

Stäfa, 16 November 2015, Lukas Braunschweiler, CEO & Hartwig Grevener, CFO

Half-Year 2015/16 Results

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- 1. Sonova Group**

- 2. Business review – Hearing instruments**

- 3. Business review – Cochlear implants**

- 4. Financial review 1H 2015/16**

- 5. Outlook FY 2015/16**

- 6. Question & Answers**

1. Sonova Group

Sonova Group – 1H 2015/16

- 1 Hearing instruments: Continued solid sales growth – stable underlying EBITA margin**
 - Sales of CHF 917.8 million up by 8.7% in LC – driven equally by organic growth and acquisitions
 - EBITA of CHF 198.4 million – margin of 21.6% (recurring in LC 23.3%)

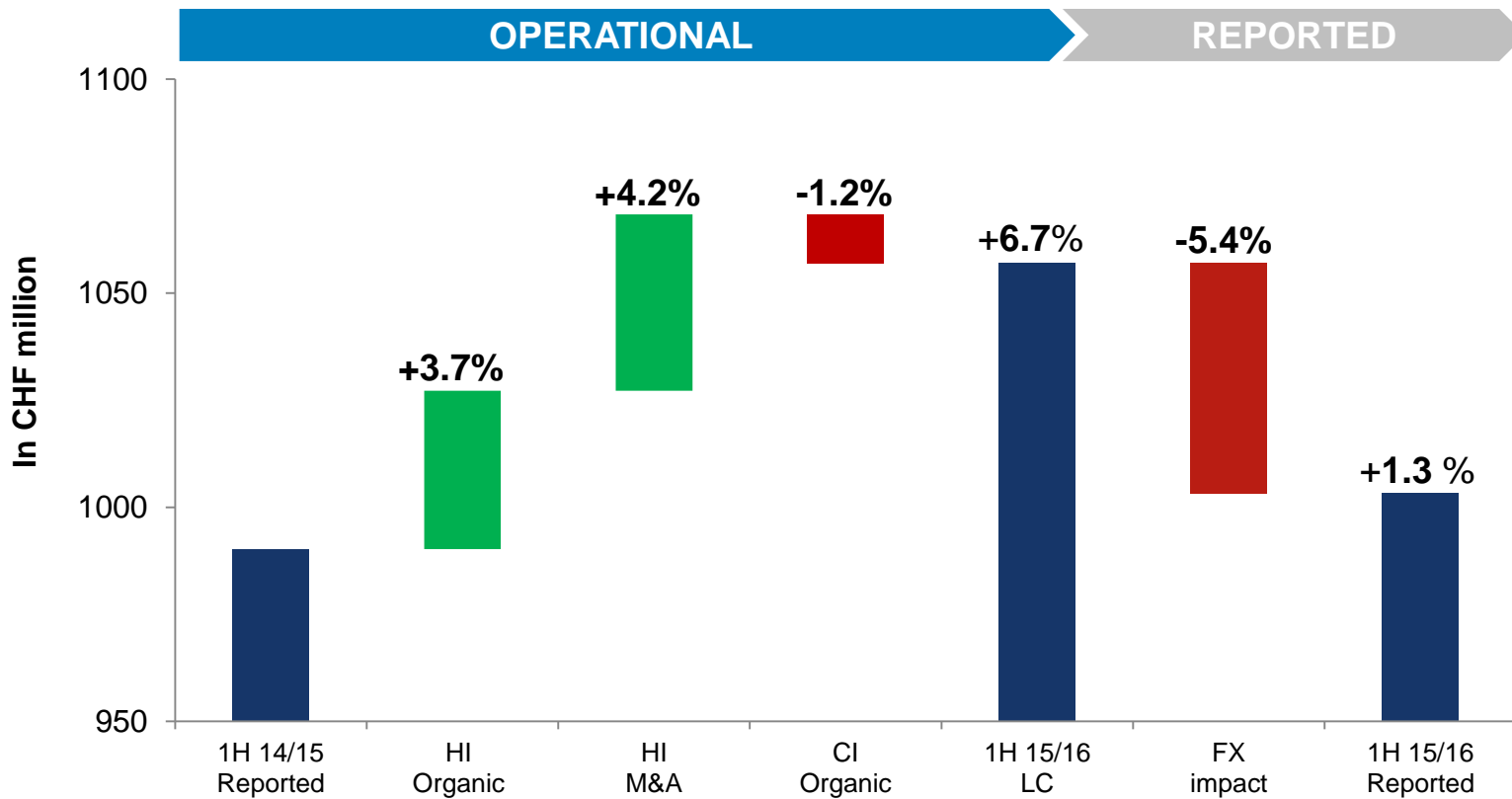
- 2 Cochlear implants: Slower than expected start to the year – near breakeven EBITA**
 - Sales of 85.4 million – decline of 11.2% in LC vs. a strong 1H 2014/15
 - EBITA of CHF -2.6 million (in LC CHF -1.1 million)

- 3 Strong Swiss franc – substantial FX impact on reported results**
 - Currency headwind reducing sales by CHF 53.8 million and EBITA by CHF 21.7 million
 - Additional working capital FX losses from volatile emerging markets

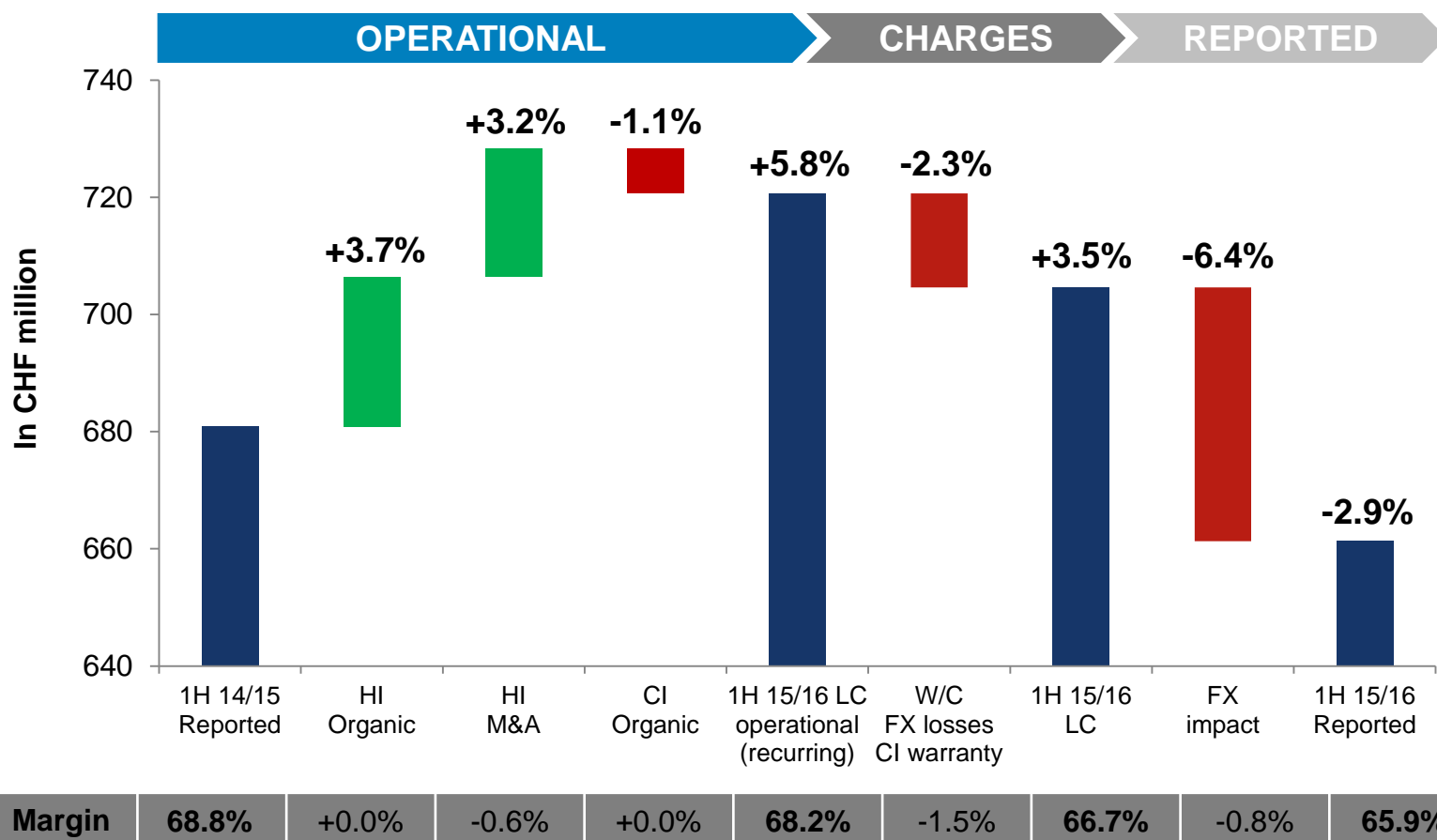
- 4 Sonova Group: solid progress in HI – below expectation in CI – substantial FX impact**
 - Sales of CHF 1'003.2 million up by 6.7% in LC – driven by organic sales growth and acquisitions
 - EBITA of CHF 195.8 million – margin of 19.5% (recurring in LC 21.3%)

- 5 Good cash conversion – strong cash flow – total shareholder return strategy on track**
 - Operating free cash flow up 3.9% – positive development despite strong FX headwind
 - Share buy-back program continues – shares for CHF 99 million bought back in 1H 2015/16

Sales and growth components – YoY

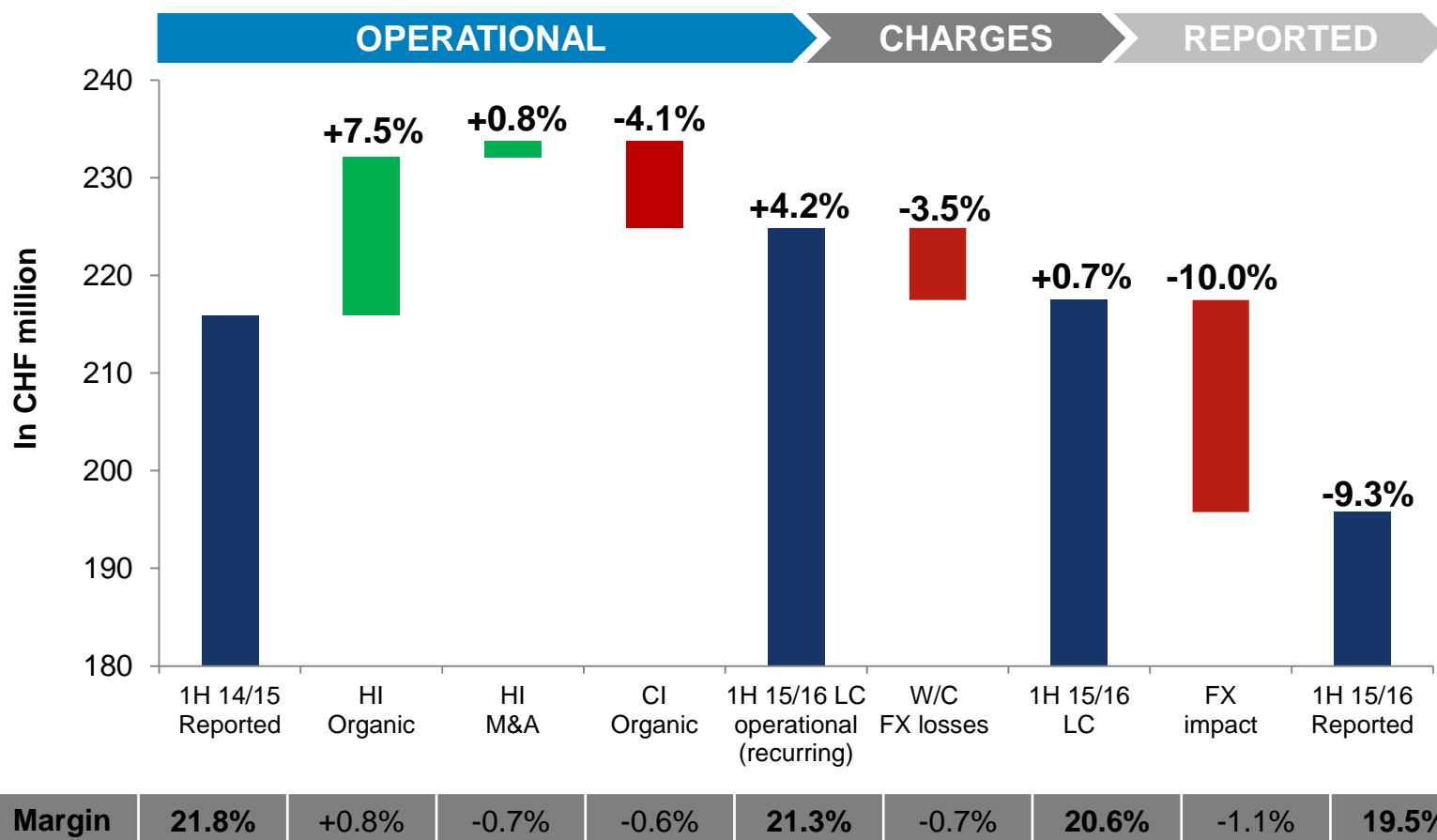


Gross profit and growth components – YoY



Significant FX / non-recurring items – Underlying organic growth at stable margins

EBITA and growth components – YoY



Solid underlying organic margin improvement in HI – Held back by FX, CI and M&A

Growth components

in CHF million	1H 2014/15 as reported	Growth contribution		1H 2015/16 @ const. FX	FX impact	1H 2015/16 as reported
		Organic*	Acquisitions			
Sales	990.2	+25.7	+41.2	1,057.0	-53.8	1,003.2
- Δ % to prior year	+4.5%	+2.6%	+4.2%	+6.7%	-5.4%	+1.3%
EBITA	215.9	-0.1	+1.7	217.5	-21.7	195.8
- EBITA growth		-0.0%	+0.8%	+0.7%	-10.0%	-9.3%
- EBITA margin	21.8%			20.6%		19.5%

*Note: Including FX losses on working capital

LC margin impacted by FX losses on working capital and by acquisition integration

Sales by regions and key markets

in CHF million	1H 2014/15		1H 2015/16		Δ % in LC
	Sales	in %	Sales	in %	
EMEA	427.3	43.2%	418.3	41.7%	9.0%
USA	348.7	35.2%	375.5	37.4%	1.9%
Americas (excl. USA)	108.3	10.9%	100.0	10.0%	8.2%
Asia / Pacific	105.9	10.7%	109.3	10.9%	11.9%
Total SONOVA	990.2	100.0%	1,003.2	100.0%	6.7%

EMEA

– Broad based acceleration in HI – held back by CI

US

– Good growth momentum in HI – CI declining from strong prior year

APAC

– Strong growth across HI and CI segments

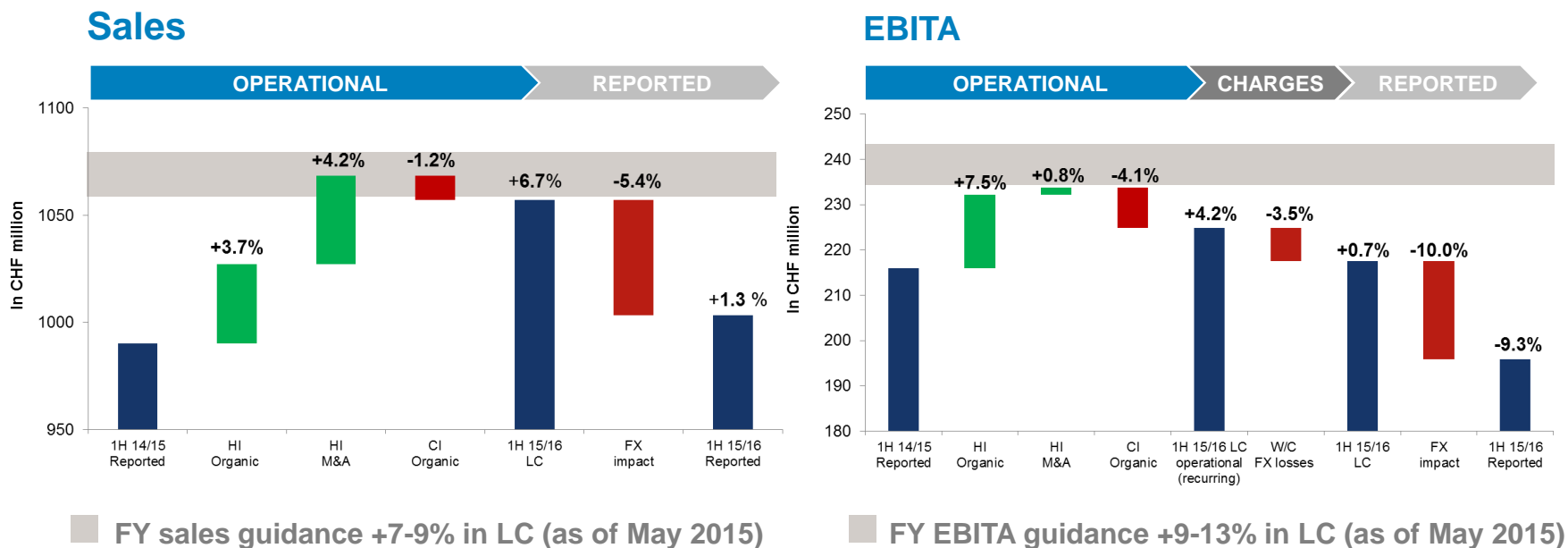
Solid LC growth led by EMEA and APAC

Key financials

in CHF million	1H 2014/15	1H 2015/16	Δ %	Δ % in LC
Sales	990.2	1,003.2	+1.3%	+6.7%
Gross profit	680.9	661.3	-2.9%	+3.5%
- Gross profit margin	68.8%	65.9%		
OPEX	-465.0	-465.5	+0.1%	+4.8%
EBITA	215.9	195.8	-9.3%	+0.7%
- EBITA margin	21.8%	19.5%		
Operating free cash flow	141.6	147.2	+3.9%	
Basic EPS (in CHF)	2.52	2.32	-8.2%	

Stable underlying gross margin – Strong operating free cash flow

1H 2015/16 result vs. FY 2015/16 guidance issued in May 2015



Solid HI performance – Held back by slow start in CI business and FX impact

FY 2015/16 guidance

	FY 14/15 Actual	1H 15/16 Actual	FY 15/16 Guidance May 2015	FY 15/16 Guidance Nov 2015	Comment
SALES – growth in LC	6.2%	6.7%	7-9%	6-8%	- CI business shortfall
thereof acquisitions	1.1%	4.2%	~ 3%	~ 3%	
FX impact	-1.9%	-5.4%			
SALES – growth in CHF	4.3%	1.3%			
EBITA - growth in LC recurring	7.6%	4.2%	9-13%	7-11%	- CI business shortfall
thereof FX effect on W/C	2.2%	-3.5%		~ -4.0%	
EBITA - growth in LC	9.8%	0.7%	9-13%	3-7%	
FX impact	-3.9%	-10.0%			
EBITA - growth in CHF	5.9%	-9.3%			

Factors impacting 1H performance and considerations for outlook into 2H

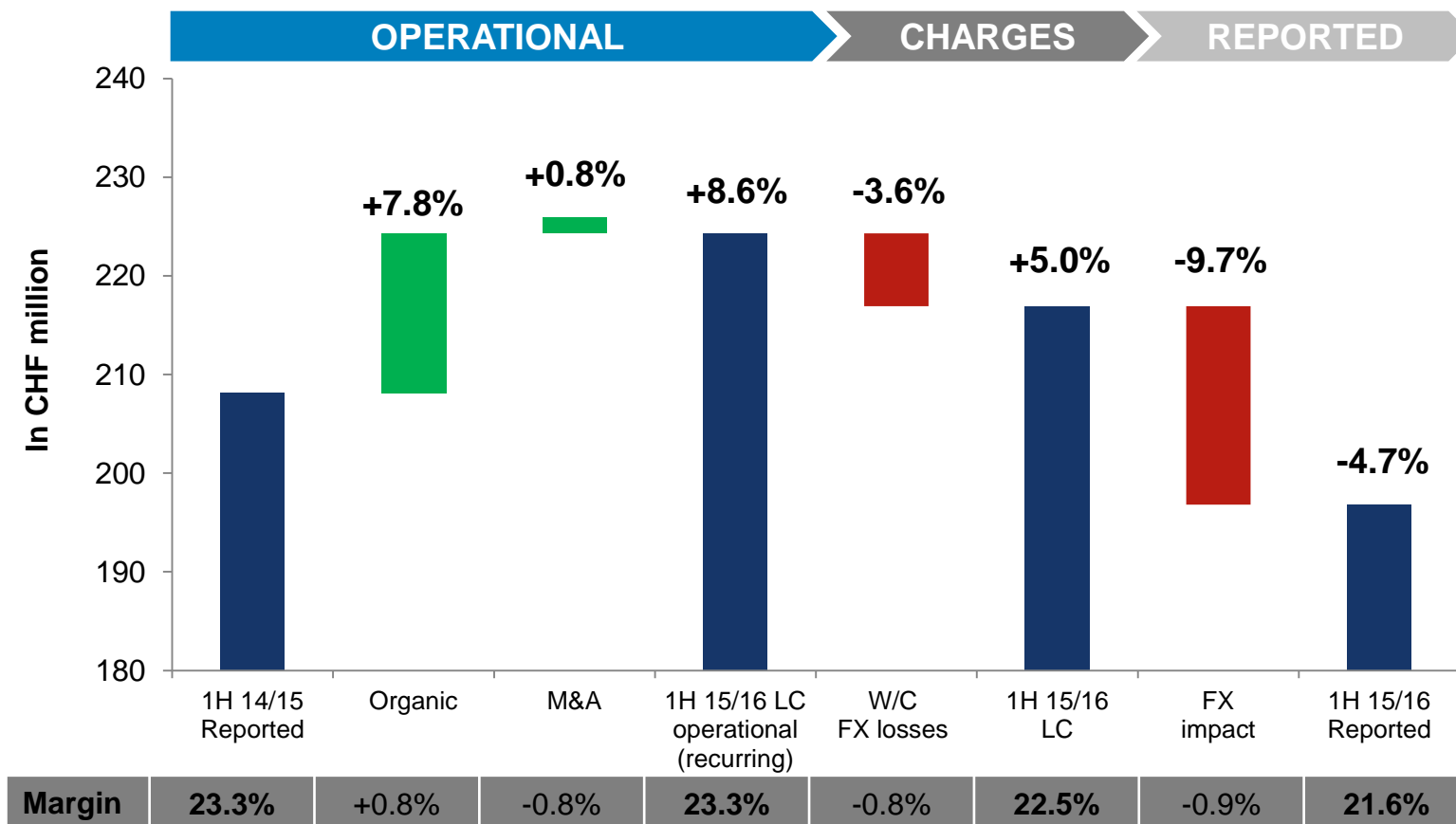
	Driver	1H 2015/16	2H 2015/16
Market	<ul style="list-style-type: none"> – Global market growth – German market growth – FX vs. the Swiss franc 	<ul style="list-style-type: none"> – Healthy – Subdued – Strong headwind 	<ul style="list-style-type: none"> – Healthy – Momentum improving – Strong headwind
Hearing instruments	<ul style="list-style-type: none"> – Impact from new products – M&A – sales impact – M&A – margin impact – DE – retail disclosure impact – Share in US private market – Growth in VA 	<ul style="list-style-type: none"> – Generating momentum – Strong contribution – Slight dilutive impact – Initial push-back from independents – Stable – Difficult comp. base 	<ul style="list-style-type: none"> – Generating momentum – Modest contribution – Dilutive impact easing – Push-back from independents easing – Stable – Comp. base easing
Cochlear implants	<ul style="list-style-type: none"> – Processor reliability under intensive wear conditions – New product impact 	<ul style="list-style-type: none"> – Buyer hesitation in US/UK – No new products 	<ul style="list-style-type: none"> – Buyer hesitation easing – New Q processors to provide momentum

2. Business review – Hearing instruments

Business summary 1H 2015/16

- **Continued solid sales growth**
 - Sales of CHF 917.8 million up by 8.7% in LC – driven equally by organic growth and acquisitions
 - Double digit growth in Premium segment
 - Positive market response to Phonak Venture and Unitron North products
- **Stable underlying EBITA margin**
 - EBITA of CHF 198.4 million – margin of 21.6%
 - Stable organic EBITA margin development (recurring in LC 23.3%)
 - Volatile emerging market currencies resulting in additional working capital FX losses
 - Initial margin dilution from integration of Hansaton – transitioning to Sonova products
- **Business development and new products**
 - Phonak: substantial growth – building on the success and power of the Venture platform
 - Unitron: fair growth – expanding the North platform – leveraging the Flex™ solution
 - Connect Hearing: substantial growth - positioned for efficient lead generation and service delivery
 - Strong growth in wireless systems driven by Comfort Audio acquisition

EBITA and growth components – YoY



Solid underlying organic margin improvement – Held back by FX and M&A impact

Growth components

in CHF million	1H 2014/15 as reported	Growth contribution		1H 2015/16 @ const. FX	FX impact	1H 2015/16 as reported
		Organic*	Acquisitions			
Sales	892.2	+37.0	+40.8	970.0	-52.1	917.8
- Δ % to prior year	+3.0%	+4.1%	+4.6%	+8.7%	-5.8%	+2.9%
EBITA	208.1	+8.8	+1.6	218.5	-20.2	198.4
- EBITA growth		+4.2%	+0.8%	+5.0%	-9.7%	-4.7%
- EBITA margin	23.3%			22.5%		21.6%

*Note: Including FX losses on working capital

EMEA	– Solid organic growth supported by acquisitions – headwinds in DE following retail disclosure
US	– Commercial segment grows in line with market – VA stabilizing
APAC	– Double digit growth across key markets

Solid underlying organic margin improvement – Held back by FX and M&A impact

Hearing instruments

Sales by product groups

in CHF million	1H 2014/15	% Group sales	1H 2015/16	% Group sales	Δ % in LC
HI Premium	226.7	22.9%	246.8	24.6%	10.6%
HI Advanced	204.4	20.6%	199.0	19.8%	3.3%
HI Standard	286.8	29.1%	293.1	29.3%	9.5%
Wireless communication	38.8	3.9%	43.9	4.4%	21.1%
Miscellaneous	135.6	13.7%	135.1	13.5%	8.0%
Total HI Segment	892.2		917.8		8.7%

Positive mix shift in DE, US – Double digit growth in premium segment from Venture

3. Business review – Cochlear implants

Business summary 1H 2015/16

- **Slower than expected start to the year**
 - Sales of 85.4 million – decline of 11.2% in LC vs. a strong 1H 2014/15
 - Challenging comparison to prior year – difficult competitive situation
 - Continued buyer restraint in the US – following product optimization / ahead of new processor launch
 - New Q series processors launched – expected to positively impact 2H

- **Near break even EBITA**
 - EBITA reported at CHF -2.6 million or CHF -1.1 million in local currencies
 - Stable gross margin and OPEX level
 - Increase in warranty provision offset by product liability provision release

- **Business development and new products**
 - New Naída™ CI Q series: improved hearing performance – combining the innovation DNA of AB and Phonak adding substantial new features for CI patients and HCP professionals

Growth components

in CHF million	1H 2014/15 as reported	Growth contribution		1H 2015/16 @ const. FX	FX impact	1H 2015/16 as reported
		Organic*	Acquisitions			
Sales	98.0	-11.4	+0.4	87.0	-1.7	85.4
- Δ % to prior year	+19.6%	-11.6%	+0.4%	-11.2%	-1.7%	-12.9%
EBITA	7.8	-8.9	+0.1	-1.1	-1.5	-2.6
- EBITA margin	7.9%			-1.2%		-3.0%

*Note: Including small FX loss on working capital

EMEA	– Modest decline in Europe, held back by UK, DE – challenging situation in MEA
US	– Improving momentum after difficult start to the year
APAC	– Solid double digit growth from low base

Stabilization in key US market after a slow start to the year

4. Financial Review

Financial highlights – 1H 2015/16

- **Sales** of CHF 1,003.2 million – driven by solid organic growth of HI business and acquisitions
- **Gross Profit** of CHF 661.3 million or 65.9% of sales – affected by warranty provision, FX and M&A
- **Reported EBITA margin** of 19.5%
 - FX headwind – impact from worse average exchange rates and losses on working capital
 - Gross margin affected by CI warranty provision increase (CHF 8.6 million) and currency impact
 - OPEX under tight control, includes product liability provision release (CHF 8.8 million)
 - Continued investment in innovation – R&D spending of CHF 73.3 million or 7.3% of sales
- **ROCE** of 25.9% – profitability affected by FX – slight increase in capital employed, driven by M&A
- **Basic EPS** of CHF 2.32, down 8.2%
- **Operating free cash flow** at 147.2 million – up 3.9% despite FX impact
- **Free Cash Flow** of CHF 75.6 million – higher cash-out for acquisitions
- **Net cash** of CHF 184.5 million – solid balance sheet provides ample flexibility

Key financials

in CHF million	1H 2014/15	1H 2015/16	Δ %	Δ % in LC
Sales	990.2	1,003.2	+1.3%	+6.7%
Gross profit	680.9	661.3	-2.9%	+3.5%
- Gross profit margin	68.8%	65.9%		
OPEX	-465.0	-465.5	+0.1%	+4.8%
EBITA	215.9	195.8	-9.3%	+0.7%
- EBITA margin	21.8%	19.5%		
Operating free cash flow	141.6	147.2	+3.9%	
Basic EPS (in CHF)	2.52	2.32	-8.2%	
ROCE*	27.4%	25.9%		

* EBIT (last twelve months) in % of capital employed (average)

EPS and ROCE following the trend of reported EBITA

Operating expenses

in CHF million	1H 2014/15	1H 2015/16	Δ % in CHF	Δ % in LC	Comments
Research & Development	-65.3	-65.4	+0.1%	+0.2%	Continued investment
in % of sales	6.6%	6.5%			
Sales & Marketing	-301.6	-313.4	+3.9%	+10.0%	Half of increase from acquisitions
in % of sales	30.5%	31.2%			
General & Administration	-98.4	-95.5	-2.9%	-0.1%	Strong cost discipline
in % of sales	9.9%	9.5%			
Other income / (expenses), net	0.2	8.7			Provision release CI
Total OPEX	-465.0	-465.5	+0.1%	+4.8%	
in % of sales	47.0%	46.4%			

Good cost containment in G&A – S&M increase driven by acquisitions

R&D spending

in CHF million	1H 2014/15	1H 2015/16	Δ % in CHF	Δ % in LC	Comments
R&D charged to the P&L	65.3	65.4	+0.1%	+0.2%	Stable spending level
in % of sales	6.6%	6.5%			
Capitalized development costs	11.3	11.6	+3.2%	+2.9%	CI investment
in % of sales	1.1%	1.2%			
Amortization of development costs	3.7	3.7	+0.0%	+0.0%	Expected to increase
in % of sales	0.4%	0.4%			
Total R&D spending	72.9	73.3	+0.6%	+0.6%	
in % of sales	7.4%	7.3%			

Continued high R&D spending at a level of 7 - 8% of sales (gross)

Reported results and income taxes

in CHF million	1H 2014/15	1H 2015/16	Δ % in CHF	Comments
EBITA	215.9	195.8	-9.3%	
Acquisition related amortization	-12.7	-13.5	+6.2%	
Operating profit (EBIT) in % of sales	203.1 20.5%	182.3 18.2%	-10.3%	
Financial result	-3.1	-1.0	-68.1%	Reduced by one-time financial income
Income before taxes	200.0	181.3	-9.4%	
Income taxes	-26.4	-23.9	-9.3%	
- Income tax rate	13.2%	13.2%		
Income after taxes in % of sales	173.6 17.5%	157.3 15.7%	-9.4%	
Thereof attributable to non-controlling interests	4.1	3.9		Boots Hearing Care JV
Basic EPS (in CHF)	2.52	2.32	-8.2%	

Income after taxes and EPS tracking with reported EBITA

Cash flow

in CHF million	1H 2014/15	1H 2015/16	Δ % in CHF	Comments
Cash flow before changes in NWC (incl. taxes paid)	237.6	197.4	-16.9%	
Changes in net working capital	-52.9	-11.3	-78.7%	Strict working capital control
Cash flow from operating activities in % of sales	184.7 18.7%	186.1 18.5%	+0.7%	
Cash flow from investing activities (excl. acquisitions)	-43.1	-38.8	-9.8%	
Operating free cash flow in % of sales	141.6 14.3%	147.2 14.7%	+3.9%	
Cash consideration for acquisitions	-7.9	-71.7	>100%	Higher M&A activity incl. Hansaton
Free cash flow	133.7	75.6	-43.5%	
Cash flow from financing activities	-233.9	-260.9	+11.5%	Higher shareholder return
Changes in cash and cash equivalents	-96.0	-185.8	+93.6%	

Strong operating free cash flow despite FX headwind

Balance sheet

in CHF million	30 Mar 2015	30 Sep 2015	Δ % in CHF	Comments
Net working capital	181.4	194.1	+7.0%	Includes acquisition impact
Days sales outstanding (DSO)	67	65		
Days inventory outstanding (DIO)	143	148		Inventory ramp up ahead of public holiday at main plant site
Capital employed	1,489.5	1,585.1	+6.4%	Driven by acquisitions
Net cash	382.3	184.5	-51.8%	Dividends of 136m, SBB of 99m, acquisitions of 72m
Equity	1,871.8	1,769.6	-5.5%	
Equity in % of total assets	69.5%	67.7%		

Reduced net cash reflecting dividends, share buy-back and acquisitions

5. Outlook

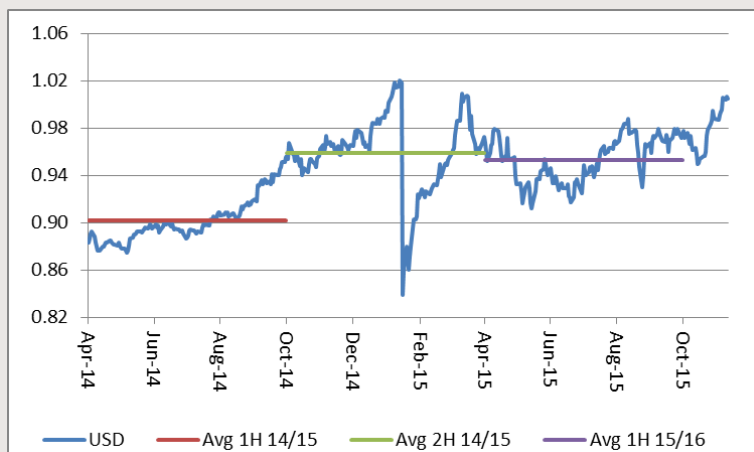
Outlook FY 2015/16

FY 2015/16 guidance

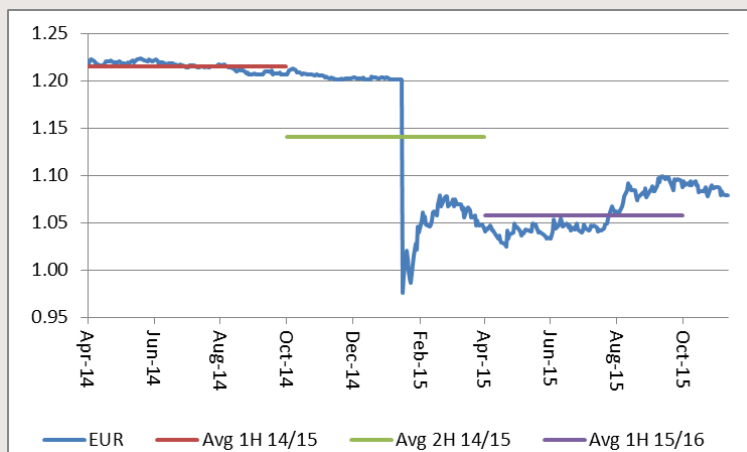
	FY 14/15 Actual	1H 15/16 Actual	FY 15/16 Guidance May 2015	FY 15/16 Guidance Nov 2015	Comment
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thereof acquisitions	1.1%	4.2%	~ 3%	~ 3%	
FX impact	-1.9%	-5.4%			
SALES – growth in CHF	4.3%	1.3%			
EBITA - growth in LC recurring	7.6%	4.2%	9-13%	7-11%	- CI business shortfall
thereof FX effect on W/C	2.2%	-3.5%		~ -4.0%	
EBITA - growth in LC	9.8%	0.7%	9-13%	3-7%	
FX impact	-3.9%	-10.0%			
EBITA - growth in CHF	5.9%	-9.3%			

FX impact on sales and margins

USD/CHF



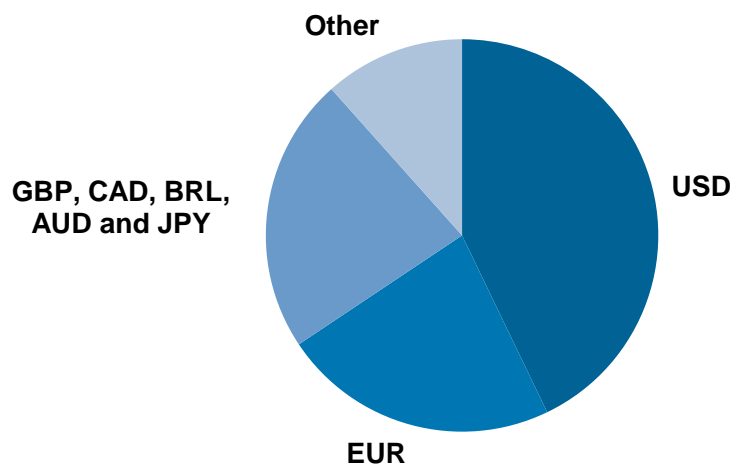
EUR/CHF



	Rate	Sales	EBITA
USD/CHF	+/- 5%	+/- CHF 40 million	+/- CHF 13 million
EUR/CHF	+/- 5%	+/- CHF 25 million	+/- CHF 13 million

USD and EUR account for roughly two thirds of the overall FX exposure

FX rates – Main currencies accounted for around 90% of Group sales



	Avg 1H 2014/15	Avg 1H 2015/16	Effect	Avg FY 2014/15	Spot 11-Nov-15
USD	0.90	0.95	+	0.93	1.00
EUR	1.22	1.06	-	1.18	1.08
GBP	1.51	1.47	-	1.50	1.53
CAD	0.83	0.75	-	0.82	0.76
AUD	0.84	0.72	-	0.81	0.71
BRL	0.40	0.29	-	0.38	0.27
JPY 100	0.88	0.78	-	0.85	0.82

Negative impact from all main currencies in 1H 2015/16 – Except USD

6. Questions & Answers

7. Upcoming Events

Important dates

17-25 Nov 2015	Roadshow Half-Year Results 2015/16	
April 2016	Investor Call AudiologyNow!	
18 May 2016	Publication Full-Year Results 2015/16	Stäfa
19-27 May 2016	Roadshow Full-Year Results 2015/16	
14 Jun 2016	Annual General Meeting	Zurich
18 Oct 2016	Sonova Investor & Analyst Day	

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