
Other non-current financial liabilities	0.1	2.5		2.6	0.2	4.1	4.2
Total	569.1	3.7	19.1	591.8	367.1	5.5	372.6

Besides the bonds, financial liabilities mainly consist of contingent considerations (earn-out agreements) and deferred payments from acquisitions.

Other non-current financial liabilities mainly consist of amounts due in relation to the share appreciation rights (SARs) (refer to [Note 7.4](#)).

Analysis of non-current financial liabilities by currency

Analysis by currency CHF million	31.3.2020				31.3.2019			
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Bonds	Other non-current financial liabilities	Total
CHF		559.1	13.9	573.0		359.5	10.0	369.5
USD			0.7	0.7			0.5	0.5
EUR			15.9	15.9			0.1	0.1
Other	0.0		2.2	2.2	0.0		2.5	2.6
Total	0.0	559.1	32.7	591.8	0.0	359.5	13.1	372.6

Reconciliation of liabilities arising from financing activities

Liabilities from financing activities

CHF million

	Bank debt	Bonds	Deferred payments and contingent considerations	Lease liabilities	Other financial liabilities	2019/20 Total
Balance April 1	0.3	609.5	14.8		4.3	628.9
Effect on initial application of IFRS 16 "Leases"				285.0		285.0
Changes through business combinations			40.6	0.7		41.3
Additions to lease liabilities				84.1		84.1
Proceeds from borrowings	230.0	198.1			5.7	433.8
Repayment of borrowings		(249.8)				(249.8)
Repayment of lease liabilities – principal portion				(64.3)		(64.3)
Repayment of lease liabilities – interest portion				(4.0)		(4.0)
Exchange differences			(0.9)	(36.5)		(37.4)
Other	(0.1)	1.3	(2.1)	4.0	(4.8)	(1.8)
Balance March 31	230.2	559.1	52.3	269.0	5.2	1,115.8
thereof short-term	230.2		22.1	61.2	2.6	316.1
thereof long-term	0.0	559.1	30.2	207.8	2.6	799.7

Liabilities from financing activities

CHF million

	Bank debt	Bonds	Deferred payments and contingent considerations	Other financial liabilities	2018/19 Total
Balance April 1	0.1	759.3	17.2	4.1	780.7
Repayments	0.2	(150.0)	(1.7)	0.9	(150.6)
Exchange differences	(0.0)		0.2	0.0	0.2
Other		0.2	(0.9)	(0.7)	(1.4)
Balance March 31	0.3	609.5	14.8	4.3	628.9
thereof short-term	0.3	250.0	6.0	0.1	256.4
thereof long-term	0.0	359.5	8.8	4.2	372.6

Accounting policies

Financial liabilities are classified as measured at amortized cost, at fair value through profit or loss (FVPL) or at fair value through other comprehensive income (FVOCI). A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the income statement.

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

Bonds are initially measured at fair value and direct transaction costs included. In subsequent accounting periods, they are remeasured at amortized costs applying the effective interest method.

Accounting policies for lease liabilities are included in [Note 3.4](#).

4.6 Movement in share capital

	Issued registered shares	Treasury shares ¹⁾	Outstanding shares
Issued registered shares			
Balance April 1, 2018	65,330,887	(3,622)	65,327,265
Purchase of treasury shares		(368,000)	(368,000)
Sale/transfer of treasury shares		338,048	338,048
Purchase of shares intended to be cancelled ²⁾		(932,750)	(932,750)
Balance March 31, 2019	65,330,887	(966,324)	64,364,563
Purchase of treasury shares		(437,421)	(437,421)
Sale/transfer of treasury shares		343,537	343,537
Cancellation of treasury shares ³⁾	(932,750)	932,750	
Purchase of treasury shares from share buyback		(1,843,090)	(1,843,090)
Balance March 31, 2020	64,398,137	(1,970,548)	62,427,589
Nominal value of share capital CHF million	Share Capital	Treasury shares¹⁾	Outstanding share capital
Balance March 31, 2020	3.2	(0.1)	3.1

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.

³⁾ The Annual General Shareholders' Meeting of June 13, 2019, approved the proposed cancellation of 932,750 treasury shares, resulting in a reduction of share capital of 46,637.50 Swiss francs, retained earnings and other reserves of CHF 157.8 million offset by changes in treasury shares of CHF 157.9 million. This cancellation has been executed on September 24, 2019.

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The program started in October 2018 and will run up to 36 months. As of March 31, 2020 2,775,840 shares were purchased as part of the share buyback program.

Effective March 16, 2020, Sonova Holding AG suspended the Group's current share buyback program. This precautionary measure reflects the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19).

At the Annual General Shareholders' 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, 2020. 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).

Accounting policies

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.

4.7 Risk management

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, supports 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 Group does not apply hedge accounting.

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.

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, 2020, the Group engaged in forward currency contracts amounting to CHF 337.3 million (previous year CHF 271.4 million). The open contracts on March 31, 2020 as well as on March 31, 2019 were all due within one year.

Notional amount of forward contracts CHF million	31.3.2020		31.3.2019	
	Total	Fair value	Total	Fair value
Positive replacement values	119.3	2.3	132.2	0.3
Negative replacement values	218.0	(2.3)	139.2	(0.1)
Total	337.3	0.0	271.4	0.2

Foreign currency sensitivity analysis

CHF million	2019/20	2018/19	2019/20	2018/19
	Impact on income after taxes ¹⁾		Impact on equity	
Change in USD/CHF +5%	2.8	4.4	13.2	13.8
Change in USD/CHF -5%	(2.8)	(4.4)	(13.2)	(13.8)
Change in EUR/CHF +5%	3.0	3.6	21.3	16.1
Change in EUR/CHF -5%	(3.0)	(3.6)	(21.3)	(16.1)

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 2019/20 financial year of CHF 574 million (previous year CHF 402 million). If interest rates during the 2019/20 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 3.2 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 4.9 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.

The Group aims to ensure cost effective sourcing, while at the same time managing the risk of supply shortages that could lead to a failure to deliver certain products at the quantities required. Wherever feasible, critical components are sourced from multiple suppliers in order to mitigate this risk.

The relationship with suppliers is governed by Sonova's Group Supplier Principles (SGSP). We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections. Suppliers have to follow all applicable laws and regulations, ensure a healthy and safe working environment and are prohibited from using child labor.

Through its multiple manufacturing sites around the globe, the Group maintains effective options to rebalance its production capacity between different facilities and to shift production where necessary to avoid delivery shortages and to adapt to potential changes of the operating or general environment.

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, 2020, the largest balance with a single counterparty amounted to 51% (previous year 27%) 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 based on 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. As part of the normal process, management held the regular Expected Credit Loss (ECL) Committee meeting to review the expected credit loss rates on an annual basis in March 2020. Given the current uncertainties in the markets, the ECL rates have been significantly increased. In addition, customer specific reviews were performed to consider the increased credit risk caused by COVID-19. Furthermore, subsequent to March 31, 2020, management also considered any late developments in the markets and the overall risk position from a group perspective based on macro-economic considerations and the revised business outlook for the financial year 2020/21.

Impairment of financial assets

Impairment losses on financial assets are calculated based on the expected credit loss (ECL) model of IFRS 9. The Group’s loss allowances on financial assets other than trade receivables are not material.

Accounting policies

The Group applies the IFRS 9 simplified approach for measuring expected credit losses (ECLs) for trade receivables, which uses a lifetime expected loss allowance for trade receivables at each reporting date. To measure ECLs, trade receivables are grouped based on regions and the days past due. ECLs are calculated separately for state and non-state customers considering historical credit loss experience as well as forward-looking factors. Data sources in determining ECLs include actual historical losses, credit default swaps, country specific risk ratings, development of the customer structure and change in market performance and trends.

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

CHF million	31.3.2020				31.3.2019			
	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
State customers								
Not overdue	0.5%	63.2	(0.3)	62.9	0.4%	81.4	(0.3)	81.1
Overdue 1–90 days	1.2%	24.5	(0.3)	24.2	0.7%	28.4	(0.2)	28.2
Overdue 91–180 days	6.5%	3.1	(0.2)	2.9	6.7%	3.0	(0.2)	2.8
Overdue 181–360 days	23.3%	3.0	(0.7)	2.3	9.1%	2.2	(0.2)	2.0
Overdue more than 360 days	97.3%	3.7	(3.6)	0.1	86.5%	5.2	(4.5)	0.7
Total	5.2%	97.5	(5.1)	92.4	4.5%	120.2	(5.4)	114.8

CHF million	31.3.2020				31.3.2019			
	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount	Expected loss rate	Gross carrying amount	Loss allowance	Net carrying amount
Non-state customers								
Not overdue	6.1%	218.6	(13.4)	205.2	0.8%	314.2	(2.6)	311.6
Overdue 1–90 days	10.9%	72.6	(7.9)	64.7	4.2%	77.9	(3.3)	74.6
Overdue 91–180 days	33.6%	13.1	(4.4)	8.7	25.9%	13.5	(3.5)	10.0
Overdue 181–360 days	48.5%	13.0	(6.3)	6.7	49.7%	14.9	(7.4)	7.5
Overdue more than 360 days	76.7%	19.3	(14.8)	4.5	88.9%	19.0	(16.9)	2.1
Total	13.9%	336.6	(46.8)	289.8	7.7%	439.5	(33.7)	405.8

The closing loss allowances for trade receivables as at March 31, 2019 reconcile to the closing loss allowance as at March 31, 2020 as follows:

CHF million	2019/20	2018/19
Loss allowance for doubtful receivables, April 1	(39.0)	(37.0)
Changes through business combinations	(0.0)	(0.2)
Utilization	6.4	2.2
Reversal	2.6	4.2
Additions	(24.7)	(8.9)
Exchange differences	2.9	0.6
Loss allowance for doubtful receivables, March 31	(51.9)	(39.0)

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables and subsequent recoveries are included in general and administration costs.

The additions to the loss allowance for doubtful receivables in 2019/20 relate to an increase in the expected credit loss (ECL) rates and the increased credit risk caused by COVID-19 as described above.

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.

Visibility over the lion's share of bank accounts is provided by central treasury organization. Cash pools are automated and daily SWIFT balance tracking is applied where feasible.

In the context of the COVID-19 impacts, the Group has obtained additional financing and new credit lines (refer to [Note 7.5](#)) and continues to actively pursue appropriate measures to secure liquidity.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2020 and 2019:

CHF million					31.3.2020
	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	80.0	150.2			230.2
Other current financial liabilities	14.7	10.0			24.7
Trade payables and other short-term liabilities	246.9	158.7			405.6
Total current financial liabilities	341.6	318.9			660.5
Current lease liabilities	21.6	39.6			61.2
Bonds			359.7	199.4	559.1
Other non-current financial liabilities			32.8		32.8
Total non-current financial liabilities			392.5	199.4	591.9
Non-current lease liabilities			146.9	60.9	207.8
Total financial liabilities	363.2	358.5	539.4	260.3	1,521.4

CHF million					31.3.2019
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		250.0			250.0
Other current financial liabilities	3.3	3.1			6.4
Trade payables and other short-term liabilities	240.3	158.5			398.8
Total current financial liabilities	243.6	411.6			655.2
Bonds			359.5		359.5
Other non-current financial liabilities			12.6	0.5	13.1
Total non-current financial liabilities			372.1	0.5	372.6
Total financial liabilities	243.6	411.6	372.1	0.5	1,027.8

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. In the context of the COVID-19 impacts, the Group aims to maintain a higher cash balance.

4.8 Financial instruments

This note discloses the categorization of financial instruments measured at fair value based on the fair value hierarchy.

Accounting policies

Financial instruments measured at fair value are allocated to one of the following three hierarchical levels:

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.

The following table summarizes the financial instruments of the Group and the valuation method for financial instruments at fair value through profit and loss.

CHF million		31.3.2020				
	Notes	Carrying amount	Fair value ¹⁾	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	450.2				
Other financial assets	4.4	33.6				
Trade receivables	3.1	382.1				
Other receivables	3.6	57.6				
Total		923.5				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	4.2	4.2			4.2
Total		4.2	4.2			4.2
Financial liabilities at amortized cost						
Bank debt	4.5	230.2				
Bond	4.5	559.1	538.9	538.9		
Deferred payments	4.5	17.9				
Other financial liabilities	4.5	0.1				
Trade payables		104.3				
Other short-term operating liabilities	3.8	297.5				
Total		1,209.1	538.9	538.9		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	5.3	5.3			5.3
Negative replacement value of forward foreign exchange contracts	4.7	2.3	2.3			2.3
Other financial liabilities	4.5	2.8	2.8			2.8
Total		10.4	10.4			10.4
Financial liabilities at fair value through other comprehensive income						
Contingent considerations	4.5	29.1	29.1	29.1		
Total		29.1	29.1	29.1		

¹⁾ For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

CHF million						31.3.2019
	Notes	Carrying amount	Fair value ¹⁾	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	374.8				
Other financial assets	4.4	37.8				
Trade receivables	3.1	520.6				
Other receivables	3.6	69.0				
Total		1,002.2				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.1	2.1			2.1
Total		2.1	2.1			2.1
Financial liabilities at amortized cost						
Bank debt	4.5	0.3				
Bond	4.5	609.5	613.3	613.3		
Deferred payments	4.5	7.9				
Other financial liabilities	4.5	0.2				
Trade payables		102.8				
Other short-term operating liabilities	3.8	296.0				
Total		1,016.7	613.3	613.3		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	6.9	6.9			6.9
Negative replacement value of forward foreign exchange contracts	4.7	0.1	0.1			0.1
Other financial liabilities	4.5	4.2	4.2			4.2
Total		11.2	11.2			11.2

¹⁾ For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2020 and 2019:

Financial assets at fair value through profit or loss CHF million	2019/20	2018/19
Balance April 1	2.1	2.3
Additions/(disposals), net	2.2	0.5
Losses recognized in profit or loss	(0.1)	(0.7)
Balance March 31	4.2	2.1

Financial liabilities at fair value through profit or loss CHF million	2019/20	2018/19
Balance April 1	(11.2)	(17.9)
(Additions)/disposals, net	0.8	7.9
Gains/(losses) recognized in profit or loss	0.0	(1.2)
Balance March 31	(10.4)	(11.2)

Financial liabilities at fair value through profit or loss mainly consist of contingent consideration arrangements arising from business combinations (refer to [Note 6.1](#)). The fair values are determined by considering the possible scenarios of the future performance of the acquired companies, contractual obligations and milestone achievements, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales and other performance criteria. As at March 31, 2020 and 2019 the maximum potential payments under contingent considerations do not differ significantly from the amounts provided.

4.9 Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2020	31.3.2019	2019/20	2018/19
	Year-end rates		Average rates for the year	
AUD 1	0.59	0.71	0.67	0.72
BRL 1	0.19	0.26	0.24	0.26
CAD 1	0.68	0.74	0.74	0.75
CNY 1	0.14	0.15	0.14	0.15
EUR 1	1.06	1.12	1.10	1.15
GBP 1	1.20	1.30	1.25	1.30
JPY 100	0.89	0.90	0.91	0.89
USD 1	0.97	1.00	0.99	0.99

Accounting policies

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. 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.

5. Taxes

5.1 Taxes

CHF million	2019/20	2018/19
Current taxes	79.0	67.3
Deferred taxes	(66.1)	2.1
Total income taxes	12.9	69.4
Reconciliation of tax expense		
Income before taxes	502.4	529.6
Group's expected average tax rate	13.3%	13.5%
Tax at expected average rate	66.8	71.7
+/- Effects of		
Expenses not subject to tax, net	1.6	5.6
Changes of unrecognized loss carryforwards/deferred tax assets	8.2	12.5
Local actual tax rate different to Group's expected average tax rate	(15.0)	(25.6)
Change in tax rates on deferred tax balances	(1.8)	3.0
Transitional effect of Swiss tax reform	(64.1)	
Prior year adjustments and other items, net ¹⁾	17.3	2.3
Total income taxes	12.9	69.4
Weighted average effective tax rate	2.6%	13.1%

¹⁾ In 2019/20, other items include changes in uncertain tax positions.

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, adjusted for significant one-time effects. The expected tax rate might vary on a year-on-year basis depending on where the results are achieved.

Deferred tax assets and (liabilities) CHF million

	31.3.2020			31.3.2019		
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	28.0	(3.9)	24.1	34.8	(2.8)	32.0
Property, plant & equipment	1.4	(8.0)	(6.6)	1.4	(8.6)	(7.2)
Intangible assets		(88.4)	(88.4)		(104.9)	(104.9)
Right-of-use assets and lease liabilities	67.3	(67.1)	0.2			
Other assets and liabilities ¹⁾	158.4	(49.4)	109.0	98.6	(55.0)	43.6
Tax loss carryforwards	35.2		35.2	42.1		42.1
Total tax assets (liabilities)	290.3	(216.8)	73.5	176.9	(171.3)	5.6
Offset of assets and liabilities	(92.3)	92.3		(32.7)	32.7	
Amounts in the balance sheet						
Deferred tax assets	198.0		198.0	144.2		144.2
Deferred tax liabilities		(124.5)	(124.5)		(138.6)	(138.6)
Total deferred taxes, net			73.5			5.6

¹⁾ Deferred tax assets mainly relate to provisions and contract liabilities, deferred tax liabilities mainly relate to provisions, contract assets and trade and other receivables. In 2019/20, including deferred tax assets in the amount of CHF 60.5 million related to the Swiss tax reform as described below.

Movement of deferred tax assets and (liabilities) CHF million

	2019/20						Total
	Inventories	Property, plant & equipment	Intangible assets	Right-of-use assets and lease liabilities	Other assets and liabilities	Tax loss carryforwards	
Balance April 1	32.0	(7.2)	(104.9)		43.6	42.1	5.6
Effect on initial application of IFRS 16 "Leases"				(0.3)			(0.3)
Changes through business combinations			(3.6)				(3.6)
Deferred taxes recognized in the income statement ¹⁾	2.2	0.6	0.6	0.8	72.9	(11.1)	66.1
Deferred taxes recognized in OCI ²⁾					4.9		4.9
Exchange differences	(10.1)	0.1	19.4	(0.4)	(12.5)	4.2	0.8
Balance March 31	24.1	(6.6)	(88.4)	0.2	109.0	35.2	73.5

¹⁾ In 2019/20, deferred taxes recognized in the income statement include the impact from the Swiss tax reform as described below.

²⁾ Other comprehensive income.

Movement of deferred tax assets and (liabilities) CHF million

						2018/19
	Inventories	Property, plant & equipment	Intangible assets	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	28.2	(7.1)	(104.0)	3.6	52.6	(26.7)
Effect on initial application of IFRS 15 and IFRS 9				33.2		33.2
Changes through business combinations			(10.3)	0.6		(9.7)
Deferred taxes recognized in the income statement	1.3	(0.2)	3.1	4.8	(11.1)	(2.1)
Deferred taxes recognized in OCI ¹⁾				2.3		2.3
Exchange differences	2.5	0.2	6.3	(1.0)	0.6	8.6
Balance March 31	32.0	(7.2)	(104.9)	43.6	42.1	5.6

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:

CHF million	31.3.2020	31.3.2019
Within 1 year	41.5	29.0
Within 2–5 years	69.9	96.0
More than 5 years or without expiration	770.9	479.9
Total	882.3	604.9

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.

Swiss tax reform

On May 19, 2019, the Swiss electorate passed the Federal Act on Tax Reform and AHV Financing (TRAF). The tax reform abolished the tax regimes for holding, domiciliary and mixed companies as of January 1, 2020 and introduced new tax measures. To the extent that the tax reform requires cantonal and communal tax law changes, these had to be implemented through modification of the cantonal tax law. On September 1, 2019, in a public vote, the electorate of the canton of Zurich accepted the respective revision of the cantonal tax law. The relevant changes to the Group include a decrease in the statutory income tax rate in the canton of Zurich, effective from January 1, 2021.

The TRAF and tax practice also foreseen measures to ease the transition between the old and new tax regime. After a substantial change in the Swiss tax administration interpretation of such practices early December 2019, the Group has revalued its Swiss deferred tax positions which resulted in one time deferred tax liabilities and assets for a total net impact of 64.1 million on income after taxes in the financial year 2019/20.

Accounting policies

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. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and outcome is uncertain. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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.

Accounting judgements and estimates

The consolidated balance sheet includes deferred tax assets of CHF 137.5 million (previous year CHF 144.2 million) related to deductible differences and, in certain cases, tax loss carry forwards, 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.

Deferred tax assets further include CHF 60.5 million (previous year: none) related to the Swiss tax reform as described above. The calculation of the deferred tax assets required management to make significant estimates and assumptions. Some of these estimates are based on interpretations of existing tax laws or regulations. The final outcome is still uncertain and might lead to adjustments in the next financial year. Whenever circumstances have changed or there is new information that affects these judgements, the judgements and estimates will be reassessed.

6. Changes in Group structure

6.1 Acquisitions/disposals of subsidiaries

In the financial year 2019/20, the Group acquired several small companies in EMEA and North America. All of these companies acquired 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. During the financial year 2018/19, the Group acquired several small companies in Europe, North America and Asia/Pacific. Furthermore, the Group divested several audiological care stores in the US region.

In the current financial year, the Group acquired a 51% majority stake in a company active in technology development. An agreement has been concluded with the seller for the acquisition of the remaining 49% shares in the company. Based on the terms and conditions of the agreement, the Group considers the outstanding minority interests to have already been acquired and consolidates 100% of the company since acquisition.

Except for one acquisition, which is active in technology and development, all other 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:

CHF million	2019/20	2018/19
	Total	Total
Trade receivables	1.1	1.9
Other current assets	4.0	9.0
Property, plant & equipment	1.2	2.0
Rights of use the assets	0.7	
Intangible assets	17.2	22.4
Other non-current assets	0.4	0.7
Current liabilities	(4.3)	(10.7)
Non-current liabilities	(4.5)	(10.7)
Net assets	15.8	14.7
Goodwill	97.4	55.4
Purchase consideration	113.3	70.1
Fair value of previously held stake before the business combination	(1.3)	(2.4)
Liabilities for contingent considerations and deferred payments ¹⁾	(45.9)	(7.7)
Cash and cash equivalents acquired	(3.2)	(4.5)
Cash outflow for investments in associates, contingent considerations and deferred payments	11.9	8.6
Cash consideration for acquisitions, net of cash acquired	74.8	64.1
Settlement of pre-existing financing relationships		2.3
Total consideration paid, net of cash acquired	74.8	66.4

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.

Liabilities for contingent considerations amount to CHF 34.1 million (previous year CHF 5.3 million) and deferred payments amount to CHF 11.8 million (previous year CHF 2.4 million). The liability acquired for contingent considerations and deferred payments in the current financial year relates primarily to the acquisition of the before mentioned technology development company. Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations and milestone achievements. The liability for the contingent considerations is based on the latest estimate of the future performance and milestone achievement and is expected to be paid out in tranches over a period of 4 years.

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. For one acquisition, the goodwill is mainly attributable to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Acquisition-related intangible assets in the amount of CHF 17.2 million (previous year CHF 22.4 million) contain in-process research & development of CHF 7.0 million (previous year: none) and customer relationships of CHF 10.2 million (previous year CHF 22.4 million). The assigned lifetime range is 5 years for in-process research & development and between 10 and 15 years for customer relationships. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 1.0 million (previous year CHF 0.5 million) have been expensed and are included in the line "General and administration".

April 1 to March 31, CHF million	2019/20	2018/19
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	7.8	10.6
Net income	0.3	2.9
Contribution, if the acquisitions occurred on April 1		
Sales	15.2	32.8
Net income	1.4	6.4

In the financial year 2018/19, the Group divested several audiological care stores in the US region. The total consideration amounting to CHF 1.5 million was settled in cash. The resulting net gain of those transactions of CHF 0.3 million has been recognized in the income statement and is included in "other income/(expense), net".

Accounting policies

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 (Refer to [Note 3.5](#)). 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.

Accounting judgements and estimates

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.*

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 2019/20 financial year, such liabilities contingent on future events amount to CHF 34.4 million (previous year CHF 6.9 million) and are disclosed under other financial liabilities ([Note 4.5](#)).

6.2 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:

CHF million	2019/20	2018/19
Current assets	2.6	1.2
Non-current assets	2.5	1.5
Total assets	5.1	2.6
Current liabilities	(0.7)	(0.4)
Non-current liabilities	(0.6)	(0.0)
Total liabilities	(1.3)	(0.4)
Net assets	3.8	2.2
Income for the year	5.9	5.2
Expenses for the year	(3.4)	(3.1)
Profit for the year	2.4	2.1
Net book value at year-end	17.4	12.8
Share of gain/(loss) recognized by the Group	2.4	2.1

In the financial year 2019/20, the Group acquired two associates with a share of 49% and 24.99% respectively. One company is in the business of selling hearing instruments, the other one is a medical technology company. The total consideration for both transactions amounted to CHF 6.2 million. In addition, the group acquired additional shares in one previously held equity investment, resulting in a change of control (step up acquisition). Since the change of control, this company is fully consolidated. The net book value at the time of gaining control over this entity amounted to CHF 1.4 million.

In the financial year 2018/19, the Group acquired additional shares in one previously held equity investment, resulting in a change of control (step up acquisition). Since the change of control, this company is fully consolidated. The net book value at the time of gaining control over this entity amounted to CHF 1.3 million.

Sales to associates/joint ventures in the 2019/20 financial year amounted to CHF 8.7 million (previous year CHF 9.1 million). At March 31, 2020, trade receivables towards associates/joint ventures amounted to CHF 1.9 million (previous year CHF 2.2 million).

At the end of the 2019/20 and 2018/19 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 17.4 million (previous year CHF 12.8 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2019.

Accounting policies

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.

7. Other disclosures

7.1 Number of employees

On March 31, 2020, the Sonova Group employed the full time equivalent of 15,184 people (previous year 14,740). They were engaged in the following regions and activities:

By region	31.3.2020	31.3.2019
Switzerland	1,290	1,224
EMEA (excl. Switzerland)	6,866	6,748
Americas	3,550	3,443
Asia/Pacific	3,478	3,325
Total	15,184	14,740
By activity		
Research and development	842	778
Operations	4,618	4,665
Sales and marketing, general and administration	9,724	9,297
Total	15,184	14,740

The average number of employees (full time equivalents) of the Sonova Group for the year was 15,002 (previous year 14,418). Total personnel expenses for the 2019/20 financial year amounted to CHF 1,037.6 million (previous year CHF 1,010.9 million).

7.2 Transactions and relations with members of the Management Board and the Board of Directors

CHF million	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	Management Board		Board of Directors		Total	
Short-term employee benefits	8.6	7.8	1.9	1.8	10.5	9.6
Post-employment benefits	0.6	0.7			0.6	0.7
Share based payments	4.8	4.5	1.5	2.0	6.3	6.5
Total	14.0	13.1	3.4	3.8	17.4	16.8

The total compensation to the Management Board for the 2019/20 reporting period, as shown above, relates to nine members of the Management Board. The total compensation to the Management Board for the 2018/19 reporting period, as shown above, related to nine members.

The total compensation to the Board of Directors for the 2019/20 reporting period, as shown above, relates to eight active members and one former member (previous year nine members).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in [Note 7.3](#).

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.

7.3 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 442.9 million or 99.6% (previous year CHF 405.5 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. 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. An annuity rate of 5.4% to the individual accumulated retirement savings capital was applied for the financial years 2019/20 and 2018/19.

As of March 31, 2020, 1,328 employees (previous year 1,270 employees) and 133 beneficiaries (previous year 123 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.9 years (previous year 13.7 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF million	31.3.2020	31.3.2019
Present value of funded obligations	(444.5)	(407.0)
Fair value of plan assets	375.4	383.2
Net present value of funded plans	(69.1)	(23.8)
Present value of unfunded obligations	(4.4)	(2.2)
Total liabilities, net	(73.5)	(26.0)
Amounts in the balance sheet:		
Retirement benefit obligation	(73.5)	(26.0)

Remeasurements recognized in equity CHF million	2019/20	2018/19
Balance April 1	32.0	15.0
Actuarial losses/(gains) from		
– changes in financial assumptions	6.0	15.9
– changes in experience adjustments	15.2	3.1
Return on plan assets excluding interest income	23.9	(2.0)
Balance March 31	77.1	32.0

Amounts recognized in the income statement CHF million	2019/20	2018/19
Current service cost	27.7	26.0
Participants' contributions	(11.8)	(11.4)
Net interest cost	0.2	0.1
Total employee benefit expenses¹⁾	16.0	14.7

¹⁾ The amount recognized in the consolidated income statement 2019/20 has been charged to:

- cost of sales CHF 2.8 million (previous year CHF 2.7 million);
- research and development CHF 5.3 million (previous year 4.9 million);
- sales and marketing CHF 3.4 million (previous year 3.0 million);
- general and administration CHF 4.3 million (previous year CHF 4.0 million);
- financial expenses CHF 0.2 million (previous year CHF 0.1 million).

Movement in the present value of the defined benefit obligations CHF million	2019/20	2018/19
Beginning of the year	409.2	373.0
Interest cost	2.3	3.2
Current service cost	27.7	26.0
Benefits paid, net	(11.4)	(12.0)
Actuarial loss on obligations	21.2	19.0
Exchange differences	(0.2)	(0.1)
Present value of obligations at end of period	448.9	409.2

Movement in the fair value of the plan assets CHF million	2019/20	2018/19
Beginning of the year	383.2	365.6
Interest income on plan asset	2.1	3.1
Employer's contributions paid	13.5	12.7
Participants' contributions	11.8	11.4
Benefits paid, net	(11.3)	(11.7)
Return on plan assets excluding interest income	(23.9)	2.0
Exchange differences	(0.0)	0.0
Fair value of plan assets at end of period	375.4	383.2

The plan assets consist of:	31.3.2020	31.3.2019
Cash	2.4%	2.3%
Domestic bonds	17.0%	16.4%
Foreign bonds	8.7%	10.0%
Domestic equities	12.5%	13.3%
Foreign equities	28.7%	31.2%
Real estates	16.3%	15.0%
Alternative investments	14.4%	11.8%

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF –21.8 million (previous year CHF 5.1 million). The expected employer's contributions to be paid in the 2020/21 financial year amount to CHF 13.7 million.

Principal actuarial assumptions (weighted average)	2019/20	2018/19
Discount rate	0.45%	0.55%
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 million	31.3.2020	31.3.2019
Discount rate		
Discount rate +0.25%	(14.2)	(12.9)
Discount rate –0.25%	16.1	14.6
Salary growth		
Salary growth +0.25%	0.8	0.7
Salary growth –0.25%	(0.8)	(0.7)
Pension growth		
Pension growth +0.5%	16.5	14.8
Pension growth –0.5%	(16.5)	(14.8)
Fluctuation rate		
Fluctuation rate +5%	(16.7)	(14.9)
Fluctuation rate –5%	28.6	25.4

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 23.5 million in the year ended March 31, 2020 (previous year CHF 21.4 million) and are recognized directly in the income statement.

Accounting policies

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.

Accounting judgements and estimates

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 2019/20 financial year amounts to CHF 448.9 million (previous year CHF 409.2 million). This includes CHF 442.9 million (previous year CHF 405.5 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.

7.4 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 2019/20 and 2018/19 financial years, as part of the Executive Equity Award Plan (EEAP) Sonova granted restricted shares, restricted share units (RSUs), performance share units (PSUs), options, and for US employees, share appreciation rights (SARs). Options as well as PSUs granted to the Management Board in 2019/20 and 2018/19 include a performance criterion (for further information refer to compensation report).

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:

CHF million	2019/20	2018/19
Equity-settled share-based payment costs	19.3	18.8
Cash-settled share-based payment costs	0.6	0.4
Total share-based payment costs	19.9	19.2

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2014 to 2020. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO in 2017/18) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the CEO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2020:

Financial year granted	Instruments granted	First vesting date/ expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2013/14	Options/SARs ¹⁾	1.6.2015 31.1.2021	242,673	124.60	12,606	0.8	12,606
2014/15	Options/SARs ²⁾	1.6.2016 31.1.2022	308,459	121.10	58,864	1.8	58,864
2015/16	Options/SARs ³⁾	1.6.2017 31.1.2023	298,520	124.20	100,288	2.8	55,705
2016/17	Options/SARs ⁴⁾	1.6.2018 31.1.2024	378,652	130.00	199,599	3.8	64,861
2017/18	Options ⁵⁾	1.4.2023 30.9.2027	47,415	147.85	47,415	7.5	
2017/18	Options/SARs ⁶⁾	1.6.2019 31.1.2028	341,943	147.85	257,169	7.8	44,433
2018/19	Options/SARs ⁷⁾	1.6.2020 31.1.2029	249,760	182.40	233,867	8.8	
2019/20	Options/SARs ⁸⁾	1.6.2021 31.1.2030	208,245	241.80	208,245	9.8	
Total			2,075,667		1'118'053⁹⁾	6.8	236'469¹⁰⁾
Thereof:							
Equity-settled			1,840,411		1,010,087		216,608
Cash-settled			235,256		107,966		19,861

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 (now CEO).

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

⁷⁾ Including 80,850 performance options, granted to the CEO and MB members.

⁸⁾ Including 77,574 performance options/SAR, granted to the CEO and MB members.

⁹⁾ Weighted average exercise price of outstanding options/SARs amounts to CHF 165.60

¹⁰⁾ Weighted average exercise price for exercisable options/SARs amounts to CHF 129.48

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 2020 – Management Board Options/SARs	EEAP 2020 Options/SARs	EEAP 2019 Options/SARs
Valuation date	1.2.2020	1.2.2020	1.2.2019
Expiry date	31.01.2030	31.01.2030	31.1.2029
Restriction period	5 years		
Share price on grant date	CHF 241.80	CHF 241.80	CHF 182.40
Exercise price	CHF 241.80	CHF 241.80	CHF 182.40
Volatility	20.3%	20.3%	21.0%
Expected dividend yield	1.6%	1.6%	1.8%
Weighted risk free interest rate	(0.5%)	(0.6%)	(0.2%)
Weighted average fair value of options/SARs issued	33.34	31.98	26.12

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. In the financial year 2019/20 the options granted to the CEO and the members of the MB include a restriction period of 5 years, which was considered in the fair value of the options at grant date.

Changes in outstanding options:	2019/20		2018/19	
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,147,865	142.76	1,197,443	130.87
Granted ¹⁾	182,407	241.80	215,382	182.40
Exercised/sold ²⁾	(248,711)	125.49	(232,189)	119.59
Forfeited	(71,474)	145.40	(32,771)	133.06
Outstanding options at March 31	1,010,087	165.54	1,147,865	142.76
Exercisable at March 31	216,608	129.56	217,568	121.64

¹⁾ 2019/20 includes 72,176 performance options (previous year 80,850 performance options), granted to the CEO and MB members.

²⁾ The total consideration from options exercised amounted to CHF 27.9 million (previous year CHF 27.9 million). The weighted average share price of the options exercised during the year 2019/20 was CHF 223.68 (previous year CHF 176.49).

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. 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 members of the MB) to ensure that only a charge for vested amounts occur. 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 they expire, except for the SARs granted to members of the MB in the financial year 2019/20, which include a restriction period of 5 years.

Changes in outstanding SARs:	2019/20		2018/19	
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	113,024	148.27	102,369	132.90
Granted	25,838	241.80	34,378	182.40
Exercised/sold	(22,168)	128.22	(8,522)	124.84
Forfeited	(8,728)	159.37	(15,201)	135.08
Outstanding SARs at March 31¹⁾	107,966	173.87	113,024	148.27
Exercisable at March 31²⁾	19,861	128.61	22,423	123.17

¹⁾ The carrying amount of the liability relating to the SARs at March 31, 2020 is CHF 3.6 million (previous year CHF 4.0 million).

²⁾ The intrinsic value of the SARs exercisable at March 31, 2020 amounts to CHF 0.9 million (previous year CHF 1.7 million).

Performance share units (PSUs)

In 2020, as well as in the previous year, grants made to the members of the Management Board under the EEAP consist of PSUs. 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. PSUs granted in 2020 are subject to a restriction period, which was considered in the fair value of the PSU at grant date. Upon vesting of the PSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the PSUs 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 granted to CEO and the other members of the MB, to ensure that only vested amounts are expensed.

Assumptions for valuation at grant date	PSU 2020	PSU 2019
Valuation date	1.2.2020	1.2.2019
Date of grant	1.2.2020	1.2.2019
Share price on grant date	CHF 241.80	CHF 182.40
Fair value	CHF 266.80	CHF 224.38
End of restriction period	20 months	none
Performance conditions	Total shareholder return (TSR)	Total shareholder return (TSR)
TSR performance period	1.2.2020 – 31.3.2023	1.2.2019 – 31.3.2022
TSR comparator group	Swiss Leader Index (SLI)	Swiss Leader Index (SLI)

Restricted share units (RSUs)

Under the EEAP grants 2014 to 2020, 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. Upon vesting of the RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that only vested amounts are expensed.

Restricted shares

In addition to the PSUs granted in respect to the EEAP 2020, 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 in the financial year 2019/20 and 2018/19. 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).

The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2019/20 financial year as these shares have no vesting period.

Changes in outstanding PSUs/ RSUs/Restricted shares:

	2019/20				2018/19			
	Number of PSUs	Number of RSUs	Number of restricted shares	Total	Number of PSUs	Number of RSUs	Number of restricted shares	Total
Balance April 1	25,877	305,436	68,574	399,887	18,001	344,990	72,515	435,506
Granted	8,284	63,075	6,157	77,516	7,876	83,326	10,960	102,162
Released		(87,669)	(14,473)	(102,142)		(94,899)	(14,901)	(109,800)
Forfeited	(2,472)	(21,777)		(24,249)		(27,981)		(27,981)
Balance March 31	31,689	259,065	60,258	351,012	25,877	305,436	68,574	399,887

Accounting policies

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. 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.

7.5 Events after the balance sheet date

On April 6, 2020, the Group issued a CHF 330 million two year fixed-rate bond with interest rate of 0.55% and maturity date of April 6, 2022. The bond was issued at 100.084% for the first tranche of CHF 260 million and at 100.139% for the second tranche of CHF 70 million.

On April 29, 2020, the Group reached an agreement on terms with three of its relationship banks for a CHF 300 million revolving bridge facility. This will be committed for a period of 12 months after closing, with an option to extend by further 4 months, i.e. a maximum of 16 months.

The global health and economic crisis resulting from the COVID-19 pandemic is severely affecting the hearing care market and with it the Group's business activities. Audiology stores, the primary consumer channel for hearing care products and services, are either closed or operating with much reduced hours. The Cochlear Implants business is also affected, as the majority of healthcare providers have decided to defer all non-essential surgery. In this context, Sonova has implemented strict cost-reduction programs, which includes government-subsidized work time reductions in a number of countries.

7.6 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 3,220	
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)				
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR 450	100%
Sonova Retail Belgium NV	B	Groot-Bijgaarden (BE)	EUR 3,686	100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR 41	100%
Vitakustik GmbH	B	Dortmund (DE)	EUR 500	100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR 1,000	100%
Sonova Retail Denmark ApS	B	Klampenborg (DK)	DKK 1,621	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR 7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR 58,800	100%
SOD Invest SAS	B	Cahors (FR)	EUR 58,600	100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR 1,000	100%
Sonova Italia Srl	B	Milan (IT)	EUR 1,040	100%
AudioNova Italia	B	Milan (IT)	EUR 1,166	100%
Sonova Audiological Care Nederland B.V.	B	Dordrecht (NL)	EUR 19	100%
Sonova Audiological Care Polska Sp.z.o.o.	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%
Sonova Israel Ltd.	B	Haifa (IL)	ILS 5,150	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

Company name	Activity	Domicile (country)	Share/paid-in capital ¹⁾ Local currency 1,000	Shares held
Americas				
Sonova do Brasil Produtos Auditivos Ltda.	B	Sao Paulo (BR)	BRL 67,179	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD 0 ²⁾	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD 0 ²⁾	100%
Connect Hearing Inc.	B	Naperville (US)	USD 0 ³⁾	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 ²⁾	100%
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD 0 ²⁾	100%
Development Finance Inc.	A	Wilmington (US)	USD 0 ⁴⁾	100%
Asia/Pacific				
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD 58,000	100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD 10,475	100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY 20,041	100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY 46,249	100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY 10,000	100%
Triton Hearing Ltd.	B	Auckland (NZ)	NZD 20,450	100%
Sonova 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) Without par value

3) USD 1

4) USD 10

7.7 Other accounting policies

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.

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.

7.8 Effect of new accounting standards

IFRS 16 “Leases”

The standard replaces 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 is on the recognition of new assets and liabilities, primarily for its property and car lease agreements. In addition, the nature of the expenses related to those leases changes 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. In the consolidated cash flow statement, repayment of lease liabilities is included in financing activities and no longer in cash flow from operating activities.

The Group has adopted IFRS 16 using the modified retrospective approach. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

The reconciliation of payment obligations from operating leases as at March 31, 2019 for initial recognition as at April 1, 2019 is as follows:

in CHF million	April 1, 2019
Operating lease commitments as at March 31, 2019 (IAS 17)	234.6
Discounting using the incremental borrowing rate as at April 1, 2019	(14.0)
Short-term and low value leases recognized on a straight-line basis as expense	(4.3)
Adjustments relating to different treatment of contracts and extension and termination options	68.7
Lease liabilities as at April 1, 2019	285.0
thereof short-term	63.1
thereof long-term	221.9

The weighted average incremental borrowing rate as at April 1, 2019 was 1.4%.

Impact on consolidated balance sheet and cash flow statement

The following table summarizes the impact of IFRS 16 on the Group's consolidated balance sheet at April 1, 2019 and on the consolidated cash flow statement for the financial year 2019/20 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance sheet

Assets CHF million	1.4.2019 with IFRS 16	IFRS 16 effect	31.3.2019 without IFRS 16
Right-of-use assets	278.1	278.1	
Total non-current assets	3,258.7	278.1	2,980.6
Total assets	4,570.6	278.1	4,292.5

Liabilities and equity CHF million	1.4.2019 with IFRS 16	IFRS 16 effect	31.3.2019 without IFRS 16
Current lease liabilities	63.1	63.1	
Short-term provisions	128.2	(1.0)	129.2
Total current liabilities	1,092.2	62.1	1,030.1
Non-current lease liabilities	221.9	221.9	
Long-term provisions	117.0	(5.9)	122.9
Total non-current liabilities	1,102.3	216.0	886.3
Total liabilities	2,194.4	278.1	1,916.3
Total liabilities and equity	4,570.6	278.1	4,292.5

Consolidated cash flow statement

April 1 to March 31, in CHF million	2019/20 with IFRS 16	IFRS 16 effect	2019/20 without IFRS 16
Income before taxes	502.4	(1.1)	503.5
Depreciation and amortization of tangible and intangible assets and right-of-use assets	200.1	65.9	134.2
Increase (decrease) in long-term provisions and long-term contract liabilities	22.2	(0.5)	22.7
Financial expense/(income), net	10.0	4.0	6.0
Cash flow from operating activities	843.3	68.3	775.0
Repayment of lease liabilities	(64.3)	(64.3)	0.0
Interest paid	(5.0)	(4.0)	(1.0)
Cash flow from financing activities	(550.4)	(68.3)	(482.1)

As a result of IFRS 16, the cash flow from operating activities for the financial year 2019/20 increased by CHF 68.3 million and the cash flow from financing activities reduced by the same amount.

For the financial year 2019/20 the adoption of IFRS 16 had a minor positive impact of CHF 2.9 million on the EBITA result and a negative impact of CHF 1.1 million on income after taxes.



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

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 income statements, consolidated statement of comprehensive income, consolidated balance sheets as at 31 March 2020, consolidated cash flow statements and consolidated changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020 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 27,500,000

We concluded full scope audit work at 23 reporting units in 12 countries. Our audit scope addressed over 68% of the Group's revenue and 78% of the Group's assets.

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

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

- Goodwill Impairment Assessment
- Provision for Product Liabilities

Materiality

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

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

Overall materiality	CHF 27,500,000 adjusted for one-time effects
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1,250,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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 and goodwill 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.

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

Key audit matter	How our audit addressed the key audit matter
<p>The Group has goodwill of CHF 1,951.4 million at March 31, 2020.</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.</p> <p>Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied and the most recent business plans.</p> <p>Refer to note 3.5 (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 the design 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.</p> <p>We assessed the identification of the relevant CGUs.</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. • Implications of any potential triggering events and subsequent events on key assumptions. <p>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.</p> <p>We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.</p>

Provisions for product liabilities

Key audit matter	How our audit addressed the key audit matter
<p>Provisions for product liabilities amounted to CHF 120.4 million as of March 31, 2020.</p> <p>The provisions for product liabilities comprise provisions for the voluntary product recall of Advanced Bionics LLC in 2006 and the voluntary field corrective action as announced on February 18, 2020. These liabilities include cost of replacement products, medical expenses, compensation for actual damages as well as legal fees.</p> <p>We consider this to be a Key audit matter 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 affect the Group’s result.</p> <p>Refer to note 3.7 (Provisions)</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 in the organization and the recording and continuous reassessment 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.</p> <p>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 uses developed models to calculate the product liabilities (the Models). In case of the existing provision relating to the voluntary product recall of Advanced Bionics LLC in 2006, the key assumptions within the Model are consistent to the prior year.</p> <p>The provisions are based on historical average claim rates and costs per claim considering the respective models. We tested the Models’ mathematical integrity, the accuracy of the underlying calculations and the overall provisions, including the key determining factors like devices in the market, failure rates, claim rates and costs per case.</p> <p>Based on our procedures performed, the provision had been reasonably based on the information currently available to Management.</p>

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

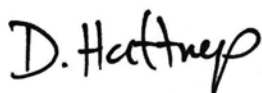
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG



Sandra Boehm
Audit expert
Auditor in charge



Dominik Hattrup
Audit expert

Zürich, 14 May 2020

Enclosure:

- Consolidated financial statements (consolidated income statements, consolidated statement of comprehensive income, consolidated balance sheets, consolidated cash flow statements, consolidated changes in equity and notes to the consolidated financial statements as of March 31, 2020)

Financial statements of Sonova Holding AG

Income statements

CHF million	Notes	2019/20	2018/19
Income			
Investment income		274.3	287.3
Financial income	2.1	8.3	20.0
Total income		282.7	307.2
Expenses			
Administration expenses		(11.5)	(9.9)
Other expenses		(0.8)	(0.8)
Financial expenses	2.1	(47.1)	(34.3)
Direct taxes		(0.3)	0.2
Total expenses		(59.6)	(44.8)
Net profit for the year		223.1	262.4

Balance sheets

Assets CHF million	Notes	31.3.2020	31.3.2019
Cash and cash equivalents		0.4	12.4
Other receivables			
– Group companies		9.7	3.8
Prepaid expenses		0.6	0.1
Total current assets		10.8	16.3
Financial assets	2.2		
– Third parties		0.9	0.5
– Group companies		1,846.9	2,153.3
Investments	2.3	321.5	322.6
Total non-current assets		2,169.3	2,476.4
Total assets		2,180.1	2,492.7
Liabilities and shareholders' equity CHF million	Notes	31.3.2020	31.3.2019
Bank loans		150.0	
Trade account payables			
– Third parties		0.1	0.1
Short-term interest-bearing liabilities			
– Third parties		0.2	0.0
– Group companies			46.2
Bond	2.4		250.0
Other short-term liabilities to third parties		20.8	8.9
Accrued liabilities		6.4	5.9
Total short-term liabilities		177.5	311.1
Bonds	2.4	560.0	360.0
Total long-term liabilities		560.0	360.0
Total liabilities		737.5	671.1
Share capital		3.2	3.3
Legal reserves			
– Reserves from capital contribution		18.5	18.6
– General reserves		1.8	1.8
– Legal reserves for treasury shares held by subsidiaries		22.7	
Voluntary retained earnings			
– Balance carried forward		1,597.9	1,702.5
– Net profit for the year		223.1	262.4
Treasury shares			
– Treasury shares to offset with reserves from capital contribution		(18.5)	
– Treasury shares	2.5	(406.2)	(166.9)
Total shareholders' equity		1,442.5	1,821.7
Total liabilities and shareholders' equity		2,180.1	2,492.7

Notes to the financial statements of Sonova Holding AG as of March 31, 2020

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 of gains and losses from sale/transfer of shares in relation to long-term incentive plans, 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 consist 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

During the 2019/20 financial year, the Group had the following bonds outstanding:

- 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. The bond was repaid on October 11, 2019.
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.
- A 10 year fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041592) issued at 100% with a 0.00% interest rate and maturity on October 11, 2029.
- A 15 years fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041600) issued at 100% with interest of 0.40% p.a. and maturity on October 11, 2034. Interests will be paid on an annual basis.

3.2 Treasury shares

Out of total treasury shares amounting to 1,868,127 shares on March 31, 2020, 1,843,090 shares were purchased by the company as part of the share buyback program. The average selling price amounted to CHF 129.24 and the average purchase price to CHF 225.95.

Effective March 16, 2020, Sonova Holding AG suspended the Group's current share buyback program. This precautionary measure reflects the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19).

Treasury shares held by Sonova Holding AG Number/CHF million

	Number	Treasury shares at cost
Balance April 1, 2019	966,324	166.9
Purchase of treasury shares from share buyback	1,843,090	416.1
Purchase of treasury shares	335,000	76.0
Sale/Transfer of treasury shares	(343,537)	(44.4)
Cancellation of treasury shares	(932,750)	(157.9)
Loss from sale of treasury shares		(32.0)
Balance March 31, 2020	1,868,127	424.8

Treasury shares held by subsidiaries Number/CHF million

	Number	Legal reserves for treasury shares held by subsidiaries
Balance April 1, 2019	0	0.0
Purchase of treasury shares	102,421	22.7
Balance March 31, 2020	102,421	22.7

3.3 Contingent liabilities

CHF million	31.3.2020	31.3.2019
Letters of comfort given on behalf of Group companies	3.9	11.6
Guarantees given in respect of rental obligations of Group companies	0.0	0.5

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 Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR 450	100%
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR 15,311	100%
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR 153	85% ²⁾
Sonova Denmark A/S	B	Middelfart (DK)	DKK 11,075	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR 7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR 28,800	15% ²⁾
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 Hungary Korlátolt Felelősségű Társaság	B	Budapest (HU)	HUF 5,000	100%
Sonova Italia S.R.L.	B	Milan (IT)	EUR 1,040	100%
Sonova Nederland B.V.	B	Vianen (NL)	EUR 227	100%
Sonova Norway AS	B	Oslo (NO)	NOK 1,854	49% ²⁾
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%
Phonak CIS Ltd.	B	Moscow (RU)	RUB 4,000	100%
Sonova Nordic AB	B	Stockholm (SE)	SEK 200	85% ²⁾
Sonova Sweden AB	B	Stockholm (SE)	SEK 100	100%
Sonova UK Ltd.	B	Warrington (UK)	GBP 2,500	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP 0 ³⁾	51%

For significant indirect investments refer to Note 7.6 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				
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL 37,106	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD 0 ³⁾	100%
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⁾
Sonova United States Hearing Instruments, LLC	B	Warrenville (US)	USD 0 ³⁾	85% ²⁾
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD 13,105	31%
Asia/Pacific				
Advanced Bionics Medical Instruments (Suzhou) Co., Ltd.	B	Suzhou (CN)	CNY 4,617	70% ²⁾
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 India Private Limited	B	Mumbai (IN)	INR 2,439	64% ²⁾
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY 10,000	100%
Sonova Korea Ltd.	B	Seoul (KR)	KRW 50,000	100%
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD 250	100%
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD 250	100%
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD 3,100	100%
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 7.6 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".

	31.3.2020	31.3.2019
Beda Diethelm	10.35%	10.19%
Chase Nominees Ltd. ¹⁾	8.37%	9.04%
Family of Hans-Ueli Rihs	5.71%	5.67%
Nortrust Nominees Ltd. ¹⁾	5.68%	5.82%
Bank of New York Mellon Nominee ¹⁾	4.09%	4.17%
Registered shareholders with less than 3%	31.88%	33.02%
Not registered	33.91%	32.10%

¹⁾ Registered without voting rights.

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

	31.03.2020				31.03.2019			
	Shares	Restricted Shares ¹⁾³⁾	PSUs/RSUs ³⁾	Options (incl. SARs) ³⁾	Shares	Restricted Shares ²⁾³⁾	PSUs/RSUs ³⁾	Options (incl. SARs) ³⁾
Board of Directors	73,821	53,157	4,328	123,189	67,313	65,395	7,152	165,577
Management Board	42,519		41,945	442,843	47,672		47,140	436,309
Total	116,340	53,157	46,273	566,032	114,985	65,395	54,292	601,886

¹⁾ These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.

²⁾ These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.

³⁾ For further details see also Note 7.4 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.

3.7 Events after the balance sheet date

On April 6, 2020, Sonova Holding AG issued a CHF 330 million two year fixed-rate bond with interest rate of 0.55% and maturity on April 6, 2022. The bond was issued at 100.084% for the first tranche of CHF 260 million and at 100.139% for the second tranche of CHF 70 million.

On April 29, 2020, Sonova Holding AG reached an agreement on terms with three of its relationship banks for a CHF 300 million revolving bridge facility. This will be committed for a period of 12 months after closing, with an option to extend by further 4 months, i.e. a maximum of 16 months.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 11, 2020:

CHF million	31.3.2020
Balance carried forward from previous year	1,597.9
Net profit for the year	223.1
Voluntary retained earnings	1,821.0
Dividend distribution	0.0 ¹⁾
Balance to be carried forward	1,821.0²⁾

¹⁾ The dividend distribution amount corresponds to the maximum aggregate nominal value of Sonova shares to be distributed (grossed up to account for Swiss withholding tax) and is subject to the number of shares outstanding on the last trading day with entitlement to receive the dividend, i.e. June 15, 2020. Treasury shares held by Sonova Holding AG and its subsidiaries are not entitled to dividends. The distribution amount will be reduced accordingly.

²⁾ As the stock dividend will be sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018–2021 and are liquidated shares for Swiss tax purposes, the voluntary retained earnings will be reduced by the difference of (i) the average repurchase price of the Sonova shares bought back under the share buyback program multiplied by the number of Sonova shares distributed as stock dividend and (ii) the aggregate nominal value of these shares. The total reduction amount is subject to the number of Sonova shares distributed (maximum amount of CHF 97.1 million).

Stock dividend proposal

In view of the current economic environment and associated uncertainties, the Board of Directors deems it in the best interest of Sonova Holding AG to reduce the dividend amount compared with last year's dividend and to distribute a stock dividend instead of a cash dividend, which helps preserving Sonova's liquidity position. The required number of Sonova shares will be sourced from Sonova shares currently held in treasury, which were repurchased by Sonova under the share buyback program 2018–2021.

If the proposal of the Board of Directors is approved, the dividend distribution will be delivered in the form of registered shares of Sonova ("Sonova shares"). Each shareholder will be entitled to receive one Sonova share for 150 existing Sonova shares, which corresponds to a maximum of 430,000 shares (rounded) to be distributed. In case of fractional entitlements, the number of shares will be rounded down so that each shareholder will receive an integer number of Sonova shares, and the fraction will be paid out in cash (rounded to the nearest 5 centime). Sonova will sell on behalf of the respective shareholders such number of Sonova shares as corresponds to the aggregate amount of fractions and distribute the gross sale proceeds accordingly. Sonova will pay the 35% Swiss withholding tax on the (grossed up) nominal value per distributed Sonova share and the Swiss securities transfer tax incurred in connection with the sale of the Sonova shares to satisfy the fractional entitlements.



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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sonova Holding AG, which comprise the incomes statements, balance sheets as at 31 March 2020 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 2020 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 14,000,000

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

A diagram consisting of three overlapping circles. The top circle is orange and labeled 'Materiality'. The bottom-left circle is red and labeled 'Audit scope'. The bottom-right circle is dark red and labeled 'Key audit matters'. Arrows indicate a clockwise flow from Materiality to Audit scope, and from Audit scope to Key audit matters.

Materiality

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

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

Overall materiality	CHF 14,000,000
How we determined it	Net Assets
Rationale for the materiality benchmark applied	<p>We chose net assets as the benchmark because Sonova Holding AG, Stäfa is a holding company that mainly holds financial assets and investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends.</p> <p>Furthermore, net assets is considered a key element for the user of the financial statements and it is a generally accepted benchmark for determining materiality according to auditing standards.</p>

We agreed with the Audit Committee that we would report to them misstatements above CHF 700,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

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, 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.

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

Key audit matter	How our audit addressed the key audit matter
<p>The investments in subsidiaries amount to CHF 321.5 million (14.8% of assets) as of March 31, 2020.</p> <p>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.</p> <p>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.</p>	<p>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.</p> <p>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.</p> <p>We evaluated and tested the assessment by reperforming the comparison undertaken by Management for the most material investments.</p> <p>For the overall value of the investments in subsidiaries, we additionally considered the market capitalisation of the Group.</p> <p>Overall, on the basis of the procedures performed, we concluded that management's assessments are based upon reasonable and consistently applied assumptions that support management's valuation conclusions.</p>

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

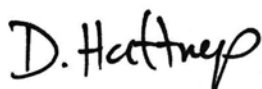
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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



Sandra Boehm
Audit expert
Auditor in charge



Dominik Hattrup
Audit expert

Zürich, 14 May 2020

Enclosures:

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

Investor information

Financial calendar

June 11, 2020

General Shareholders' Meeting of Sonova Holding AG

November 16, 2020

Publication of Semi-Annual Report as of September 30, 2020

May 18, 2021

Publication of Annual Report as of March 31, 2021

June 15, 2021

General Shareholders' Meeting of Sonova Holding AG

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/services-and-contacts

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/regulations-principles

Contact form

www.sonova.com/en/services-and-contacts

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