# Financial reporting

Financial report

# Financial review

In the 2020/21 financial year, Sonova continued to outpace the market, coping well with the challenges posed by the COVID-19 pandemic and significant currency headwinds. Supported by continued strong investment into strategic growth initiatives, sales reached CHF 2,601.9 million, down 6.8% in local currencies and 10.8% in Swiss francs. Reflecting the benefits of our structural optimization initiatives, adjusted EBITA grew by 5.6% in local currencies to CHF 603.0 million with the margin increasing to 23.2%.

### Strong sales recovery in the second half-year

In the 2020/21 financial year, Sonova Group sales reached CHF 2,601.9 million. The impact of the COVID-19 pandemic on the hearing care industry – including restrictions on personal movement, consumer activity, and elective surgeries – resulted in a decline in sales of 6.8% in local currencies or 10.8% in Swiss francs. Organic growth was negative at 7.1%, while acquisitions contributed 0.3% to growth. Sales momentum picked up strongly in the second quarter and the Group returned to growth in the second half-year. Exchange rate fluctuations had a significant negative impact, reducing growth by 4.0% due to a strengthening of the Swiss franc against most major currencies.

### Sales by regions

| in CHF m | | | **2020/21** | | **2019/20** |
|---|---|---|---|---|---|
| | Sales | Share | Growth in local currencies | Sales | Share |
| EMEA | 1,416.6 | 54% | (6.0%) | 1,544.4 | 53% |
| USA | 732.2 | 28% | (10.8%) | 877.6 | 30% |
| Americas (excl. USA) | 178.2 | 7% | (9.7%) | 220.9 | 8% |
| Asia/Pacific | 275.0 | 11% | 3.7% | 274.0 | 9% |
| **Total sales** | **2,601.9** | **100%** | **(6.8%)** | **2,916.9** | **100%** |

### All regions returning to growth in the second half

Business momentum continued to improve throughout the year, with all regions returning to growth in the second half. The recovery was supported by the successful launch of the Phonak Paradise platform in the Hearing Instruments business in August 2020 and good momentum from the Group's commercial excellence initiatives. The successful launch of two new sound processors – the Naída™ CI Marvel for adults and the Sky CI™ Marvel for children – lifted sales at Advanced Bionics towards the end of the financial year. The Asia/Pacific (APAC) region experienced the strongest recovery with sales up 3.7% in local currencies. Several key markets in the region reported double digit sales growth year-over-year with particularly strong sales development in China.

Sales in Europe, Middle East and Africa (EMEA), the Group's largest region, declined by 6.0% in local currencies but several key markets achieved positive year-over-year growth. A solid recovery in the Hearing Instruments business was driven by France, Germany, the Nordics, and Switzerland, which all achieved full- year sales above prior year levels. A similar trend was observed in the Audiological Care business but performance was held back by strict lockdown measures in the UK and a slowdown in Germany in the second half-year. Sales in the Cochlear Implants business were supported by upgrade sales. The EMEA share of Group sales increased from 53% in 2019/20 to 54% in 2020/21.

Sales in the United States declined by 10.8% in local currency. After slow recovery in the first half-year, the market returned to prior year levels in the second half, led by growth in the commercial channel. Growth in the Cochlear Implants business was held back by the reduced number of elective surgeries but momentum significantly improved after the successful market introduction of the Naída™ CI Marvel and Sky CI™ Marvel sound processors. The region accounted for 28% of Group sales in 2020/21 versus 30% in the prior year. Sales in the rest of the Americas (excluding the US) were down 9.7% in local currencies, as the impact of the COVID-19 pandemic has persisted longer than in many of the larger markets.

### Sonova Group key figures

| in CHF m unless otherwise specified | 2020/21 | 2019/20 | Change in Swiss francs | Change in local currencies |
|---|---|---|---|---|
| Sales | 2,601.9 | 2,916.9 | (10.8%) | (6.8%) |
| Gross profit | 1,873.5 | 2,083.6 | (10.1%) | (5.7%) |
| EBITA [1] | 663.3 | 554.3 | 19.7% | 30.5% |
| EBIT [1] | 619.5 | 510.0 | 21.5% | 33.0% |
| Basic earnings per share (CHF) | 9.23 | 7.61 | 21.3% | 33.7% |
| Operating free cash flow [1] | 602.4 | 638.5 | (5.7%) | |
| ROCE [1] | 22.3% | 18.2% | | |
| | | | | |
| Gross profit (adjusted) [1] | 1,880.2 | 2,106.9 | (10.8%) | (6.4%) |
| EBITA (adjusted) [1] | 603.0 | 620.8 | (2.9%) | 5.6% |
| EBITA margin (adjusted) | 23.2% | 21.2% | | |
| Basic earnings per share (CHF) (adjusted) [1] | 7.71 | 7.39 | 4.3% | 15.5% |

1) For details see table "Reconciliation of non-GAAP financial measures".

### Sustainable progress on profitability – One-time gain in Cochlear Implants

The results were significantly impacted both by the COVID-19 pandemic and the strengthening of the Swiss franc, which represented a strong headwind to growth. Despite these challenges, the Group achieved strong results through a swift implementation of cost saving initiatives and sustainable structural improvements.

In line with measures taken in prior years, Sonova accelerated structural optimization initiatives to preserve its ability to invest into growth and to protect profitability. These initiatives resulted in restructuring costs of CHF 38.9 million (2019/20: CHF 18.6 million) and led to cost savings of CHF 55 million during the reporting period. A one-time cost of CHF 25.3 million was incurred from impairment of previously capitalized development costs stemming from a change in our cochlear implants product development roadmap (2019/20: returns for credit and one-time costs totaling CHF 47.8 million related to the voluntary field corrective action). In addition, Advanced Bionics reached a successful conclusion in a long-running patent infringement lawsuit, resulting in a one-time income of CHF 124.4 million. Adjusted figures and growth rates in this financial review exclude these items. For more details, please refer to the table “Reconciliation of non-GAAP financial measures” at the end of the financial review.

Reported gross profit reached CHF 1,873.5 million. Adjusted gross profit reached CHF 1,880.2 million, down 6.4% in local currencies and 10.8% in Swiss francs. The adjusted gross profit margin was 72.3%, up from 72.0% in the prior year. The improvement was driven by structural and continuous improvement initiatives. It was further supported by a higher average sales price (ASP) in the Hearing Instruments business for the financial year as a whole. This reflects the positive market response to the Phonak Paradise platform, as well as the temporary benefit from faster market recovery in higher price channels and markets. A change in reimbursement in France and a normalization of the channel mix led to ASP pressure towards year end. Further progress was held back by lower sales volumes and by higher transportation costs out of Asia resulting from the pandemic. Government support received in connection with the pandemic contributed CHF 4.9 million.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,210.3 million (2019/20: CHF 1,529.3 million). Adjusted operating expenses before acquisition-related amortization decreased by 11.4% in local currencies or by 14.1% in Swiss francs to CHF 1,277.1 million. Government support received worldwide in connection with the pandemic reduced total operating expenses by CHF 42.4 million, mostly in the first half of the fiscal year. Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 177.9 million, an increase of 10.3% in local currencies, outpacing the sales growth. Despite the temporary market impact from COVID-19, the Group increased its level of investment in innovation. This underpins Sonova’s commitment to further advance its industry leading portfolio of products and services. As a percentage of sales, adjusted R&D expenses increased to 6.8% (2019/20: 5.6%).

Adjusted sales and marketing costs before acquisition-related amortization were down 13.0% in local currencies to CHF 858.6 million, despite maintaining investments in customer-facing resources. Adjusted general and administrative costs decreased by 16.6% in local currencies to CHF 242.0 million, representing 9.3% of sales, down from 10.2% in the prior year. The decrease in both cost categories reflects strong cost management across all three businesses as well as the above mentioned government support. Marketing investments and discretionary spend were significantly reduced during the lock-downs and benefited from a shift towards virtual customer interactions. The acceleration of structural optimization initiatives also generated sustainable savings, particularly in the audiological care store network. Adjusted other income for the current period was CHF 1.4 million (2019/20: CHF 0.1 million).

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 603.0 million (2019/20: CHF 620.8 million), up 5.6% in local currencies but down 2.9% in Swiss francs. The adjusted EBITA margin was 23.2% (2019/20: 21.2%). This strong margin improvement despite lower sales levels reflects the effective cost management and structural improvement measures to protect profitability. Exchange rate developments negatively affected the adjusted EBITA by CHF 52.7 million and reduced the margin by 0.9 percentage points. Including restructuring costs, the impairment of capitalized development costs, and the award in the patent infringement lawsuit, reported EBITA increased by 30.5% in local currencies and by 19.7% in Swiss francs to CHF 663.3 million. This corresponds to a margin of 25.5%. Acquisition-related amortization amounted to CHF 43.8 million (2019/20: CHF 44.4 million). Reported operating profit (EBIT) reached CHF 619.5 million (2019/20: CHF 510.0 million), up 21.5% in Swiss francs.

### Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 7.6 million to CHF 19.1 million, driven by increased borrowings and bond issues. Excluding non-recurring benefits, which include a positive impact from the Swiss tax reform of CHF 28.0 million (2019/20: CHF 64.1 million), the tax rate was 12.5% (2019/20: 15.3%). Income after taxes was CHF 585.3 million (2019/20: CHF 489.5 million). Basic earnings per share (EPS) reached CHF 9.23 (2019/20: CHF 7.61), an increase of 21.3% from the prior year. The adjusted EPS increased 15.5% in local currencies or 4.3% in Swiss francs to CHF 7.71.

### Headcount

At the end of March 2021, the Group's total workforce was 14,508 full-time equivalents. This represents a reduction of 676 or 4.5%, reflecting benefits from the structural optimization initiatives announced in July 2020. The reduction was mostly realized by staff attrition. At the same time, we continued to invest into R&D and customer-facing staff in both the Audiological Care and the Hearing Instrument business, laying down the foundations for future growth.

### Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment declined by 6.1% in local currencies to CHF 2,417.3 million. This was due to the significant market contraction at the start of the financial year related to the global COVID-19 pandemic. Driven by a market rebound as lock-down restrictions were lifted, the segment returned to growth in the second half. Regional recovery varied, reflecting increased infection rates in certain markets. Momentum was further boosted by the successful launch of the Phonak Paradise platform in August 2020. The segment recorded an organic sales decline of 6.4% while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) lifted sales by 0.3%. Exchange rate fluctuations reduced growth by 3.9% in Swiss francs. This resulted in a reported sales decline of 10.0%.

The Hearing Instruments business posted sales of CHF 1,463.9 million, a decline of 4.7% in local currencies. Strong customer response to the new Phonak Paradise platform and the market recovery turned sales development positive in the second half. In March 2021, Sonova's share of business with the US Department of Veterans Affairs (VA) reached its highest level, 56%, in over seven years. ASP temporarily benefitted from a favorable shift in the country and channel mix: higher price markets and channels rebounded faster from the effects of the pandemic.

Momentum in the Audiological Care business picked up over the course of the financial year, reflecting the gradual easing of pandemic related restrictions and increased marketing activities. Sales decreased by 8.1% in local currencies to CHF 953.5 million; the development was driven by negative organic growth of 8.7%. The pandemic temporarily depressed M&A activity, resulting in a contribution from acquisitions of 0.6%. Structural optimization initiatives included streamlining the store network: combining certain store locations to improve efficiency while protecting sales.

### Sales by business – Hearing Instruments segment

| in CHF m | 2020/21 | | | 2019/20 | |
|---|---|---|---|---|---|
| | Sales | Share | Growth in local currencies | Sales | Share |
| Hearing Instruments business | 1,463.9 | 61% | (4.7%) | 1,613.0 | 60% |
| Audiological Care business | 953.5 | 39% | (8.1%) | 1,073.2 | 40% |
| **Total Hearing Instruments segment** | **2,417.3** | **100%** | **(6.1%)** | **2,686.2** | **100%** |

Reported EBITA for the Hearing Instruments segment amounted to CHF 580.6 million, up 5.4% in local currencies. The structural optimization initiatives announced in July 2020 progressed according to plan. Restructuring costs related to these initiatives amounted to CHF 36.5 million (2019/20: CHF 18.6 million). Excluding these restructuring costs, the adjusted EBITA increased by 8.3% in local currencies to CHF 617.1 million, corresponding to an EBITA margin of 25.5% (2019/20: 23.1%). The strong year-on-year margin improvement was largely driven by sustainable cost savings from the Group's structural optimization and continuous improvement initiatives. It also benefited from lower marketing costs and travel expenses, and government support during the pandemic.

#### Cochlear Implants segment – Improvement towards fiscal year-end supported by product launch

The Cochlear Implants business achieved sales of CHF 184.5 million versus CHF 230.7 million in the prior year. This corresponds to a decrease of 15.9% in local currencies and 20.0% in Swiss francs. Sales development was significantly restricted by the necessity for hospitals in many countries to concentrate on dealing with the pandemic and therefore to reduce the number of elective surgeries. There was also a residual impact from our voluntary field corrective action taken in February 2020. The launch of two new sound processors – Naída™ CI Marvel for adults and Sky CI™ Marvel for children – markedly increased sales momentum towards the end of the financial year, attracting interest from both new and existing customers.

### Sales by product groups – Cochlear Implants segment

| in CHF m | 2020/21 | | | 2019/20 | |
|---|---|---|---|---|---|
| | Sales | Share | Growth in local currencies | Sales | Share |
| Cochlear implant systems | 129.3 | 70% | (17.1%) | 163.9 | 71% |
| Upgrades and accessories | 55.2 | 30% | (12.8%) | 66.8 | 29% |
| **Total Cochlear Implants segment** | **184.5** | **100%** | **(15.9%)** | **230.7** | **100%** |

The reported EBITA of CHF 82.4 million includes one-time income of CHF 124.4 million from the award in a patent infringement lawsuit; it also reflects a CHF 25.3 million impairment of capitalized development costs relating to a review of the product development roadmap in the frame of broader improvement efforts, along with restructuring costs of CHF 2.3 million. Excluding these items, the segment posted an adjusted EBITA loss of CHF 14.3 million versus a positive adjusted EBITA of CHF 1.6 million in the prior year. Decisive steps were taken to adapt costs to the lower sales volume and to implement structural improvements.

### Strong cash flow

Cash flow from operating activities was CHF 764.4 million, compared to CHF 843.3 million in the prior year. The reduction was largely driven by increased working capital of CHF 185.7 million which more than offset the higher reported profits. The increase stems from higher accounts receivables (as prior year sales in March were depressed due to the pandemic), as well as by increased safety stock levels in inventories.

Net investments in tangible and intangible assets decreased to CHF 86.8 million (2019/20: 127.7 million), mainly due to lower capital expenditure to ensure ample liquidity during the pandemic. Operating free cash flow reached CHF 602.4 million (2019/20: CHF 638.5 million). Cash conversion (Operating Free Cash Flow/adjusted EBITA) remained strong at 100%. Cash consideration for acquisitions net of disposals amounted to CHF 30.5 million, down from CHF 74.8 million in the prior year, as M&A activity was temporarily depressed due to the pandemic. In summary, this resulted in a free cash flow of CHF 571.9 million, largely unchanged from the previous year.

In the first half of 2020/21 Sonova strengthened its financial position by issuing bonds and a US private placement totaling CHF 1 billion and by distributing a stock dividend instead of a cash dividend (2019/20: dividend payments CHF 186.5 million). This resulted in a cash inflow from financing activities of CHF 676.1 million. This compares to a cash outflow of CHF 550.4 million in the prior year. The outflow reflected net share repurchases of CHF 470.1 million, mainly related to the share buyback program, suspended in February 2020.

### Robust balance sheet – Higher return on capital

Reported net working capital was CHF 29.6 million, compared to a negative CHF 18.9 million at the end of the prior year. Accounts receivables increased by CHF 56.7 million; the prior year’s figure had been depressed as a result of the pandemic related sales decline in March. Inventories rose by CHF 36.9 million. This reflects a targeted stock increase to mitigate supply chain risks during the pandemic, related particularly to shipments out of Asia. Capital employed was CHF 2,855.7 million, a slight increase from CHF 2,692.5 million in the prior year, driven by the higher working capital.

The Group’s equity position amounted to CHF 2,772.5 million, up from CHF 2,029.4 million in the previous year. The result was an equity ratio of 46.8%. The net debt position stood at CHF 83.3 million, compared to CHF 663.0 million at the end of the prior year, reflecting the suspension of the share buyback program and the provision of a stock dividend instead of a cash dividend. The return on capital employed (ROCE) improved significantly to 22.3% from 18.2% in the prior year.

### Outlook

The attractive fundamentals of the hearing care market remain intact despite the pandemic. There is pent-up demand to be satisfied and new demand emerging. Sonova is confident that the strong recovery will persist, and that consumers will continue to demand even better hearing performance and technological innovation, delivered through an ever wider spectrum of channels. As a global market leader, the Group is in a strong position and we expect to participate fully in a resurgent market. Building on a strong momentum and benefiting from continued growth investments, Sonova expects consolidated sales to increase by 24–28% at constant exchange rates, while further expanding profitability.

## Reconciliation of non-GAAP financial measures

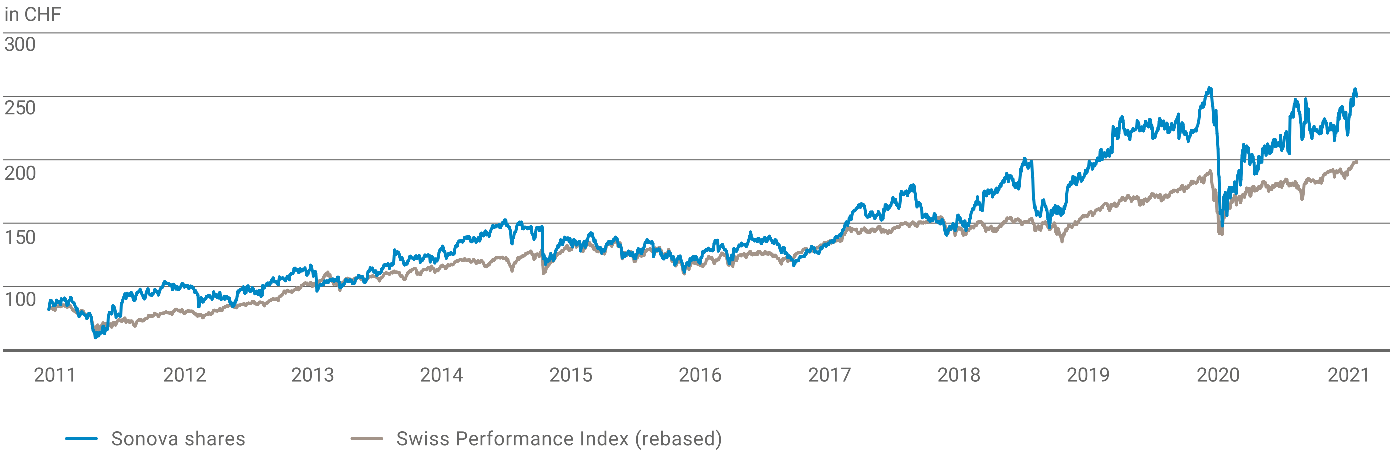
| April 1 to March 31, CHF million | | | | | | | | 2020/21 |
|---|---|---|---|---|---|---|---|---|
| | **Income statement as reported** | Acquis. related amortization | **Income statement EBITA separation** | Restructuring costs | Swiss tax reform | Patent infringement lawsuit income | Impairment of capitalized development cost | **Income statement adjusted** |
| **Sales** | **2,601.9** | | **2,601.9** | | | | | **2,601.9** |
| Cost of sales | (728.3) | | (728.3) | 6.6 | | | | (721.7) |
| **Gross profit** | **1,873.5** | | **1,873.5** | **6.6** | | | | **1,880.2** |
| Research and development | (204.8) | 0.9 | (203.9) | 0.7 | | | 25.3 | (177.9) |
| Sales and marketing | (924.1) | 42.9 | (881.2) | 22.6 | | | | (858.6) |
| General and administration | (250.9) | | (250.9) | 8.9 | | | | (242.0) |
| Other income/(expenses), net | 125.8 | | 125.8 | | | (124.4) | | 1.4 |
| **Operating profit before acquisition-related amortization (EBITA)** [1] | | | **663.3** | **38.8** | | **(124.4)** | **25.3** | **603.0** |
| Acquisition-related amortization | | (43.8) | (43.8) | 0.0 | | | | (43.7) |
| **Operating profit (EBIT)** [2] | **619.5** | | **619.5** | **38.9** | | **(124.4)** | **25.3** | **559.3** |
| **Basic earnings per share (CHF)** | **9.23** | | **9.23** | **0.50** | **(0.45)** | **(1.98)** | **0.40** | **7.71** |

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).

| April 1 to March 31, CHF million | | | | | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| | **Income statement as reported** | Acquis. related amortization | **Income statement EBITA separation** | Restructuring costs | Swiss tax reform | Voluntary field corrective action | | **Income statement adjusted** |
| **Sales** | **2,916.9** | | **2,916.9** | | | **11.1** | | **2,928.0** |
| Cost of sales | (833.3) | | (833.3) | 1.5 | | 10.8 | | (821.1) |
| **Gross profit** | **2,083.6** | | **2,083.6** | **1.5** | | **21.8** | | **2,106.9** |
| Research and development | (167.0) | 0.9 | (166.1) | 0.9 | | 2.0 | | (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) | 9.4 | | 0.4 | | (299.3) |
| Other income/(expenses), net | (23.4) | | (23.4) | | | 23.6 | | 0.1 |
| **Operating profit before acquisition-related amortization (EBITA)** [1] | | | **554.3** | **18.6** | | **47.8** | | **620.8** |
| Acquisition-related amortization | | (44.4) | (44.4) | | | | | (44.4) |
| **Operating profit (EBIT)** [2] | **510.0** | | **510.0** | **18.6** | | **47.8** | | **576.4** |
| **Basic earnings per share (CHF)** | **7.61** | | **7.61** | **0.22** | **(1.01)** | **0.57** | | **7.39** |

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).

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




**Share price performance history**[1)]

| | 10 years | 5 years | 3 years | 2 years | 1 year |
|---|---|---|---|---|---|
| Sonova shares | 205.9% | 103.9% | 65.0% | 27.1% | 43.6% |
| Swiss Performance Index (SPI) [2)] | 142.0% | 68.5% | 37.5% | 24.7% | 23.8% |
| Sonova shares relative to the SPI | 63.9% | 35.4% | 27.4% | 2.4% | 19.8% |

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2020/21 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 | 2020/21 | 2019/20 | 2018/19 | 2017/18 | 2016/17 |
|---|---|---|---|---|---|
| **Sales** | **2,601.9** | **2,916.9** | **2,763.2** | **2,645.9** | **2,395.7** |
| change compared to previous year (%) | (10.8) | 5.6 | 4.4 | 10.4 | 15.6 |
| **Gross profit** | **1,873.5** | **2,083.6** | **1,966.2** | **1,868.2** | **1,651.8** |
| in % of sales | 72.0 | 71.4 | 71.2 | 70.6 | 68.9 |
| **Gross profit (adjusted)** [1] | **1,880.2** | **2,106.9** | **1,975.1** | **1,868.2** | **1,651.8** |
| in % of sales (adjusted) | 72.3 | 72.0 | 71.5 | 70.6 | 68.9 |
| **Research & development costs** | **203.9** | **166.1** | **148.4** | **142.9** | **137.1** |
| in % of sales | 7.8 | 5.7 | 5.4 | 5.4 | 5.7 |
| **Sales & marketing costs** | **881.2** | **1,030.8** | **970.3** | **934.5** | **815.0** |
| in % of sales | 33.9 | 35.3 | 35.1 | 35.3 | 34.0 |
| **Operating profit before acquisition-related amortization (EBITA)** | **663.3** | **554.3** | **582.5** | **532.5** | **463.0** |
| in % of sales | 25.5 | 19.0 | 21.1 | 20.1 | 19.3 |
| **Operating profit before acquisition-related amortization (EBITA) (adjusted)** [1] | **603.0** | **620.8** | **594.0** | **551.6** | **481.4** |
| in % of sales (adjusted) | 23.2 | 21.2 | 21.5 | 20.8 | 20.1 |
| **Operating profit (EBIT)** | **619.5** | **510.0** | **536.2** | **483.0** | **423.7** |
| in % of sales | 23.8 | 17.5 | 19.4 | 18.3 | 17.7 |
| **Income after taxes** | **585.3** | **489.5** | **460.2** | **407.4** | **356.2** |
| in % of sales | 22.5 | 16.8 | 16.7 | 15.4 | 14.9 |
| **Income after taxes (adjusted)** [1] | **489.6** | **475.5** | **468.5** | **422.7** | **371.5** |
| in % of sales (adjusted) | 18.8 | 16.2 | 17.0 | 16.0 | 15.5 |
| **Basic earnings per share** | **9.23** | **7.61** | **6.98** | **6.13** | **5.35** |
| **Basic earnings per share (CHF) (adjusted)** [1] | **7.71** | **7.39** | **7.11** | **6.36** | **5.58** |
| **Dividend/distribution per share (CHF)** | **3.20** [2] | **Stock Div.** | **2.90** | **2.60** | **2.30** |
| | | | | | |
| **Net cash/(debt)** [3] | **(83.3)** | **(663.0)** | **(253.9)** | **(228.0)** | **(404.6)** |
| Net working capital [4] | 29.6 | (18.9) | 163.0 | 190.5 | 169.7 |
| Capital expenditure (tangible and intangible assets) [5] | 89.3 | 128.8 | 117.9 | 96.3 | 97.1 |
| Capital employed [6] | 2,855.7 | 2,692.5 | 2,630.0 | 2,702.9 | 2,535.9 |
| Total assets | 5,925.6 | 4,486.5 | 4,292.5 | 4,302.0 | 3,935.7 |
| Equity | 2,772.5 | 2,029.4 | 2,376.1 | 2,474.9 | 2,131.3 |
| Equity financing ratio (%) [7] | 46.8 | 45.2 | 55.4 | 57.5 | 54.2 |
| Free cash flow [8] | 571.9 | 563.7 | 346.9 | 360.0 | (232.6) |
| **Operating free cash flow** [9] | **602.4** | **638.5** | **411.8** | **419.2** | **424.8** |
| **Return on capital employed (%)** [10] | **22.3** | **18.2** | **20.6** | **18.4** | **20.4** |
| | | | | | |
| **Number of employees (end of period)** | **14,508** | **15,184** | **14,740** | **14,242** | **14,089** |

1) Non-GAAP financial measure adjusted for nonrecurring items; for details see the table "Reconciliation of non-GAAP financial measures" in the financial review or refer to the respective annual report.
2) Proposal to the Annual General Shareholders' Meeting of June 15, 2021.
3) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.
4) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.
5) Excluding goodwill and intangibles relating to acquisitions.
6) Equity – net cash/(debt).
7) Equity in % of total assets.
8) Cash flow from operating activities + cash flow from investing activities + payments for lease liabilities.
9) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested – cash consideration for associates.
10) EBIT in % of capital employed (average).

# Consolidated financial statements

## Consolidated income statement

| April 1 to March 31, in CHF million | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Sales** | 2.2,2.3 | **2,601.9** | **2,916.9** |
| Cost of sales | | (728.3) | (833.3) |
| **Gross profit** | | **1,873.5** | **2,083.6** |
| Research and development [1] | | (204.8) | (167.0) |
| Sales and marketing [1] | | (924.1) | (1,074.3) |
| General and administration | | (250.9) | (309.0) |
| Other income | 2.4 | 135.6 | 0.8 |
| Other expenses | 2.4 | (9.8) | (24.1) |
| **Operating profit (EBIT)** [2] | | **619.5** | **510.0** |
| Financial income | 4.2 | 5.0 | 2.9 |
| Financial expenses | 4.2 | (26.0) | (12.9) |
| Share of profit/(loss) in associates/joint ventures, net | 6.2 | 1.9 | 2.4 |
| **Income before taxes** | | **600.4** | **502.4** |
| Income taxes | 5.1 | (15.2) | (12.9) |
| **Income after taxes** | | **585.3** | **489.5** |
| | | | |
| Attributable to: | | | |
| Equity holders of the parent | | 581.0 | 483.2 |
| Non-controlling interests | | 4.3 | 6.3 |
| | | | |
| Basic earnings per share (CHF) | 2.5 | 9.23 | 7.61 |
| Diluted earnings per share (CHF) | 2.5 | 9.19 | 7.57 |

1) Includes acquisition-related amortization of CHF 0.9 million (previous year: CHF 0.9 million) in “Research and development” and CHF 42.9 million (previous year: CHF 43.5 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 663.3 million (previous year: CHF 554.3 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 statement of comprehensive income

| April 1 to March 31, in CHF million | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Income after taxes** | | **585.3** | **489.5** |
| **Other comprehensive income** | | | |
| Actuarial gain/(loss) from defined benefit plans, net | 7.3 | 55.7 | (45.1) |
| Tax effect on actuarial result from defined benefit plans, net | | (6.6) | 4.9 |
| 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** | | **49.1** | **(35.3)** |
| Currency translation differences | | 90.4 | (145.4) |
| Tax effect on currency translation items | | (0.2) | 3.7 |
| **Total items to be reclassified to income statement in subsequent periods** | | **90.2** | **(141.7)** |
| **Other comprehensive income, net of tax** | | **139.3** | **(177.0)** |
| **Total comprehensive income** | | **724.6** | **312.5** |
| Attributable to: | | | |
| Equity holders of the parent | | 718.3 | 308.0 |
| Non-controlling interests | | 6.3 | 4.5 |

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

# Consolidated balance sheet

| **Assets** CHF million | Notes | 31.3.2021 | 31.3.2020 |
|---|---|---|---|
| Cash and cash equivalents | 4.1 | 1,772.2 | 450.2 |
| Other current financial assets | 4.4 | 6.8 | 7.7 |
| Trade receivables | 3.1 | 438.8 | 382.1 |
| Current income tax receivables | | 4.7 | 13.6 |
| Inventories | 3.2 | 302.3 | 265.4 |
| Other current operating assets | 3.6 | 96.6 | 101.9 |
| **Total current assets** | | **2,621.4** | **1,221.1** |
| Property, plant and equipment | 3.3 | 335.3 | 332.8 |
| Right-of-use assets | 3.4 | 261.6 | 260.6 |
| Intangible assets | 3.5 | 2,421.8 | 2,420.2 |
| Investments in associates/joint ventures | 6.2 | 19.7 | 17.4 |
| Other non-current financial assets | 4.4 | 38.9 | 30.0 |
| Other non-current operating assets | 3.6 | 6.2 | 6.4 |
| Deferred tax assets | 5.1 | 220.7 | 198.0 |
| **Total non-current assets** | | **3,304.2** | **3,265.4** |
| **Total assets** | | **5,925.6** | **4,486.5** |

| **Liabilities and equity** CHF million | Notes | 31.3.2021 | 31.3.2020 |
|---|---|---|---|
| Current financial liabilities | 4.5 | 375.7 | 254.9 |
| Current lease liabilities | 3.4 | 58.9 | 61.2 |
| Trade payables | | 103.2 | 104.3 |
| Current income tax liabilities | | 128.1 | 154.8 |
| Short-term contract liabilities | 2.3 | 101.5 | 105.6 |
| Other short-term operating liabilities | 3.8 | 338.2 | 297.5 |
| Short-term provisions | 3.7 | 148.1 | 125.2 |
| **Total current liabilities** | | **1,253.8** | **1,103.4** |
| Non-current financial liabilities | 4.5 | 1,208.9 | 591.8 |
| Non-current lease liabilities | 3.4 | 212.4 | 207.8 |
| Long-term provisions | 3.7 | 144.7 | 143.4 |
| Long-term contract liabilities | 2.3 | 200.5 | 212.8 |
| Other long-term operating liabilities | 3.8 | 21.3 | 73.5 |
| Deferred tax liabilities | 5.1 | 111.5 | 124.5 |
| **Total non-current liabilities** | | **1,899.4** | **1,353.7** |
| **Total liabilities** | | **3,153.1** | **2,457.1** |
| Share capital | 4.6 | 3.2 | 3.2 |
| Treasury shares | | (306.9) | (447.5) |
| Retained earnings and reserves | | 3,051.6 | 2,455.5 |
| **Equity attributable to equity holders of the parent** | | **2,748.0** | **2,011.2** |
| Non-controlling interests | | 24.5 | 18.2 |
| **Equity** | | **2,772.5** | **2,029.4** |
| **Total liabilities and equity** | | **5,925.6** | **4,486.5** |

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

# Consolidated cash flow statement

| April 1 to March 31, in CHF million | Notes | | 2020/21 | | 2019/20 |
|---|---|---|---|---|---|
| **Income before taxes** | | | **600.4** | | **502.4** |
| Depreciation, amortization and impairment of tangible and intangible assets and right-of-use assets | 3.3,3.4,3.5 | 222.7 | | 200.1 | |
| Loss on sale of tangible and intangible assets, net | | 3.2 | | 1.3 | |
| Share of (profit)/loss in associates/joint ventures, net | 6.2 | (1.9) | | (2.4) | |
| (Decrease)/increase in long-term provisions and long-term contract liabilities | | (9.2) | | 22.2 | |
| Financial (income)/expense, net | 4.2 | 21.0 | | 10.0 | |
| Share based payments | 7.4 | 31.3 | | 19.9 | |
| Other non-cash items | | 14.5 | | 5.4 | |
| Income taxes paid | | (76.3) | 205.3 | (60.1) | 196.5 |
| **Cash flow before changes in net working capital** | | | **805.7** | | **698.9** |
| (Increase)/decrease in trade receivables | | (45.7) | | 112.4 | |
| Decrease in other receivables and prepaid expenses | | 8.1 | | 2.9 | |
| (Increase)/decrease in inventories | | (36.3) | | 9.2 | |
| (Decrease)/increase in trade payables | | (3.2) | | 4.8 | |
| Increase in other payables, accruals, short-term provisions and short-term contract liabilities | | 35.8 | (41.3) | 15.2 | 144.4 |
| **Cash flow from operating activities** | | | **764.4** | | **843.3** |
| Purchase of tangible and intangible assets | 3.3,3.5 | (89.2) | | (128.8) | |
| Proceeds from sale of tangible and intangible assets | | 2.4 | | 1.1 | |
| Cash consideration for acquisitions, net of cash acquired | 6.1 | (29.3) | | (68.6) | |
| Cash consideration for associates | 6.2 | (1.2) | | (6.2) | |
| Changes in other financial assets | | (6.2) | | (10.9) | |
| Interest received | | 1.8 | | 2.1 | |
| **Cash flow from investing activities** | | | **(121.8)** | | **(211.3)** |
| Proceeds from borrowings | 4.5 | 1,002.5 | | 433.8 | |
| Repayment of borrowings | 4.5 | (230.0) | | (249.8) | |
| Repayment of lease liabilities | 3.4 | (66.7) | | (64.3) | |
| Share buyback program | 4.6 | (25.1) | | (402.7) | |
| Sale of treasury shares | 4.6 | 16.8 | | 31.4 | |
| Purchase of treasury shares | 4.6 | (9.7) | | (98.8) | |
| Dividends paid by Sonova Holding AG | | (0.2) | | (186.5) | |
| Dividends to non-controlling interests | | | | (8.6) | |
| Interest paid | | (11.5) | | (5.0) | |
| **Cash flow from financing activities** | | | **676.1** | | **(550.4)** |
| Exchange gains/(losses) on cash and cash equivalents | | | 3.3 | | (6.1) |
| **Increase in cash and cash equivalents** | | | **1,322.0** | | **75.5** |
| Cash and cash equivalents at the beginning of the financial year | | | 450.2 | | 374.8 |
| **Cash and cash equivalents at the end of the financial year** | | | **1,772.2** | | **450.2** |

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

# Consolidated statement of changes in equity

CHF million

| | Attributable to equity holders of Sonova Holding AG | | | | | |
|---|---|---|---|---|---|---|
| | Share capital | Retained earnings and other reserves | Translation adjustment | Treasury shares | Non-controlling interests | Total equity |
| **Balance April 1, 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** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Balance April 1, 2020** | **3.2** | **2,862.3** | **(406.8)** | **(447.5)** | **18.2** | **2,029.4** |
| Opening adjustment [3] | | (13.3) | | | | (13.3) |
| **Balance April 1, 2020 – adjusted** | **3.2** | **2,849.0** | **(406.8)** | **(447.5)** | **18.2** | **2,016.2** |
| Income for the period | | 581.0 | | | 4.3 | 585.3 |
| Actuarial loss from defined benefit plans, net | | 55.7 | | | | 55.7 |
| Tax effect on actuarial result | | (6.6) | | | | (6.6) |
| Currency translation differences | | | 88.4 | | 2.0 | 90.4 |
| Tax effect on currency translation | | | (0.2) | | | (0.2) |
| **Total comprehensive income** | | **630.1** | **88.2** | | **6.3** | **724.6** |
| Share-based payments | | 6.1 | | 18.8 | | 24.9 |
| Sale of treasury shares [1] | | (14.6) | | 31.4 | | 16.8 |
| Purchase of treasury shares | | | | (9.7) | | (9.7) |
| Dividend paid | | (100.4) | | 100.2 | | (0.2) |
| **Balance March 31, 2021** | **3.2** | **3,370.2** | **(318.6)** | **(306.9)** | **24.5** | **2,772.5** |

1) In relation to long-term equity incentive plans.
2) Further information on the share buyback program are disclosed in Note 4.6.
3) The balance April 1, 2020 for retained earnings was adjusted as disclosed in Note 6.1.
The Notes are an integral part of the consolidated financial statements.

# Notes to the consolidated financial statements as of March 31, 2021

## 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) 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 12, 2021, and are subject to approval by the Annual General Shareholders' Meeting on June 15, 2021.

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 7.7.

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-recurring 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 |

## Impact of the Covid-19 pandemic

The global health and economic crisis resulting from the COVID-19 pandemic is 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, were partially closed or operating with reduced hours during most of the financial year 2020/21. The Cochlear Implants business was also significantly affected, as healthcare providers have in part deferred non-essential surgeries. In this context, Sonova had implemented strict cost-saving programs, and temporary government-subsidized work time reductions in a number of countries. Refer to Note 7.5 for government support received worldwide in financial year 2020/21.

The uncertainties resulting from the COVID-19 pandemic required management to make estimates and assumptions that significantly affected the financial statements for the financial year 2020/21 and 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).

# 1.4 Changes in accounting policies

In 2020/21 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:

- Amendments to IFRS 3 *Definition of a Business*
- Amendments to IFRS 7, IFRS 9, IAS 39 *Interest Rate Benchmark Reform (Phase 1)*
- Amendments to IAS 1 and IAS 8 *Definition of Material*
- Conceptual Framework for Financial Reporting

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, 2021 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 EBITA[1], 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 | | | 2020/21 |
|---|---|---|---|
| | **Income statement as reported** | Acquis. related amortization | **Income statement EBITA separation** |
| **Sales** | **2,601.9** | | **2,601.9** |
| Cost of sales | (728.3) | | (728.3) |
| **Gross profit** | **1,873.5** | | **1,873.5** |
| Research and development | (204.8) | 0.9 | (203.9) |
| Sales and marketing | (924.1) | 42.9 | (881.2) |
| General and administration | (250.9) | | (250.9) |
| Other income/(expenses), net | 125.8 | | 125.8 |
| **Operating profit before acquisition-related amortization (EBITA)** [1] | | | **663.3** |
| Acquisition-related amortization | | (43.8) | (43.8) |
| **Operating profit (EBIT)** [2] | **619.5** | | **619.5** |

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).

| 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** |

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 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 | 2020/21 | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| | Hearing Instruments | | Cochlear Implants | | Corporate/ Eliminations | | Total | |
| Segment sales | 2,425.8 | 2,700.7 | 186.2 | 233.5 | | | 2,612.0 | 2,934.1 |
| Intersegment sales | (8.4) | (14.5) | (1.7) | (2.7) | | | (10.2) | (17.2) |
| **Sales** | **2,417.3** | **2,686.2** | **184.5** | **230.7** | | | **2,601.9** | **2,916.9** |
| | | | | | | | | |
| **Timing of revenue recognition** | | | | | | | | |
| At point in time | 2,273.1 | 2,530.0 | 179.5 | 222.3 | | | 2,452.6 | 2,752.4 |
| Over time | 144.2 | 156.2 | 5.0 | 8.4 | | | 149.2 | 164.5 |
| **Total sales** | **2,417.3** | **2,686.2** | **184.5** | **230.7** | | | **2,601.9** | **2,916.9** |
| | | | | | | | | |
| **Operating profit before acquisition-related amortization (EBITA)** | **580.6** | **601.6** | **82.4** | **(46.2)** | **0.3** | **(1.1)** | **663.3** | **554.3** |
| Depreciation, amortization and impairment | (173.3) | (171.5) | (49.4) | (28.6) | | | (222.7) | (200.1) |
| **Segment assets** | **4,035.7** | **4,018.3** | **593.3** | **613.0** | **(716.0)** | **(810.5)** | **3,913.0** | **3,820.9** |
| Unallocated assets [1] | | | | | | | 2,012.6 | 665.6 |
| **Total assets** | | | | | | | **5,925.6** | **4,486.5** |

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 | 2020/21 | 2019/20 |
|---|---|---|
| EBITA | 663.3 | 554.3 |
| Acquisition-related amortization | (43.8) | (44.4) |
| Financial costs, net | (21.0) | (10.0) |
| Share of profit/(loss) in associates/joint ventures, net | 1.9 | 2.4 |
| **Income before taxes** | **600.4** | **502.4** |

## Entity-wide disclosures

| **Sales by business** CHF million | 2020/21 | 2019/20 |
|---|---|---|
| Hearing Instruments business | 1,463.9 | 1,613.0 |
| Audiological Care business | 953.5 | 1,073.2 |
| **Total Hearing Instruments segment** | **2,417.3** | **2,686.2** |
| Cochlear Implant systems | 129.3 | 163.9 |
| Upgrades and accessories | 55.2 | 66.8 |
| **Total Cochlear Implants segment** | **184.5** | **230.7** |
| **Total sales** | **2,601.9** | **2,916.9** |

| **Sales and selected non-current assets by regions** CHF million | **2020/21** | **2019/20** | **2020/21** | **2019/20** |
|---|---|---|---|---|
| Country/region | Sales [1] | | Selected non-current assets [2] | |
| Switzerland | 30.9 | 29.5 | 259.0 | 283.8 |
| EMEA (excl. Switzerland) | 1,385.7 | 1,514.9 | 1,759.8 | 1,755.1 |
| USA | 732.2 | 877.6 | 696.6 | 706.7 |
| Americas (excl. USA) | 178.2 | 220.9 | 193.7 | 167.0 |
| Asia/Pacific | 275.0 | 274.0 | 129.2 | 118.4 |
| **Total Group** | **2,601.9** | **2,916.9** | **3,038.4** | **3,031.1** |

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 Group's 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 | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Contract assets | 9.3 | 9.3 |
| Contract liabilities | 302.0 | 318.4 |

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 | **2020/21** | **2019/20** |
|---|---|---|
| Balance April 1 | 318.4 | 332.7 |
| Changes through business combinations | 0.4 | 0.8 |
| Increase due to advance consideration received in the period | 132.4 | 169.5 |
| Decrease due to revenue recognized in the period that, | | |
| – was included in the contract liabilities at the beginning of the period | (137.1) | (132.8) |
| – relates to consideration received in the period | (21.0) | (33.2) |
| Exchange differences | 8.9 | (18.4) |
| **Balance March 31** | **302.0** | **318.4** |
| | | |
| Expectation on timing of revenue recognition: | | |
| Within 1 year | 101.5 | 105.6 |
| Within 2 years | 104.2 | 95.7 |
| Within 3 years | 50.9 | 56.9 |
| Within 4 years | 16.4 | 26.5 |
| More than 4 years | 29.1 | 33.6 |

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 control 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 control 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

In the 2020/21 financial year, the net result of other income and expense amounts to CHF 125.8 million (previous year: CHF –23.4 million). The income primarily relates to Advanced Bionics which was awarded damages in a patent infringement lawsuit of CHF 124.4 million (for further Information refer to Note 3.9 “Contingent assets and liabilities”). The remaining other income and expenses primarily relate to the regular and systematic assessment of the provision for product liabilities in the cochlear implants segment (reversal of CHF 10.8 million recorded in “Other income” and increase of CHF 9.8 million recorded in “Other expenses”). In prior year the net cost amounted to CHF 23.4 million (reversal of CHF 0.8 million recorded in “other income” and increase of CHF 24.1 million related to potential product liability claims towards Advanced Bionics LLC (AB) in connection with a voluntary field corrective action recorded in “Other expenses”). For further information refer to Note 3.7 “Provisions”.

# 2.5 Earnings per share

| **Basic earnings per share** | **2020/21** | **2019/20** |
|---|---|---|
| Income after taxes (CHF million) | 581.0 | 483.2 |
| Weighted average number of outstanding shares | 62,967,588 | 63,511,720 |
| **Basic earnings per share (CHF)** | **9.23** | **7.61** |

| **Diluted earnings per share** | **2020/21** | **2019/20** |
|---|---|---|
| Income after taxes (CHF million) | 581.0 | 483.2 |
| Weighted average number of outstanding shares | 62,967,588 | 63,511,720 |
| Adjustment for dilutive share options | 255,916 | 356,738 |
| Adjusted weighted average number of outstanding shares | 63,223,504 | 63,868,458 |
| **Diluted earnings per share (CHF)** | **9.19** | **7.57** |

*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 2014 through to 2021 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 | 31.3.2021 | 31.3.2020 |
|---|---|---|
| Trade receivables | 473.3 | 434.0 |
| Loss allowance for doubtful receivables | (34.5) | (51.9) |
| **Total** | **438.8** | **382.1** |

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk.

Following the heavy impacts from the COVID-19 pandemic at the end of the last financial year 2019/20, business recovered well over the course of the current financial year 2020/21, which improved the situation on the recoverability of the trade receivables. As a result, the allowance for doubtful receivables was significantly decreased. For further information on the process of the re-assessment of the allowance and for information about the aging of the trade receivables and related allowances, please refer to Note 4.7.

During 2020/21, the Group utilized CHF 7.8 million (previous year CHF 6.4 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 | 31.3.2021 | 31.3.2020 |
|---|---|---|
| BRL | 11.1 | 10.9 |
| CAD | 19.4 | 15.8 |
| CHF | 11.2 | 12.5 |
| EUR | 166.3 | 155.5 |
| GBP | 11.2 | 11.1 |
| USD | 147.9 | 122.4 |
| Other | 71.7 | 53.9 |
| **Total trade receivables, net** | **438.8** | **382.1** |

*Accounting policies*

*Trade receivables are initially recorded at the transaction price 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 | 31.3.2021 | 31.3.2020 |
|---|---|---|
| Raw materials and components | 36.2 | 34.6 |
| Work-in-process | 134.8 | 110.9 |
| Finished products | 185.1 | 167.1 |
| Allowances | (53.8) | (47.1) |
| **Total** | **302.3** | **265.4** |

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2020/21 to CHF 582.8 million (previous year CHF 700.0 million). The Group recognized write-downs of CHF 28.3 million (previous year CHF 45.7 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 | | | | | 2020/21 |
|---|---|---|---|---|---|
| | Land & buildings | Machinery & technical equipment | Room installations & other equipment | Advance payments & assets under construction | Total |
| **Cost** | | | | | |
| Balance April 1 | 205.7 | 300.4 | 383.2 | 15.9 | 905.3 |
| Changes through business combinations | | 0.1 | 0.6 | | 0.7 |
| Additions | 7.6 | 15.5 | 27.0 | 13.6 | 63.8 |
| Disposals | (0.7) | (35.2) | (73.7) | (1.0) | (110.6) |
| Transfers | 3.9 | 5.7 | 4.9 | (14.5) | |
| Exchange differences | 2.4 | 4.4 | 13.2 | 0.3 | 20.2 |
| **Balance March 31** | **218.9** | **290.9** | **355.1** | **14.4** | **879.4** |
| **Accumulated depreciation** | | | | | |
| Balance April 1 | (83.3) | (225.4) | (263.7) | | (572.4) |
| Additions | (6.3) | (25.2) | (32.8) | | (64.3) |
| Disposals | 0.4 | 34.9 | 70.1 | | 105.3 |
| Exchange differences | (1.1) | (3.1) | (8.4) | | (12.6) |
| **Balance March 31** | **(90.4)** | **(218.9)** | **(234.8)** | | **(544.1)** |
| **Net book value** | | | | | |
| Balance April 1 | 122.4 | 75.0 | 119.6 | 15.9 | 332.8 |
| **Balance March 31** | **128.5** | **72.0** | **120.3** | **14.4** | **335.3** |

| 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 | 0.0 | 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** |

*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 does 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 | | | | **2020/21** |
|---|---|---|---|---|
| | Properties | Vehicles | Other assets | Total |
| **Cost** | | | | |
| Balance April 1 | 313.1 | 8.7 | 1.5 | 323.3 |
| Changes through business combinations | 0.2 | | | 0.2 |
| Additions | 60.5 | 2.0 | 0.6 | 63.1 |
| Disposals | (17.7) | (0.6) | (0.2) | (18.4) |
| Exchange differences | 9.4 | 0.3 | 0.1 | 9.8 |
| **Balance March 31** | **365.5** | **10.4** | **2.0** | **377.9** |
| **Accumulated depreciation** | | | | |
| Balance April 1 | (60.7) | (1.7) | (0.3) | (62.7) |
| Additions | (63.7) | (2.9) | (1.3) | (67.9) |
| Disposals | 17.7 | 0.6 | 0.2 | 18.4 |
| Exchange differences | (4.0) | (0.1) | (0.0) | (4.1) |
| **Balance March 31** | **(110.7)** | **(4.1)** | **(1.5)** | **(116.3)** |
| **Net book value** | | | | |
| Balance April 1 | 252.4 | 7.0 | 1.2 | 260.6 |
| **Balance March 31** | **254.8** | **6.3** | **0.5** | **261.6** |

| **Right-of-use assets** CHF million | | | | **2019/20** |
|---|---|---|---|---|
| | Properties | Vehicles | Other assets | Total |
| **Cost** | | | | |
| Balance April 1 | 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 | 269.3 | 7.5 | 1.3 | 278.1 |
| **Balance March 31** | **252.4** | **7.0** | **1.2** | **260.6** |

| **Lease liabilities** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Balance April 1 | 269.0 | 285.0 |
| Changes through business combinations | 0.2 | 0.7 |
| Additions | 62.2 | 84.1 |
| Interest expense | 4.0 | 4.0 |
| Payments | (70.6) | (68.3) |
| Exchange differences | 6.5 | (36.5) |
| **Balance March 31** | **271.3** | **269.0** |
| thereof short-term | 58.9 | 61.2 |
| thereof long-term | 212.4 | 207.8 |

The maturity analysis of lease liabilities are disclosed in Note 4.7

| **Lease disclosures** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Expenses relating to short-term leases | 5.1 | 13.4 |
| Expenses relating to leases of low-value assets (excluding short-term leases of low-value assets) | 0.4 | 0.6 |
| Expenses relating to variable lease payments | 5.8 | 0.3 |

The total cash outflow for leases in the financial year 2020/21 amounted to CHF 81.9 million (prior year CHF 82.6 million).

The Group has various lease contracts that as of March 31, 2021, have not yet commenced. The future lease payments for these non-cancellable lease contracts amount to CHF 0.1 million (prior year CHF 17.2 million). The future lease payments relating to variable lease payments amount to CHF 5.8 million (prior year 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 if the interest rate implicit in the lease is not readily determinable. 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 | | | | | 2020/21 |
|---|---|---|---|---|---|
| | Goodwill | Intangibles relating to acquisitions [1] | Capitalized development costs | Software and other intangibles | Total |
| **Cost** | | | | | |
| Balance April 1 [2] | 2,064.5 | 615.5 | 223.9 | 100.5 | 3,004.3 |
| Changes through business combinations | 20.0 | 8.3 | | 0.0 | 28.3 |
| Additions | | | 15.9 | 9.6 | 25.5 |
| Disposals | | (6.7) | (25.3) | (8.8) | (40.9) |
| Exchange differences | 58.8 | 25.8 | (0.3) | 1.1 | 85.3 |
| **Balance March 31** | **2,143.3** | **642.8** | **214.1** | **102.4** | **3,102.6** |
| **Accumulated amortization and impairments** | | | | | |
| Balance April 1 | (148.8) | (322.7) | (75.3) | (73.0) | (619.8) |
| Additions | | (42.5) [3] | (12.9) | (8.5) | (63.9) |
| Disposals | | 6.7 | 25.3 | 8.6 | 40.7 |
| Impairment | | (1.3) | (25.3) | | (26.6) |
| Exchange differences | 3.6 | (13.4) | | (1.3) | (11.1) |
| **Balance March 31** | **(145.2)** | **(373.2)** | **(88.3)** | **(74.1)** | **(680.8)** |
| **Net book value** | | | | | |
| Balance April 1 [2] | 1,915.6 | 292.7 | 148.5 | 27.5 | 2,384.4 |
| **Balance March 31** | **1,998.0** | **269.7** | **125.9** | **28.2** | **2,421.8** |

1) Intangibles relating to acquisitions consists of customer relationships (CHF 153.6 million), trademarks (CHF 108.8 million) and R&D in process (CHF 7.3 million).
2) The balance April 1 for Goodwill was adjusted by CHF 35.8 million as disclosed in Note 6.1.
3) Relates to research and development (CHF 0.9 million) and sales and marketing (CHF 41.6 million).

| 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).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2020/21 and 2019/20 financial years.

The cash flow projections used for impairment testing, were based on the most recent business plan, and considered 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, 2021, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,694.1 million (prior year CHF 1,639.9 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0% (prior year 2.1%) which represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.0% (prior year 8.3%) 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, 2021, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 303.9 million (prior year CHF 311.5 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.2% (prior year 2.3%) which represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.3% (prior year 9.0%) 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. Due to a revision of the Cochlear implants product roadmap in the 2020/21 financial year, Sonova has identified the need of valuation adjustments on certain R&D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a write-off amounting to CHF 25.3 million. The amount is included in the income statement in the function "Research and development". 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 | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Other receivables | 54.4 | 57.6 |
| Prepaid expenses | 28.5 | 31.5 |
| Contract assets | 3.1 | 2.9 |
| Right to recover products | 10.6 | 9.9 |
| **Total** | **96.6** | **101.9** |

| **Other non-current operating assets** CHF million | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Contract assets | 6.2 | 6.4 |
| **Total** | **6.2** | **6.4** |

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 | | | | | 2020/21 |
|---|---|---|---|---|---|
| | Warranty and returns | Reimbursement to customers | Product liabilities | Other provisions | Total |
| Balance April 1 | 111.6 | 5.0 | 120.4 | 31.5 | 268.6 |
| Changes through business combinations | | | | 0.4 | 0.4 |
| Amounts used | (72.8) | (4.1) | (4.8) | (19.3) | (101.0) |
| Reversals | (10.0) | (2.5) | (11.0) | (3.4) | (26.9) |
| Increases | 94.4 | 4.4 | 9.8 | 42.1 | 150.6 |
| Present value adjustments | | | 0.5 | | 0.5 |
| Exchange differences | 2.7 | | (3.0) | 0.9 | 0.5 |
| **Balance March 31** | **125.9** | **2.8** | **111.9** | **52.3** | **292.8** |
| thereof short-term | 92.2 | 2.8 | 15.3 | 37.8 | 148.1 |
| thereof long-term | 33.7 | | 96.6 | 14.5 | 144.7 |

| CHF million | | | | | 2019/20 |
|---|---|---|---|---|---|
| | Warranty and returns | Reimbursement to customers | Product liabilities | Other provisions | Total |
| Balance April 1 | 111.3 | 7.7 | 100.9 | 25.3 | 245.2 |
| Changes through business combinations | | 0.0 | | 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 |

### 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.

### 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.

The provision is reassessed on a regular and systematic basis and follows for both cases a similar financial model which is applied consistently. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. While further improvements in the expected number of cost of current and future claims led to a reduction of CHF 10.8 million (previous year CHF 0.8 million) in regards to the assessment of potential claims for the voluntary recall of AB products in 2006, the reassessment of potential claims regarding the voluntary field corrective action in February 2020 led to an increase of CHF 9.8 million (prior year CHF 24.1 million). The impact of the reassessment of the legal provisions is considered in the income statement in the lines “Other income” or “Other expenses”. As per March 31, 2021 the provision for product liabilities amounts to CHF 111.9 million. The timing of the cash outflows is uncertain since it will largely depend on the outcome of administrative and legal proceedings. In the case of the voluntary recall of AB products in 2006, 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 6 years. In the case of potential claims in regards to the voluntary field corrective action in 2020, 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 (CHF 21.6 million) and restructuring costs (CHF 15.3 million) which arise during the normal course of business, respectively relate to intensified restructuring activity in financial year 2020/21. While the timing of the cash outflow from the restructuring provisions is expected to take place within the next 12 months, the cash outflows for the remainder of 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 | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Other payables | 54.8 | 72.9 |
| Accrued expenses | 282.4 | 224.2 |
| Deferred income | 1.0 | 0.4 |
| **Total** | **338.2** | **297.5** |

| **Other long-term operating liabilities** CHF million | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Retirement benefit obligations | 21.3 | 73.5 |
| **Total** | **21.3** | **73.5** |

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, 2021 and 2020, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 1.7 million (previous year CHF 1.8 million) have been pledged in relation to bank guarantees. Open purchase orders as of March 31, 2021 and 2020, were related to recurring business activities.

### Lawsuits and disputes

The patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) v. Cochlear was concluded in 2020. As a co-plaintiff, AB was ultimately entitled to a share of the damages awarded, after deduction of certain costs for the proceedings. The verdict resulted in a total amount of CHF 124.4 million in cash for damages, pre-trial interest and attorney fees. This one-time income is reported in "other income" in the financial year 2020/21.

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 products launched in 2018. While the ultimate outcome of the dispute remains open, Advanced Bionics continues to believe the complaint has no merit 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 continuing to cooperate fully with the HHS-OIG and the U.S. Department of Justice in connection with this subpoena, and remains unable to predict the further timing or outcome of this investigation.

# 4. Capital structure and financial management

## 4.1 Cash and cash equivalents

| CHF million | 31.3.2021 | 31.3.2020 |
|---|---|---|
| Cash on hand | 1.3 | 0.9 |
| Current bank accounts | 419.8 | 448.5 |
| Term deposits | 1,351.1 | 0.8 |
| **Total** | **1,772.2** | **450.2** |

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 | 2020/21 | 2019/20 |
|---|---|---|
| Interest income | 1.8 | 2.5 |
| Other financial income | 3.2 | 0.4 |
| **Total financial income** | **5.0** | **2.9** |
| Interest expenses | (13.1) | (2.1) |
| Interest expenses on lease liabilities | (4.0) | (4.0) |
| Unwinding of the discount on provisions | (0.5) | (0.6) |
| Foreign exchange hedge costs | (1.5) | (3.4) |
| Other financial expenses | (6.9) | (2.7) |
| **Total financial expenses** | **(26.0)** | **(12.9)** |
| **Total financial income/expenses, net** | **(21.0)** | **(10.0)** |

Other financial income and financial expenses in 2020/21 include, amongst other items, primarily the fair value adjustments of financial instruments.

## 4.3 Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 15, 2021, that a dividend of CHF 3.20 shall be distributed. In the financial year 2019/20 a stock dividend was distributed. Each shareholder was entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash.

# 4.4 Other financial assets

## Other current financial assets

| CHF million | | | 31.3.2021 | | | 31.3.2020 |
|---|---|---|---|---|---|---|
| | 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 | | 0.2 | 0.2 |
| Positive replacement value of forward foreign exchange contracts | | 0.3 | 0.3 | | 2.3 | 2.3 |
| Loans to third parties | 6.3 | | 6.3 | 5.3 | | 5.3 |
| **Total** | **6.3** | **0.5** | **6.8** | **5.3** | **2.5** | **7.7** |

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 | | | 31.3.2021 | | | 31.3.2020 |
|---|---|---|---|---|---|---|
| | 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 | 3.3 | | 3.3 | 4.5 | | 4.5 |
| Loans to third parties | 22.8 | | 22.8 | 20.0 | | 20.0 |
| Rent deposits | 3.6 | | 3.6 | 3.8 | | 3.8 |
| Other non-current financial assets | | 9.2 | 9.2 | | 1.7 | 1.7 |
| **Total** | **29.7** | **9.2** | **38.9** | **28.3** | **1.7** | **30.0** |

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, 2021, 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 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 no has not elected to account for equity instruments in this category.*

# 4.5 Financial liabilities

As of March 31, 2021, the Group has the following bonds/US Private Placement outstanding:

| Financial liabilities | Currency | Nominal value | Interest rate | Maturity |
|---|---|---|---|---|
| Fixed-rate bond | CHF | 360 | 0.01% | October 11, 2021 |
| Fixed-rate bond | CHF | 330 | 0.55% | April 6, 2022 |
| US Private Placement | USD | 180 | 2.84% | July 14, 2025 |
| Fixed-rate bond | CHF | 200 | 0.50% | October 6, 2025 |
| Fixed-rate bond | CHF | 300 | 0.75% | October 6, 2028 |
| Fixed-rate bond | CHF | 100 | 0.00% | October 11, 2029 |
| Fixed-rate bond | CHF | 100 | 0.40% | October 11, 2034 |

On April 6, 2020, the Group issued a CHF 330 million two year fixed-rate bond with an interest rate of 0.55% and a 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 May 26, 2020, the Group issued a CHF 200 million fixed-rate bond with an interest rate of 0.50% and a maturity date of October 6, 2025 and a CHF 300 million fixed-rate bond with an interest rate of 0.75% and a maturity date of October 6, 2028. The bonds were issued at 100.402% and 100.084%, respectively. This bond issuance terminated/replaced the CHF 300 million revolving bridge facility (unused) with three of its relationship banks which the Group entered on May 15, 2021.

On July 14, 2020, the Group entered into a USD 180 million five year fixed-rate US Private Placement with an interest rate of 2.84% and a maturity on July 14, 2025.

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, 2021 the Group did not make use of credit facilities. During the financial year 2020/21, the Group repaid credit facilities in the amount of CHF 230 million.

## Current financial liabilities

| CHF million | | | 31.3.2021 | | | | 31.3.2020 |
|---|---|---|---|---|---|---|---|
| | Financial liabilities at amortized cost | Financial liabilities at fair value through profit or loss | Total | Financial liabilities at amortized cost | Financial liabilities at fair value through profit or loss | Financial liabilities at FVOCI | Total |
| Bank debt | 0.1 | | 0.1 | 230.2 | | | 230.2 |
| Bond | 364.6 | | 364.6 | | | | |
| Deferred payments | 7.0 | | 7.0 | 8.0 | | | 8.0 |
| Contingent considerations | | 2.9 | 2.9 | | 4.1 | 10.0 | 14.1 |
| Other current financial liabilities | | 1.1 | 1.1 | | 2.6 | | 2.6 |
| **Total** | **371.7** | **4.0** | **375.7** | **238.2** | **6.7** | **10.0** | **254.9** |
| | | | | | | | |
| Unused borrowing facilities | | | 366.2 | | | | 111.0 |

## Non-current financial liabilities

| CHF million | | | 31.3.2021 | | | | 31.3.2020 |
|---|---|---|---|---|---|---|---|
| | Financial liabilities at amortized cost | Financial liabilities at fair value through profit or loss | Total | Financial liabilities at amortized cost | Financial liabilities at fair value through profit or loss | Financial liabilities at FVOCI | Total |
| Bonds/US Private Placement | 1,197.8 | | 1,197.8 | 559.1 | | | 559.1 |
| Deferred payments | 3.0 | | 3.0 | 9.9 | | | 9.9 |
| Contingent considerations | | 1.3 | 1.3 | | 1.2 | 19.1 | 20.3 |
| Other non-current financial liabilities | 0.0 | 6.8 | 6.8 | 0.1 | 2.5 | | 2.6 |
| **Total** | **1,200.8** | **8.1** | **1,208.9** | **569.1** | **3.7** | **19.1** | **591.8** |

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 | | | | 31.3.2021 | | | | 31.3.2020 |
|---|---|---|---|---|---|---|---|---|
| | Bonds/US Private Placement | Deferred payments and contingent considerations | Other non-current financial liabilities | Total | Bonds | Deferred payments and contingent considerations | Other non-current financial liabilities | Total |
| CHF | 1,028.7 | | 6.3 | 1,035.0 | 559.1 | 11.8 | 2.1 | 573.0 |
| USD | 169.1 | | 0.0 | 169.1 | | 0.7 | 0.0 | 0.7 |
| EUR | | 2.9 | | 2.9 | | 15.9 | | 15.9 |
| BRL | | 0.3 | | 0.3 | | 0.3 | | 0.3 |
| Other | | 1.1 | 0.5 | 1.6 | | 1.5 | 0.4 | 1.9 |
| **Total** | **1,197.8** | **4.3** | **6.8** | **1,208.9** | **559.1** | **30.2** | **2.6** | **591.8** |

## Reconciliation of liabilities arising from financing activities

**Liabilities from financing activities** CHF million

| 2020/21 | Bank debt | Bonds/US Private Placement | Deferred payments and contingent considerations | Lease liabilities | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| **Balance April 1** [1)] | **230.2** | **559.1** | **22.0** | **269.0** | **5.2** | **1,085.5** |
| Changes through business combinations | | | (3.7) | 0.2 | | (3.5) |
| Additions to lease liabilities | | | | 62.2 | | 62.2 |
| Proceeds from borrowings | | 999.7 | | | 2.8 | 1,002.5 |
| Repayment of borrowings | (230.0) | | | | | (230.0) |
| Repayment of lease liabilities – principal portion | | | | (66.7) | | (66.7) |
| Repayment of lease liabilities – interest portion | | | | (4.0) | | (4.0) |
| Exchange differences | | (1.8) | | 6.5 | | 4.7 |
| Other | (0.1) | 5.4 | (4.1) | 4.2 | (0.1) | 5.2 |
| **Balance March 31** | **0.1** | **1,562.4** | **14.2** | **271.3** | **7.9** | **1,856.0** |
| thereof short-term | 0.1 | 364.6 | 9.9 | 58.9 | 1.1 | 434.6 |
| thereof long-term | | 1,197.8 | 4.3 | 212.4 | 6.8 | 1,421.3 |

1) The balance April 1 for deferred payments and contingent considerations was adjusted by CHF 30.3 million as disclosed in Note 6.1.

**Liabilities from financing activities** CHF million

| 2019/20 | Bank debt | Bonds | Deferred payments and contingent considerations | Lease liabilities | Other financial liabilities | Total |
|---|---|---|---|---|---|---|
| **Balance April 1** | **0.3** | **609.5** | **14.8** | **285.0** | **4.3** | **913.9** |
| 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 | | 559.1 | 30.2 | 207.8 | 2.6 | 799.7 |

*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** | Issued registered shares | Treasury shares [1] | Outstanding shares |
|---|---|---|---|
| Balance April 1, 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 [2] | (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** |
| | | | |
| Purchase of treasury shares | | (40,100) | (40,100) |
| Sale/transfer of treasury shares | | 238,074 | 238,074 |
| Stock dividend [3] | | 417,110 | 417,110 |
| **Balance March 31, 2021** | **64,398,137** | **(1,355,464)** | **63,042,673** |

| **Nominal value of share capital** CHF million | Share Capital | Treasury shares [1] | Outstanding share capital |
|---|---|---|---|
| **Balance March 31, 2021** | **3.2** | **(0.1)** | **3.2** |

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) 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.

3) The Annual General Shareholder's Meeting of June 11, 2020, approved the proposed distribution of a stock dividend, resulting in a reduction of retained earnings and other reserves of CHF 100.4 million and changes in treasury shares of CHF 100.2 million.

### Share buyback program

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The program started in October 2018 for a period of up to 36 months. The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. Effective March 16, 2020, Sonova Holding AG suspended the Group's share buyback program. This precautionary measure reflected the uncertainties from the COVID-19 pandemic. On May 19, 2020, the Board of Directors decided to amend the purpose of the share buyback, allowing the re-use of these treasury shares. The stock dividend (417,110 shares) distributed in financial year 2020/21 was sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018 – 2021. A further 200,000 shares bought under the share buyback program were used for the transfer and sale of treasury shares in connection with the Executive Equity Award Plan (EEAP) programs. The remaining 1,225,980 treasury shares as of March 31, 2021, initially bought under the share buyback program, are intended to be cancelled (proposal to the Annual Shareholders' Meeting June 15, 2021).

In the financial year 2019/20, transaction costs related to the share buyback program in the amount of CHF 4.7 million were deducted from equity.

### Authorized capital

The 2020 Annual General Shareholders' Meeting authorized the Board of Directors to increase the share capital at any time until June 11, 2022 by a maximum amount of CHF 321,990.65 by issuing a maximum of 6,439,813 registered shares that are to be fully paid up, each with a nominal value of CHF 0.05. Increases in partial amounts shall be permissible. The Board of Directors did not make use of this authorized capital in financial year 2020/21.

### Conditional capital

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, 2021. 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 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.

Positive replacement values from forward contract hedges 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, 2021, the Group engaged in forward currency contracts amounting to CHF 280.0 million (previous year CHF 337.3 million). The open contracts on March 31, 2021 as well as on March 31, 2020 were all due within one year.

| **Notional amount of forward contracts** CHF million | | **31.3.2021** | | **31.3.2020** |
|---|---|---|---|---|
| | Total | Fair value | Total | Fair value |
| Positive replacement values | 96.7 | 0.3 | 119.3 | 2.3 |
| Negative replacement values | 183.3 | (0.6) | 218.0 | (2.3) |
| **Total** | **280.0** | **(0.3)** | **337.3** | **0.0** |

| **Exchange rate risk** CHF million | **2020/21** | **2019/20** | **2020/21** | **2019/20** |
|---|---|---|---|---|
| | Impact on income after taxes [1] | | Impact on equity | |
| Change in USD/CHF +5% | 2.7 | 2.8 | 9.6 | 13.2 |
| Change in USD/CHF –5% | (2.7) | (2.8) | (9.6) | (13.2) |
| Change in EUR/CHF +5% | 3.1 | 3.0 | 16.9 | 21.3 |
| Change in EUR/CHF –5% | (3.1) | (3.0) | (16.9) | (21.3) |

[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 2020/21 financial year of CHF 1,364.6 million (previous year CHF 574 million). If interest rates during the 2020/21 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 6.8 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 12.1 million. The Group's long-term financial liabilities are fixed rate instruments not subject to interest rate risk.

### 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, 2021, the largest balance with a single counterparty amounted to 29% (previous year 51%) 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 February 2021.

### 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 | | | | 31.3.2021 | | | | 31.3.2020 |
|---|---|---|---|---|---|---|---|---|
| **State customers** | **Expected loss rate** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** | **Expected loss rate** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** |
| Not overdue | 0.3% | 85.0 | (0.3) | 84.7 | 0.5% | 63.2 | (0.3) | 62.9 |
| Overdue 1–90 days | 0.9% | 14.4 | (0.1) | 14.3 | 1.2% | 24.5 | (0.3) | 24.2 |
| Overdue 91–180 days | 3.7% | 2.7 | (0.1) | 2.6 | 6.5% | 3.1 | (0.2) | 2.9 |
| Overdue 181–360 days | 19.0% | 2.9 | (0.5) | 2.3 | 23.3% | 3.0 | (0.7) | 2.3 |
| Overdue more than 360 days | 98.5% | 3.2 | (3.2) | 0.0 | 97.3% | 3.7 | (3.6) | 0.1 |
| **Total** | **3.9%** | **108.2** | **(4.2)** | **103.9** | **5.2%** | **97.5** | **(5.1)** | **92.4** |

| CHF million | | | | 31.3.2021 | | | | 31.3.2020 |
|---|---|---|---|---|---|---|---|---|
| **Non-state customers** | **Expected loss rate** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** | **Expected loss rate** | **Gross carrying amount** | **Loss allowance** | **Net carrying amount** |
| Not overdue | 1.2% | 279.9 | (3.5) | 276.5 | 6.1% | 218.6 | (13.4) | 205.2 |
| Overdue 1–90 days | 4.7% | 43.4 | (2.0) | 41.3 | 10.9% | 72.6 | (7.9) | 64.7 |
| Overdue 91–180 days | 21.1% | 11.2 | (2.4) | 8.8 | 33.6% | 13.1 | (4.4) | 8.7 |
| Overdue 181–360 days | 53.1% | 10.2 | (5.4) | 4.8 | 48.5% | 13.0 | (6.3) | 6.7 |
| Overdue more than 360 days | 83.2% | 20.4 | (17.0) | 3.4 | 76.7% | 19.3 | (14.8) | 4.5 |
| **Total** | **8.3%** | **365.1** | **(30.3)** | **334.9** | **13.9%** | **336.6** | **(46.8)** | **289.8** |

The closing loss allowances for trade receivables as at March 31, 2020 reconcile to the closing loss allowance as at March 31, 2021 as follows:

| CHF million | 2020/21 | 2019/20 |
|---|---|---|
| **Loss allowance for doubtful receivables, April 1** | **(51.9)** | **(39.0)** |
| Utilization | 7.8 | 6.4 |
| Reversal | 16.5 | 2.6 |
| Additions | (6.0) | (24.7) |
| Exchange differences | (1.0) | 2.9 |
| **Loss allowance for doubtful receivables, March 31** | **(34.5)** | **(51.9)** |

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 in financial year 2019/20 related to an increase in the expected credit loss (ECL) rates due to the increased credit risk caused by COVID-19. During the financial year 2020/21 credit risk ratings significantly improved resulting in a reversal of loss allowances.

## 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 4.5). The following table summarizes the Group's financial liabilities as of March 31, 2021 and 2020 based on contractual undiscounted payments. Bonds include the notional amount as well as interest payments.

| CHF million | | | | 31.3.2021 |
|---|---|---|---|---|
| | Due less than 1 year | Due 1 year to 5 years | Due more than 5 years | Total |
| Bank debt | 0.1 | | | 0.1 |
| Trade payables | 103.2 | | | 103.2 |
| Lease liabilities | 58.9 | 159.8 | 52.5 | 271.2 |
| Bonds/US Private Placement | 370.3 | 731.1 | 509.1 | 1,610.5 |
| Other financial liabilities | 11.0 | 11.1 | | 22.1 |
| **Total financial liabilities** | **543.6** | **902.1** | **561.5** | **2,007.2** |

| CHF million | | | | 31.3.2020 |
|---|---|---|---|---|
| | Due less than 1 year | Due 1 year to 5 years | Due more than 5 years | Total |
| Bank debt | 230.2 | | | 230.2 |
| Trade payables | 104.3 | | | 104.3 |
| Lease liabilities | 61.2 | 146.9 | 60.9 | 269.0 |
| Bonds | 0.4 | 361.6 | 203.8 | 565.9 |
| Other financial liabilities | 24.7 | 32.8 | | 57.5 |
| **Total financial liabilities** [1] | **420.8** | **541.3** | **264.7** | **1,226.8** |

[1] Excludes "Other short-term liabilities", which were disclosed in this table in the last annual report, and considers interests on bonds.

### Capital 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 maintains 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 | | | | | | 31.3.2021 |
|---|---|---|---|---|---|---|
| | **Notes** | Carrying amount | Fair value [1] | Level 1 | Level 2 | Level 3 |
| **Financial assets at amortized cost** | | | | | | |
| Cash and cash equivalents | **4.1** | 1,772.2 | | | | |
| Other financial assets | **4.4** | 36.1 | | | | |
| Trade receivables | **3.1** | 438.8 | | | | |
| **Total** | | **2,247.1** | | | | |
| **Financial assets at fair value through profit or loss** | | | | | | |
| Other financial assets | **4.4** | 9.7 | 9.7 | 7.4 | | 2.3 |
| **Total** | | **9.7** | **9.7** | **7.4** | | **2.3** |
| **Financial liabilities at amortized cost** | | | | | | |
| Bank debt | **4.5** | 0.1 | | | | |
| Bonds/US Private Placement | **4.5** | 1,562.4 | 1,590.0 | 1,590.0 | | |
| Deferred payments | **4.5** | 10.0 | | | | |
| Other financial liabilities | **4.5** | 0.0 | | | | |
| Trade payables | | 103.2 | | | | |
| **Total** | | **1,675.7** | **1,590.0** | **1,590.0** | | |
| **Financial liabilities at fair value through profit or loss** | | | | | | |
| Contingent considerations | **4.5** | 4.2 | 4.2 | | | 4.2 |
| Negative replacement value of forward foreign exchange contracts | **4.7** | 0.6 | 0.6 | | | 0.6 |
| Other financial liabilities | **4.5** | 7.3 | 7.3 | | | 7.3 |
| **Total** | | **12.1** | **12.1** | | | **12.1** |

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 | | | | | | 31.3.2020 |
|---|---|---|---|---|---|---|
| | 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 | | | | |
| **Total [2]** | | **865.9** | | | | |
| **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 | | | | |
| Bonds | 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 | | | | |
| **Total [2]** | | **911.6** | **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.

2) Excludes "Other receivables" and "Other short-term operating liabilities", which were disclosed in this table in the last annual report.

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2021 and 2020:

| **Financial assets at fair value through profit or loss** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Balance April 1 | 4.2 | 2.1 |
| Additions/(disposals), net | (2.0) | 2.2 |
| Gain/(losses) recognized in profit or loss | 0.1 | (0.1) |
| **Balance March 31** | **2.3** | **4.2** |

| **Financial liabilities at fair value through profit or loss** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Balance April 1 | (10.4) | (11.2) |
| (Additions)/disposals, net | 3.2 | 0.8 |
| (Losses)/gains recognized in profit or loss | (4.9) | 0.0 |
| **Balance March 31** | **(12.1)** | **(10.4)** |

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, 2021 and 2020 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:

| | 31.3.2021 | 31.3.2020 | 2020/21 | 2019/20 |
|---|---|---|---|---|
| | Year-end rates | | Average rates for the year | |
| AUD 1 | 0.72 | 0.59 | 0.66 | 0.67 |
| BRL 1 | 0.16 | 0.19 | 0.17 | 0.24 |
| CAD 1 | 0.75 | 0.68 | 0.70 | 0.74 |
| CNY 1 | 0.14 | 0.14 | 0.14 | 0.14 |
| EUR 1 | 1.11 | 1.06 | 1.08 | 1.10 |
| GBP 1 | 1.30 | 1.20 | 1.21 | 1.25 |
| JPY 100 | 0.85 | 0.89 | 0.87 | 0.91 |
| USD 1 | 0.94 | 0.97 | 0.92 | 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 | 2020/21 | 2019/20 |
|---|---|---|
| Current taxes | 61.7 | 79.0 |
| Deferred taxes | (46.6) | (66.1) |
| **Total income taxes** | **15.2** | **12.9** |
| | | |
| **Reconciliation of tax expense** | | |
| Income before taxes | 600.4 | 502.4 |
| Group's expected average tax rate | 15.9% | 13.3% |
| **Tax at expected average rate** | **95.7** | **66.8** |
| **+/– Effects of** | | |
| Non-taxable income/non-tax-deductible expenses | (2.8) | 1.6 |
| Changes of unrecognized loss carryforwards/deferred tax assets [1] | (21.6) | 8.2 |
| Local actual tax rate different to Group's expected average tax rate | (27.3) | (15.0) |
| Change in tax rates on deferred tax balances | (1.8) | (1.8) |
| Transitional effect of Swiss tax reform | (28.0) | (64.1) |
| Prior year adjustments and other items, net [2] | 0.9 | 17.3 |
| **Total income taxes** | **15.2** | **12.9** |
| Weighted average effective tax rate | 2.5% | 2.6% |

1) Mainly relates to the use of tax loss carryforwards as a result of damages awarded in patent infringement lawsuit to Advanced Bionics as described below.
2) Other items include changes in uncertain tax positions.

The Group's expected average tax rate is the rate obtained by applying the expected tax rate for each jurisdiction to its respective result before taxes, adjusted for significant one-time effects. The expected tax rate might vary on a year-over-year basis depending on where the results are achieved.

| **Deferred tax assets and (liabilities)** CHF million | | | **31.3.2021** | | | **31.3.2020** |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Net amount | Assets | Liabilities | Net amount |
| Inventories | 22.7 | (3.3) | 19.4 | 28.0 | (3.9) | 24.1 |
| Property, plant & equipment | 2.5 | (7.4) | (4.9) | 1.4 | (8.0) | (6.6) |
| Intangible assets | | (96.9) | (96.9) | | (88.4) | (88.4) |
| Right-of-use assets and lease liabilities | 68.0 | (67.2) | 0.8 | 67.3 | (67.1) | 0.2 |
| Other assets and liabilities [1] | 204.3 | (40.4) | 163.8 | 158.4 | (49.4) | 109.0 |
| Tax loss carryforwards | 26.9 | | 26.9 | 35.2 | | 35.2 |
| **Total tax assets (liabilities)** | **324.4** | **(215.2)** | **109.2** | **290.3** | **(216.8)** | **73.5** |
| Offset of assets and liabilities | (103.7) | 103.7 | | (92.3) | 92.3 | |
| | | | | | | |
| **Amounts in the balance sheet** | | | | | | |
| Deferred tax assets | 220.7 | | 220.7 | 198.0 | | 198.0 |
| Deferred tax liabilities | | (111.5) | (111.5) | | (124.5) | (124.5) |
| **Total deferred taxes, net** | | | **109.2** | | | **73.5** |

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. Including deferred tax assets in the amount of CHF 88.5 million (2019/20: CHF 60.5 million) related to the Swiss tax reform as described below.

| **Movement of deferred tax assets and (liabilities)** CHF million | | | | | | | **2020/21** |
|---|---|---|---|---|---|---|---|
| | Inventories | Property, plant & equipment | Intangible assets | Right-of-use assets and lease liabilities | Other assets and liabilities | Tax loss carryforwards | Total |
| Balance April 1 | 24.1 | (6.6) | (88.4) | 0.2 | 109.0 | 35.2 | 73.5 |
| Changes through business combinations | | | (1.8) | | | | (1.8) |
| Deferred taxes recognized in the income statement [1] | (1.0) | 1.8 | (5.1) | 0.4 | 58.2 | (7.7) | 46.6 |
| Deferred taxes recognized in OCI [2] | | | | | (6.6) | | (6.6) |
| Exchange differences | (3.7) | (0.1) | (1.6) | 0.2 | 3.2 | (0.6) | (2.5) |
| **Balance March 31** | **19.4** | **(4.9)** | **(96.9)** | **0.8** | **163.8** | **26.9** | **109.2** |

1) 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 | | | | | | | **2019/20** |
|---|---|---|---|---|---|---|---|
| | Inventories | Property, plant & equipment | Intangible assets | Right-of-use assets and lease liabilities | Other assets and liabilities | Tax loss carryforwards | Total |
| Balance April 1 | 32.0 | (7.2) | (104.9) | (0.3) | 43.6 | 42.1 | 5.3 |
| 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) Deferred taxes recognized in the income statement include the impact from the Swiss tax reform as described below.
2) 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 | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Within 1 year | 2.2 | 41.5 |
| Within 2–5 years | 70.7 | 69.9 |
| More than 5 years or without expiration | 442.6 | 770.9 |
| **Total** | **515.6** | **882.3** |

The decrease in unused tax loss carryforwards in financial year 2020/21 mainly relates to damages awarded in patent infringement lawsuit to Advanced Bionics (refer to Note 3.9 “Contingent assets and liabilities”) for which unrecognized tax loss carryforwards were available and on impacts on tax loss carryforwards due to Group reorganizations.

Tax loss carryforwards, which have not been capitalized also include pre-acquisition tax losses with limitation of use and losses that 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 foresees 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 positive net effect of CHF 64.1 million on income after taxes in the financial year 2019/20. During the 2020/21 financial year, after further discussion with the Swiss tax authorities, the Group increased the deferred tax assets by CHF 28.0 million with a corresponding effect on income after taxes.

### *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 non-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 132.2 million (previous year CHF 137.5 million) related to deductible differences and, in certain cases, tax loss carry forwards, provided that their utilization is considered 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 88.5 million (previous year: CHF 60.5 million) 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. Whenever circumstances have changed or there is new information that affects these judgements, the estimates will be reassessed.*

# 6. Changes in Group structure

## 6.1 Acquisitions/disposals of subsidiaries

In the financial year 2020/21, the Group acquired several small companies in EMEA, Americas and Asia/Pacific. 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 2019/20, the Group acquired several small companies in EMEA and North America which are in the business of producing and/or distributing and servicing hearing instruments. Further the Group made an acquisition in that year in the EMEA region, which is active in technology development.

Assets and liabilities resulting from the acquisitions are as follows:

| CHF million | 2020/21 | 2019/20 |
|---|---|---|
| | Total | Total |
| Trade receivables | 0.5 | 1.1 |
| Other current assets | 2.6 | 4.0 |
| Property, plant & equipment | 0.7 | 1.2 |
| Rights of use the assets | | 0.7 |
| Intangible assets | 8.3 | 17.2 |
| Other non-current assets | 0.5 | 0.4 |
| Current liabilities | (2.2) | (4.3) |
| Non-current liabilities | (2.9) | (4.5) |
| **Net assets** | **7.5** | **15.8** |
| Goodwill | 20.0 | 97.4 |
| **Purchase consideration** | **27.5** | **113.3** |
| Fair value of previously held stake before the business combination | | (1.3) |
| Liabilities for contingent considerations and deferred payments [1] | (3.2) | (45.9) |
| Cash and cash equivalents acquired | (1.9) | (3.2) |
| Cash outflow for contingent considerations and deferred payments [2] | 6.9 | 5.7 |
| **Cash consideration for acquisitions, net of cash acquired** | **29.3** | **68.6** |

1) Contingent considerations (earn-out payments) and deferred 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.
2) Excludes cash outflow in relation to associates, disclosed in this line in the last annual report.

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 1.7 million and deferred payments amount to CHF 1.5 million. Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations and milestone achievements. Goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of Sonova products within acquired distribution companies and cost reduction in administrative and corporate functions as well as to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Acquisition-related intangible assets in the amount of CHF 8.3 million (previous year CHF 17.2 million) for the acquisitions in the current financial year fully relates to customer relationships (previous year: customer relationships CHF 10.2 million, in-process research & development CHF 7.0 million). The assigned lifetime range is between 10 and 15 years for customer relationships (previous year: 5 years for in-process research & development). On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.3 million (previous year CHF 1.0 million) have been expensed and are included in the line “General and administration”.

| April 1 to March 31, CHF million | **2020/21** | **2019/20** |
|---|---|---|
| | Total | Total |
| **Contribution of acquired companies from date of acquisition** | | |
| Sales | 2.6 | 7.8 |
| Net income | 0.6 | 0.3 |
| **Contribution, if the acquisitions occurred on April 1** | | |
| Sales | 12.4 | 15.2 |
| Net income | 3.6 | 1.4 |

In 2019/20, the Group acquired a 51% majority stake in a company active in technology development with put and call options over the 49% remaining shares not legally acquired. The Group has concluded it has obtained present access to the returns of all shares and therefore considers the 49% ownership stake acquired for accounting purposes.

In the second half of 2020/21 the Group became aware of a misinterpretation of an accounting standard in determining the purchase consideration for the acquisition. Some of the deferred and the contingent payments related to milestones are also conditional on the selling shareholders remaining employed at the time of payment. These future payments therefore need to be recognized as personnel expenses over the period of required service rather than as purchase consideration. Goodwill, purchase consideration and liabilities for deferred and contingent payments 2019/20 have therefore been reduced by CHF 35.8 million as of acquisition date. Of the CHF 35.8 million decrease in goodwill CHF 13.3 million is offset against equity while CHF 22.5 million are expensed over the respective service period (in the financial year 2020/21 and subsequent years). The net assets acquired and the cash flows 2019/20 are not affected.

The Group has evaluated the impact on the reported results and comparative figures included in the consolidated income statement 2019/20 and balance sheet as at March 31, 2020 and has concluded that the overall impact is qualitatively and quantitatively not material. Therefore, the net effect of the correction was recognized in the affected balance sheet line items and opening equity as at April 1, 2020, rather than by restating the comparative period as follows:

| | CHF million |
|---|---|
| **Impact on change of acquisition accounting on opening Balance Sheet April 1, 2020** | |
| Decrease in goodwill | (35.8) |
| Decrease of liabilities for contingent considerations | 30.3 |
| Increase in other short-term operating liabilities | (7.8) |
| Decrease in retained earnings | 13.3 |

A portion of the deferred payments can be settled in Sonova shares or in cash at the discretion of the counterparties and represent share-based payments, refer to Note 7.4 for further information. These liabilities for share-based payments and other employee benefits have been recognized in other short-term operating liabilities.

Changes have been made to note disclosures where necessary.

*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.*

***Liabilities for contingent considerations***

*Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations. If the future performance is not achieved or the estimate needs to be revised, the liability is adjusted accordingly, with a resulting change in the income statement. At the end of the 2020/21 financial year, such liabilities contingent on future events amount to CHF 4.2 million (previous year CHF 34.4 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 | 2020/21 | 2019/20 |
|---|---|---|
| Current assets | 2.9 | 2.6 |
| Non-current assets | 3.6 | 2.5 |
| **Total assets** | **6.5** | **5.1** |
| Current liabilities | (0.8) | (0.7) |
| Non-current liabilities | (0.6) | (0.6) |
| **Total liabilities** | **(1.4)** | **(1.3)** |
| **Net assets** | **5.1** | **3.8** |
| | | |
| Income for the year | 5.1 | 5.9 |
| Expenses for the year | (3.2) | (3.4) |
| **Profit for the year** | **1.9** | **2.4** |
| | | |
| Net book value at year-end | 19.7 | 17.4 |
| Share of profit/(loss) recognized by the Group | 1.9 | 2.4 |

In the financial year 2020/21, no associates were acquired/divested. In the case of one associate, an additional contribution of CHF 1.2 million was made, without increasing the participation rights.

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.

Sales to associates in the 2020/21 financial year amounted to CHF 7.8 million (previous year CHF 8.7 million). At March 31, 2021, trade receivables towards associates amounted to CHF 2.5 million (previous year CHF 1.9 million).

At the end of the 2020/21 and 2019/20 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 19.7 million (previous year CHF 17.4 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2020.

*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 no 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, 2021, the Sonova Group employed the full time equivalent of 14,508 people (previous year 15,184). They were engaged in the following regions and activities:

| **By region** | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Switzerland | 1,321 | 1,290 |
| EMEA (excl. Switzerland) | 6,443 | 6,866 |
| Americas | 3,415 | 3,550 |
| Asia/Pacific | 3,329 | 3,478 |
| **Total** | **14,508** | **15,184** |
| | | |
| **By activity** | | |
| Research and development | 879 | 842 |
| Operations | 4,398 | 4,618 |
| Sales and marketing, general and administration | 9,231 | 9,724 |
| **Total** | **14,508** | **15,184** |

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,436 (previous year 15,002). Total personnel expenses for the 2020/21 financial year amounted to CHF 940.2 million (previous year CHF 1,037.6 million).

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

| CHF million | **2020/21** | **2019/20** | **2020/21** | **2019/20** | **2020/21** | **2019/20** |
|---|---|---|---|---|---|---|
| | Management Board | | Board of Directors | | Total | |
| Short-term employee benefits | 7.2 | 8.6 | 1.4 | 1.9 | 8.5 | 10.5 |
| Post-employment benefits | 0.6 | 0.6 | | | 0.6 | 0.6 |
| Share based payments | 4.5 | 4.8 | 1.6 | 1.5 | 6.2 | 6.3 |
| **Total** | **12.3** | **14.0** | **3.0** | **3.4** | **15.3** | **17.4** |

The total compensation to the Management Board for the 2020/21 reporting period, as shown above, relates to nine members of the Management Board (2019/20: nine members).

The total compensation to the Board of Directors for the 2020/21 reporting period, as shown above, relates to nine active members (2019/20: eight members and one former member).

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 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, Belgium, 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 483.9 million or 98.7% (previous year CHF 442.9 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 2020/21 and 2019/20.

As of March 31, 2021, 1,363 employees (previous year 1,328 employees) and 143 beneficiaries (previous year 133 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 14.0 years (previous year 13.9 years).

The results of all defined benefit plans are summarized below:

| **Amounts recognized in the balance sheet** CHF million | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Present value of funded obligations | (490.1) | (444.5) |
| Fair value of plan assets | 474.1 | 375.4 |
| **Net present value of funded plans** | **(16.0)** | **(69.1)** |
| Present value of unfunded obligations | (5.3) | (4.4) |
| **Total liabilities, net** | **(21.3)** | **(73.5)** |
| Amounts in the balance sheet: | | |
| Retirement benefit obligation | (21.3) | (73.5) |

| **Remeasurements recognized in equity** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Balance April 1 | 77.1 | 32.0 |
| Actuarial losses/(gains) from | | |
| – changes in financial assumptions | 10.1 | 6.0 |
| – changes in experience adjustments | 10.8 | 15.2 |
| Return on plan assets excluding interest income | (76.7) | 23.9 |
| **Balance March 31** | **21.4** | **77.1** |

| **Amounts recognized in the income statement** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Current service cost [1] | 19.3 | 15.9 |
| Net interest cost | 0.3 | 0.2 |
| **Total employee benefit expenses** [2] | **19.6** | **16.0** |

1) Excluding Participants' contributions.
2) The amount recognized in the consolidated income statement 2020/21 has been charged to:
– cost of sales CHF 3.3 million (previous year CHF 2.8 million);
– research and development CHF 6.3 million (previous year 5.3 million);
– sales and marketing CHF 3.9 million (previous year 3.4 million);
– general and administration CHF 5.8 million (previous year CHF 4.3 million);
– financial expenses CHF 0.3 million (previous year CHF 0.2 million).

| **Movement in the present value of the defined benefit obligations** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Beginning of the year | 448.9 | 409.2 |
| Interest cost | 2.0 | 2.3 |
| Current service cost | 19.3 | 15.9 |
| Participants' contributions | 12.4 | 11.8 |
| Benefits paid, net | (8.0) | (11.4) |
| Actuarial loss on obligations | 20.9 | 21.2 |
| Exchange differences | (0.1) | (0.2) |
| **Present value of obligations at end of period** | **495.5** | **448.9** |

| **Movement in the fair value of the plan assets** CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Beginning of the year | 375.4 | 383.2 |
| Interest income on plan asset | 1.7 | 2.1 |
| Employer's contributions paid | 15.3 | 13.5 |
| Participants' contributions | 12.4 | 11.8 |
| Benefits paid, net | (7.6) | (11.3) |
| Return on plan assets excluding interest income | 76.7 | (23.9) |
| Exchange differences | 0.2 | (0.0) |
| **Fair value of plan assets at end of period** | **474.1** | **375.4** |

| The plan assets consist of: | 31.3.2021 | 31.3.2020 |
|---|---|---|
| Cash | 2.6% | 2.4% |
| Domestic bonds | 16.2% | 17.0% |
| Foreign bonds | 7.5% | 8.7% |
| Domestic equities | 12.8% | 12.5% |
| Foreign equities | 31.5% | 28.7% |
| Real estates | 14.8% | 16.3% |
| Alternative investments | 14.6% | 14.4% |

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF 78.4 million (previous year CHF –21.8 million). The expected employer's contributions to be paid in the 2021/22 financial year amount to CHF 14.2 million.

| Principal actuarial assumptions (weighted average) | 2020/21 | 2019/20 |
|---|---|---|
| Discount rate | 0.30% | 0.45% |
| 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 | 31.3.2021 | 31.3.2020 |
|---|---|---|
| **Discount rate** | | |
| Discount rate +0.25% | (15.6) | (14.2) |
| Discount rate –0.25% | 17.7 | 16.1 |
| **Salary growth** | | |
| Salary growth +0.25% | 0.8 | 0.8 |
| Salary growth –0.25% | (0.8) | (0.8) |
| **Pension growth** | | |
| Pension growth +0.5% | 18.4 | 16.5 |
| Pension growth –0.5% | (18.4) | (16.5) |
| **Fluctuation rate** | | |
| Fluctuation rate +5% | (19.2) | (16.7) |
| Fluctuation rate –5% | 32.8 | 28.6 |

## Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 19.6 million in the year ended March 31, 2021 (previous year CHF 23.5 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 high quality corporate bonds, 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 2020/21 financial year amounts to CHF 495.5 million (previous year CHF 448.9 million). This includes CHF 483.9 million (previous year CHF 442.9 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 2020/21 and 2019/20 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 2020/21 and 2019/20 include a performance criterion.

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

| CHF million | **2020/21** | **2019/20** |
|---|---|---|
| Equity-settled share-based payment costs | 20.4 | 19.3 |
| Cash-settled share-based payment costs | 10.9 | 0.6 |
| **Total share-based payment costs** | **31.3** | **19.9** |

The increase in cash-settled share-based payment costs in the current financial year was primarily driven by the change in accounting treatment for an acquisition in 2019/20. For further information please refer to Note 6.1 and to section “restricted shares” in this note.

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2015 to 2021. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO (now CEO) 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 earliest on April 1, 2023, subject to the achievement of the performance criteria.

**Summary of outstanding options and SARs granted until March 31, 2021:**

| Financial year granted | Instruments granted | First vesting date/ expiry date | Granted | Exercise price (CHF) | Outstanding | Average remaining life (years) | Exercisable |
|---|---|---|---|---|---|---|---|
| 2014/15 | Options/SARs [1] | 1.6.2016 31.1.2022 | 308,459 | 121.10 | 21,689 | 0.8 | 21,689 |
| 2015/16 | Options/SARs [2] | 1.6.2017 31.1.2023 | 298,520 | 124.20 | 77,550 | 1.8 | 77,550 |
| 2016/17 | Options/SARs [3] | 1.6.2018 31.1.2024 | 378,652 | 130.00 | 167,426 | 2.8 | 102,584 |
| 2017/18 | Options [4] | 1.4.2023 30.9.2027 | 47,415 | 147.85 | 47,415 | 6.5 | |
| 2017/18 | Options/SARs [5] | 1.6.2019 31.1.2028 | 341,943 | 147.85 | 226,349 | 6.8 | 91,881 |
| 2018/19 | Options/SARs [6] | 1.6.2020 31.1.2029 | 249,760 | 182.40 | 212,867 | 7.8 | 47,404 |
| 2019/20 | Options/SARs [7] | 1.6.2021 31.1.2030 | 208,245 | 241.80 | 195,478 | 8.8 | |
| 2020/21 | Options/SARs [8] | 1.6.2022 31.1.2031 | 170,694 | 218.70 | 170,694 | 9.8 | |
| **Total** | | | **2,003,688** | | **1'119'468** [9] | **6.8** | **341'108** [10] |
| Thereof: | | | | | | | |
| Equity-settled | | | 1,774,782 | | 1,005,440 | | 310,167 |
| Cash-settled | | | 228,906 | | 114,028 | | 30,941 |

1) Including 135,223 performance options, granted to the CEO and MB members.
2) Including 126,206 performance options, granted to the CEO and MB members.
3) Including 147,948 performance options, granted to the CEO and MB members.
4) Non-recurring performance options, granted to the COO (now CEO). Terms have been amended in the financial year 2020/21 – for further details refer to section "Options" in this note.
5) Including 150,114 performance options, granted to the CEO and MB members.
6) Including 80,850 performance options, granted to the CEO and MB members.
7) Including 77,574 performance options/SAR, granted to the CEO and MB members.
8) Including 61,779 performance options/SAR, granted to the CEO and MB members.
9) Weighted average exercise price of outstanding options/SARs amounts to CHF 176.80
10) Weighted average exercise price for exercisable options/SARs amounts to CHF 140.21

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 2021 – Management Board Options/SARs | EEAP 2021 Options/SARs | EEAP 2020 – Management Board Options/SARs | EEAP 2020 Options/SARs |
|---|---|---|---|---|
| Valuation date | 1.2.2021 | 1.2.2021 | 1.2.2020 | 1.2.2020 |
| Expiry date | 31.01.2031 | 31.01.2031 | 31.01.2030 | 31.01.2030 |
| Restriction period | 5 years | | 5 years | |
| Share price on grant date | CHF 218.70 | CHF 218.70 | CHF 241.80 | CHF 241.80 |
| Exercise price | CHF 218.70 | CHF 218.70 | CHF 241.80 | CHF 241.80 |
| Volatility | 25.0% | 25.0% | 20.3% | 20.3% |
| Expected dividend yield | 1.5% | 1.5% | 1.6% | 1.6% |
| Weighted risk free interest rate | (0.4%) | (0.5%) | (0.5%) | (0.6%) |
| **Weighted average fair value of options/SARs issued** | **39.90** | **37.31** | **33.34** | **31.98** |

## 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 2020/21 and 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.

Given the COVID-19 crisis in the current financial year and the impacts on the business, the Board of Directors reviewed the terms of the one-time, non-recurring performance option award granted to the CEO in the financial year 2017/18 and decided on the following amendments: While the EPS performance target remains as originally set, the performance period will be extended to April 1, 2025. The CEO may elect to have the options vest at the original date of April 1, 2023 or in the interim year on April 1, 2024. The expiry date of the options (September 27, 2027) remains unchanged. The amendment of the performance period did not lead in an increase of the fair value of the options granted (initially CHF 1.0 million).

| **Changes in outstanding options:** | | **2020/21** | | **2019/20** |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price (CHF) | Number of options | Weighted average exercise price (CHF) |
| Outstanding options at April 1 | 1,010,087 | 165.54 | 1,147,865 | 142.76 |
| Granted [1)] | 149,592 | 218.70 | 182,407 | 241.80 |
| Exercised [2)] | (126,260) | 133.16 | (248,711) | 125.49 |
| Forfeited | (27,979) | 194.12 | (71,474) | 145.40 |
| **Outstanding options at March 31** | **1,005,440** | **175.89** | **1,010,087** | **165.54** |
| **Exercisable at March 31** | **310,167** | **139.99** | **216,608** | **129.56** |

1) 2020/21 includes 57,080 performance options (previous year 72,176 performance options), granted to the CEO and MB members.

2) The total consideration from options exercised amounted to CHF 29.9 million (previous year CHF 27.9 million). The weighted average share price of the options exercised during the year 2020/21 was CHF 204.63 (previous year CHF 223.68).

## 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/SARs 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 2020/21, which include a restriction period of 5 years.

| **Changes in outstanding SARs:** | | **2020/21** | | **2019/20** |
|---|---|---|---|---|
| | Number of SARs | Weighted average exercise price (CHF) | Number of SARs | Weighted average exercise price (CHF) |
| Outstanding SARs at April 1 | 107,966 | 173.87 | 113,024 | 148.27 |
| Granted [1)] | 21,102 | 218.70 | 25,838 | 241.80 |
| Exercised | (10,903) | 136.57 | (22,168) | 128.22 |
| Forfeited | (4,137) | 198.35 | (8,728) | 159.37 |
| **Outstanding SARs at March 31 [2)]** | **114,028** | **184.84** | **107,966** | **173.87** |
| **Exercisable at March 31 [3)]** | **30,941** | **142.38** | **19,861** | **128.61** |

1) 2020/21 includes 4,699 performance SARs granted to an MB member.
2) The carrying amount of the liability relating to the SARs at March 31, 2021 is CHF 6.8 million (previous year CHF 3.6 million).
3) The intrinsic value of the SARs exercisable at March 31, 2021 amounts to CHF 3.3 million (previous year CHF 0.9 million).

## Performance share units (PSUs)

In 2021, 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 2021 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, to ensure that only vested amounts are expensed.

| Assumptions for valuation at grant date | PSU 2021 | PSU 2020 |
|---|---|---|
| Valuation date | 1.2.2021 | 1.2.2020 |
| Date of grant | 1.2.2021 | 1.2.2020 |
| Share price on grant date | CHF 218.70 | CHF 241.80 |
| Fair value | CHF 198.67 | CHF 266.80 |
| End of restriction period | 31.1.2026 | 31.1.2025 |
| Performance conditions | Total shareholder return (TSR) | Total shareholder return (TSR) |
| TSR performance period | 1.2.2021 – 31.3.2024 | 1.2.2020 – 31.3.2023 |
| TSR comparator group | Swiss Leader Index (SLI) | Swiss Leader Index (SLI) |

## Restricted share units (RSUs)

Under the EEAP grants 2015 to 2021, 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 2021 and 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 2020/21 and 2019/20. 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 2020/21 financial year as these shares have no vesting period.

| Changes in outstanding PSUs/RSUs/Restricted shares: | | | | 2020/21 | | | | 2019/20 |
|---|---|---|---|---|---|---|---|---|
| | 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 | 31,689 | 259,065 | 60,258 | 351,012 | 25,877 | 305,436 | 68,574 | 399,887 |
| Granted | 10,359 | 68,605 | 7,539 | 86,503 | 8,284 | 63,075 | 6,157 | 77,516 |
| Settled | | (78,670) | (14,206) | (92,876) | | (87,669) | (14,473) | (102,142) |
| Forfeited | (1,804) | (15,843) | | (17,647) | (2,472) | (21,777) | | (24,249) |
| **Balance March 31** | **40,244** | **233,157** | **53,591** | **326,992** | **31,689** | **259,065** | **60,258** | **351,012** |

In the current financial year 2020/21, a change in accounting treatment relating to an acquisition in 2019/20, led to a correction of previously recognized purchase considerations (refer Note 6.1). A portion of the deferred payments can be settled in Sonova shares (number of shares granted 102,421) or in cash at the discretion of the counterparties and represent share-based payments as the payment is linked to employment conditions. The fair value of the shares granted of CHF 21.3 million was calculated at grant date (July 8, 2019) representing the share price on that date and considering that the shares are not entitled to dividends. The associated cost is expensed over the vesting period (four equal tranches vesting equally over four years). Until the liability is settled, it is revalued at each reporting date recognizing changes in the fair value in the income statement. Due to the discretion of the counterparties to request cash payments, the equity plan is classified as a “cash-settled share based payment plan”. For this cash-settled share based payment plan, the corresponding liability is recorded under "Other short-term operating liabilities" in the balance sheet (CHF 11.8 million as per March 31, 2021). The first tranche vested in the financial year 2020/21 and a liability of CHF 5.1 million has been transferred to equity as the beneficiaries opted for settlement in Sonova shares.

*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 Government grants

The Group’s result for the financial year 2020/21 includes government support received worldwide in connection with the COVID-19 pandemic in the amount of CHF 47.4 million (prior year: none). Most of the government grants relate to compensation of salary costs (furlough) and is recognized as a deduction from the costs in the following functional line items of the consolidated income statement:

| April 1 to March 31, CHF million | **2020/21** |
|---|---|
| Cost of sales | 4.9 |
| Research and development | 2.1 |
| Sales and marketing | 33.7 |
| General and administration | 6.7 |
| **Total** | **47.4** |

*Accounting policies*

*Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the* *related costs, for which it is intended to compensate, are expensed. Government grants are presented as a deduction from the relevant functional cost line item in the income statement.*

## 7.6 Events after the balance sheet date

On May 7, 2021 the Group announced that it signed an agreement to acquire the Consumer Division from Sennheiser electronic GmbH & Co. KG (Sennheiser). The product offering of the Consumer Division includes premium headphones – especially in the True Wireless segment – as well as audiophile headphones, enhanced hearing solutions and soundbars. They are sold through a well-established distribution network by Sennheiser's own subsidiaries and long-established trading partners in more than 50 countries, both online and in-store, further expanding Sonova's channel presence and customer base. The Sennheiser Consumer Division, with currently around 600 employees contributing to this business area worldwide, generates sales of around EUR 250 million annually. The purchase price for the Sennheiser Consumer Division amounts to EUR 200 million, which will be financed through the existing cash balance. A licensing agreement on customary terms for the Sennheiser brand will be in place in perpetuity. Closing is foreseen in the second half of calendar year 2021 after obtaining the relevant regulatory approvals.

Besides the above mentioned transaction there have been no material events after the balance sheet date.

# 7.7 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% |
| **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% |
| 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 | Dortrecht (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 Nordic AB | B | Solna (SE) | SEK | 200 | 100% |
| Sonova Finland Oy | B | Tampere (FI) | EUR | 25 | 100% |
| Sonova Norway AS | B | Oslo (NO) | NOK | 1,854 | 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 Audiológicos Ltda. | B | Sao Paulo (BR) | BRL | 120,379 | | 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 | Aurora (US) | USD | 0 | [2] | 100% |
| Development Finance Inc. | A | Wilmington (US) | USD | 0 | [4] | 100% |
| **Asia/Pacific** | | | | | | |
| Sonova Audiological Care Australia 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

# 7.8 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.

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

## Statutory auditor's 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 balance sheet as at 31 March 2021 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with 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 ***International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code)*** 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.

## Key audit matters

Key audit matters are those matters that, in our professional judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the ***Auditor's responsibilities for the audit of the consolidated financial statements*** section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

**Goodwill**

| Area of focus | Our audit response |
|---|---|
| As of 31 March 2021, the Group has goodwill of CHF 1,998 million representing 34% of the Group's total assets. Per note 3.5, goodwill is tested for impairment at least annually. In performing the impairment analysis management applies considerable judgment in respect of future market and economic conditions, such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development of the cash generating units (CGUs) to which goodwill has been allocated. Changes in these assumptions might lead to a change in the carrying value of goodwill.<br><br>We focused on this area given the significant judgment applied in the assessment process. | We assessed and tested the assumptions, including weighted average cost of capital (WACC), methodologies and technical input parameters for the valuation model applied by the Group. We involved our internal valuation specialists to assist us with these audit procedures. In addition, we evaluated the cash flow projections for the CGUs by performing a retrospective assessment of the accuracy of management's past projections and analyzing management's business forecasts considering the current Covid-19 environment. In particular, we focused on the sensitivity in the available headroom of the CGUs and whether reasonably possible changes in assumptions could cause the carrying amount of the CGUs to exceed its recoverable amount.<br><br>Our audit procedures did not lead to any reservations regarding the carrying value of goodwill. |

**Provisions for product liabilities**

| Area of focus | Our audit response |
|---|---|
| As of 31 March 2021, the Group has provisions for product liabilities of CHF 111.9 million. Per note 3.7, provisions for product liabilities consider 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 in 2020. Cost include replacement products, medical expenses, compensation for actual damages as well as legal fees.<br><br>We focused on this area given the uncertainty in the assumptions and estimates of the provision, as it largely depends on the outcome of administrative and legal proceedings. | We assessed management's process of the identification and evaluation of claims and analyzed the calculation models to determine the amount of the provisions for product liabilities. We tested the mathematical accuracy of the model, assessed key input factors such as number of devices in the market, failure rates, claim rates and costs per case. We enquired with the Group's legal counsel about disputes in relation to product liabilities and analyzed responses from legal letters obtained from third party legal representatives. We also reviewed the Group's disclosures made in the consolidated financial statements.<br><br>Our audit procedures did not lead to any reservations regarding the provision for product liabilities. |

**Capitalized development costs**

| Area of focus | Our audit response |
|---|---|
| As of March 31, 2021, the Group's consolidated balance sheet includes capitalized development costs of CHF 125.9 million. As described in note 3.5 (Intangible assets), the Group capitalizes development costs when certain criteria, such as technical feasibility, are met, and it is probable that future economic benefits attributable to the developments will flow to the Group. The criteria for capitalization and impairment assessments are subject to judgment and estimates based on management's assumptions, including consideration of anticipated technological developments within the hearing industry.<br><br>We focused on this area given the judgment and complexity involved in the assessment process. | We analyzed management's processes implemented for the initial capitalization of development costs, for the identification of projects that are potentially impaired and for the determination of estimates used for impairment testing of development assets. Our procedures in relation to the recognition and measurement of capitalized development costs included the assessment of the Group's accounting policies for compliance with IFRS and on a sample basis testing available documentation whether the criteria for capitalization were met. We further reconciled, on a sample basis, the costs capitalized as of 31 March 2021 with the underlying supporting documentation. We reviewed for indications of impairment by assessing key assumptions applied by management by means of comparison with business plans, historic performance and management's assumptions regarding strategy, product life cycle, anticipated technological developments, market expectations and discount rates for selected development projects. We further tested the arithmetical accuracy of management's computations.<br><br>Our audit procedures did not lead to any reservations regarding the capitalization of development costs. |

### Other matter

The consolidated financial statements of Sonova Holding AG for the year ended 31 March 2020 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 14 May 2020.

### Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and 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.

### Responsibility 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://www.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 para. 1 item 3 CO and the 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.

Zurich, 17 May 2021

Ernst & Young Ltd

| | |
|---|---|
| Martin Mattes | Pascal Solèr |
| Licensed audit expert | Licensed audit expert |
| (Auditor in charge) | |

# Financial statements of Sonova Holding AG

## Income statement

| CHF million | Notes | 2020/21 | 2019/20 |
|---|---|---|---|
| **Income** | | | |
| Investment income | | 211.8 | 274.3 |
| Financial income | 2.1 | 26.0 | 8.3 |
| **Total income** | | **237.7** | **282.7** |
| | | | |
| **Expenses** | | | |
| Administration expenses | | (10.0) | (11.5) |
| Other expenses | | (1.4) | (0.8) |
| Depreciation and amortization | | (6.7) | |
| Financial expenses | 2.1 | (21.2) | (47.1) |
| Direct taxes | | (0.2) | (0.3) |
| **Total expenses** | | **(39.5)** | **(59.6)** |
| **Net profit for the year** | | **198.3** | **223.1** |

# Balance sheet

| **Assets** CHF million | Notes | 31.3.2021 | 31.3.2020 |
|---|---|---|---|
| Cash and cash equivalents | | 935.9 | 0.4 |
| Financial assets | | 80.0 | |
| Other receivables | | | |
| – Third parties | | 0.1 | 0.0 |
| – Group companies | | 5.6 | 9.7 |
| Prepaid expenses | | 1.6 | 0.6 |
| **Total current assets** | | **1,023.3** | **10.8** |
| Financial assets | 2.2 | | |
| – Third parties | | 2.1 | 0.9 |
| – Group companies | | 1,893.0 | 1,846.9 |
| Investments | 2.3 | 314.4 | 321.5 |
| **Total non-current assets** | | **2,209.5** | **2,169.3** |
| **Total assets** | | **3,232.8** | **2,180.1** |

| **Liabilities and shareholders' equity** CHF million | Notes | 31.3.2021 | 31.3.2020 |
|---|---|---|---|
| Bank loans | | | 150.0 |
| Trade account payables | | | |
| – Third parties | | 0.1 | 0.1 |
| Short-term interest-bearing liabilities | | | |
| – Third parties | | 4.7 | 0.2 |
| Bond | 2.4 | 360.0 | |
| Other short-term liabilities to third parties | | 0.1 | 20.8 |
| Accrued liabilities | | 4.0 | 6.4 |
| **Total short-term liabilities** | | **368.9** | **177.5** |
| Bonds | 2.4 | 1,199.7 | 560.0 |
| Other long-term liabilities to third parties | | 0.2 | |
| **Total long-term liabilities** | | **1,200.0** | **560.0** |
| **Total liabilities** | | **1,568.9** | **737.5** |
| Share capital | | 3.2 | 3.2 |
| Legal reserves | | | |
| – Reserves from capital contribution | | 18.5 | 18.5 |
| – General reserves | | 1.8 | 1.8 |
| – Legal reserves for treasury shares held by subsidiaries | | 17.0 | 22.7 |
| Voluntary retained earnings | | | |
| – Balance carried forward | | 1,714.9 | 1,597.9 |
| – Net profit for the year | | 198.3 | 223.1 |
| Treasury shares | | | |
| – Treasury shares to offset with reserves from capital contribution | | (18.5) | (18.5) |
| – Treasury shares | 2.5 | (271.3) | (406.2) |
| **Total shareholders' equity** | | **1,663.9** | **1,442.5** |
| **Total liabilities and shareholders' equity** | | **3,232.8** | **2,180.1** |

# Notes to the financial statements of Sonova Holding AG as of March 31, 2021

## 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 subject to individual valuation.

### 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

As of March 31, 2021, the Group has the following bonds/US Private Placement outstanding:

| Financial liabilities | Currency | Nominal value | Interest rate | Maturity |
|---|---|---|---|---|
| Fixed-rate bond | CHF | 360 | 0.01% | October 11, 2021 |
| Fixed-rate bond | CHF | 330 | 0.55% | April 6, 2022 |
| US Private Placement | USD | 180 | 2.84% | July 14, 2025 |
| Fixed-rate bond | CHF | 200 | 0.50% | October 6, 2025 |
| Fixed-rate bond | CHF | 300 | 0.75% | October 6, 2028 |
| Fixed-rate bond | CHF | 100 | 0.00% | October 11, 2029 |
| Fixed-rate bond | CHF | 100 | 0.40% | October 11, 2034 |

## 3.2 Treasury shares

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The program started in October 2018 for a period of up to 36 months. The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. Effective March 16, 2020, Sonova Holding AG suspended the Group's share buyback program. This precautionary measure reflected the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19). On May 19, 2020 the Board of Directors decided to amend the purpose of the treasury shares from the share buyback, allowing the re-use of these treasury shares. The stock dividend (417,110 shares) distributed in financial year 2020/21 was sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018 – 2021. A further 200,000 shares bought under the share buyback program were used for the transfer and sale of treasury shares in connection with the EEAP programs. The remaining 1,225,980 treasury shares as of March 31, 2021, initially bought under the share buyback program, are intended to be cancelled (proposal to the Annual Shareholders' Meeting June 15, 2021).

**Treasury shares held by Sonova Holding AG** Number/CHF million

| | Number | Treasury shares at cost |
|---|---|---|
| Balance April 1, 2020 | 1,868,127 | 424.8 |
| Purchase of treasury shares | 40,100 | 9.7 |
| Sale/Transfer of treasury shares | (212,469) | (29.9) |
| Stock dividend | (417,110) | (100.2) |
| Loss from sale of treasury shares | | (14.6) |
| **Balance March 31, 2021** | **1,278,648** | **289.8** |

**Treasury shares held by subsidiaries** Number/CHF million

| | Number | Legal reserves for treasury shares held by subsidiaries |
|---|---|---|
| Balance April 1, 2020 | 102,421 | 22.7 |
| Sale/Transfer of treasury shares | (25,605) | (5.7) |
| **Balance March 31, 2021** | **76,816** | **17.0** |

# 3.3 Contingent liabilities

| CHF million | **31.3.2021** | **31.3.2020** |
|---|---|---|
| Letters of comfort given on behalf of Group companies | 4.0 | 3.9 |

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% |
| 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 | 14,182 | 78% [2] |
| Sonova Ibérica S.A.U. | B | San Vincente del Raspeig (ES) | EUR | 7,000 | 100% |
| Sonova Audiological Care France SAS | B | Cahors (FR) | EUR | 58,800 | 1% [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 KFT | 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% |
| Sonova Warsaw Service Center Sp.Z.o.o. | A | Warsaw (PL) | PLN | 100 | 100% |
| Sonova RUS LLC | B | Moscow (RU) | RUB | 4,000 | 100% |
| Sonova Nordic AB | B | Solna (SE) | SEK | 200 | 100% |
| Sonova Sweden AB | B | Solna (SE) | SEK | 100 | 100% |
| Sonova UK Ltd. | B | Warrington (UK) | GBP | 2,500 | 100% |
| Boots Hearing Care Ltd. | B | Llandudno (UK) | GBP | 0 [3] | 51% |

For significant indirect investments refer to Note 7.7 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 | 22,014 | 100% |
| Sonova Canada Inc. | B | Mississauga (CA) | CAD | 0 [3] | 85% [2] |
| Sonova Mexico Soluciones S.A. de C.V. | B | Ciudad de Mexico (MX) | MXN | 94,050 | 85% [2] |
| AudioNova Mexico S.A. de C.V. | B | Ciudad de Mexico (MX) | MXN | 66,050 | 99% [2] |
| Sonova United States Hearing Instruments, LLC | B | Aurora (US) | USD | 0 [3] | 73% [2] |
| Sound Pharmaceuticals, Inc. | A | Seattle (US) | USD | 13,105 | 31% |
| **Asia/Pacific** | | | | | |
| Sonova Hearing (Suzhou) Co., Ltd. | C | Suzhou (CN) | CNY | 46,249 | 100% |
| Sonova (Shanghai) Co., Ltd | B | Shanghai (CN) | CNY | 20,041 | 80% [2] |
| Sonova India Private Limited | B | Mumbai (IN) | INR | 459 | 56% [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 | Thuan An (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 7.7 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

The following overview shows the significant shareholders as of March 31, 2021 based on shareholdings recorded in the share register and notifications on the SIX Swiss Exchange online reporting platform. Significant shareholders may also hold non-registered shares.

| | 2021 1) | 2021 1) | 2020 1) | 2020 1) |
|---|---|---|---|---|
| | No. of shares | In % | No. of shares | In % |
| Beda Diethelm 2) | 6,710,440 | 10.42 | 6,667,002 | 10.35 |
| Family of Hans-Ueli Rihs 2) 3) | 3,692,049 | 5.73 | 3,679,600 | 5.71 |
| BlackRock, Inc. | 3,334,392 | 5.10 | 3,334,392 | 5.10 |
| UBS Fund Management (Switzerland) AG | 1,948,684 | 3.03 | n/a | < 3 |
| Harding Loevner LP 4) | n/a | < 3 | 1,972,763 | 3.02 |
| FIL Limited 4) | n/a | < 3 | 1,969,770 | 3.01 |

1) Or at last reported date if shareholdings are not registered in the share register.
2) Beda Diethelm and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements among these individuals and they can trade freely.
3) Hans-Ulrich Rihs, Gabriela Rihs and Stefan Rihs as a group jointly control 3,692,049 registered shares (corresponding to 5.73% of total Sonova share capital) pursuant to the last disclosure notice. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.
4) In 2020, Sonova reported according to Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA) the sales of shares by FIL Limited and Harding Loevner LP reducing their holdings to less than 3%.

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

| | | | | 31.03.2021 | | | | 31.03.2020 |
|---|---|---|---|---|---|---|---|---|
| | 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 | 84,263 | 49,630 | 2,183 | 96,016 | 73,821 | 53,157 | 4,328 | 123,189 |
| Management Board | 41,522 | | 44,818 | 430,982 | 42,519 | | 41,945 | 442,843 |
| Total | **125,785** | **49,630** | **47,001** | **526,998** | **116,340** | **53,157** | **46,273** | **566,032** |

1) These shares are subject to a restriction period which varies from June 1, 2021 to June 1, 2026 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 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 May 7, 2021 the Group announced that it signed an agreement to acquire the Consumer Division from Sennheiser electronic GmbH & Co. KG (Sennheiser). The product offering of the Consumer Division includes premium headphones – especially in the True Wireless segment – as well as audiophile headphones, enhanced hearing solutions and soundbars. They are sold through a well-established distribution network by Sennheiser's own subsidiaries and long-established trading partners in more than 50 countries, both online and in-store, further expanding Sonova's channel presence and customer base. The Sennheiser Consumer Division, with currently around 600 employees contributing to this business area worldwide, generates sales of around EUR 250 million annually. The purchase price for the Sennheiser Consumer Division amounts to EUR 200 million, which will be financed through the existing cash balance. A licensing agreement on customary terms for the Sennheiser brand will be in place in perpetuity. Closing is foreseen in the second half of calendar year 2021 after obtaining the relevant regulatory approvals.

Besides the above mentioned transaction there have been no material events after the balance sheet date.

# Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 15, 2021:

| CHF million | **31.3.2021** |
|---|---|
| Balance carried forward from previous year | 1,714.9 |
| Net profit for the year | 198.3 |
| **Voluntary retained earnings** | **1,913.2** |
| Cancellation of treasury shares [1] | (258.9) |
| Dividend distribution [2] | (201.7) |
| **Balance to be carried forward** | **1,452.5** |

1) Subject to approval at the Annual General Shareholders' Meeting of Agenda Item 6 (Capital Reduction Through Cancellation of Shares).
2) If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 3.20 per registered share of CHF 0.05 will be paid out (previous year: stock dividend).

Building a better working world

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

## Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the balance sheets, income statements and notes, for the year ended 31 March 2021.

### Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements for the year ended 31 March 2021 comply with Swiss law and the company's articles of incorporation.

### 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 judgment, 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

**Valuation of investments in subsidiaries**

| Area of focus | Our audit response |
|---|---|
| As of 31 March 2021, investments in subsidiaries of the Company amounted to CHF 314.4 million and represent 9.7% of total assets. Investments in subsidiaries are valued at historical cost less any impairment of value. The Company values investments in subsidiaries individually (single-asset-valuation principle). Refer to note 2.3 (Investments) in the financial statements for further details. | Our audit procedures included understanding the Company's investment in subsidiaries impairment testing process and the determination of key assumptions. We evaluated the Company's impairment testing model and key assumptions. We further corroborated the Company's key assumptions applied based on internally and externally available evidence and underlying data.<br><br>Our audit procedures did not lead to any reservations relating to the valuation of investments in subsidiaries. |

### Other matter

The financial statements of Sonova Holding AG for the year ended 31 March 2020 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 14 May 2020.

## Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a para. 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.

Zurich, 17 May 2021

Ernst & Young Ltd

| | |
|---|---|
| Martin Mattes<br>Licensed audit expert<br>(Auditor in charge) | Pascal Solèr<br>Licensed audit expert |

# Investor information

## Financial calendar

June 15, 2021
General Shareholders’ Meeting of Sonova Holding AG

November 15, 2021
Publication of Semi-Annual Report as of September 30, 2020

May 17, 2022
Publication of Annual Report as of March 31, 2022

June 15, 2022
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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Thomas Bernhardsgrütter

## Investor Relations Associates
Nicole Jenni
Corinne Hofmann

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