Media Release

Sonova continues to deliver solid sales growth, margin expansion and strong cash flow performance

Stäfa (Switzerland), 19 May 2015 **– Sonova Holding AG, the world's leading provider of hearing solutions, announces today that the Group again delivered a solid performance in 2014/15, generating record sales of CHF 2,035.1 million, an increase of 4.3% in Swiss francs or 6.2% in local currencies. Group EBITA rose by 9.8% in local currencies to CHF 455.6 million, corresponding to a margin of 22.4%. A strong cash conversion resulted in a 15.1% growth in the operating free cash flow. The Board of Directors proposes a dividend of CHF 2.05 per share, up 8% from prior year.**

Highlights

- Group sales of CHF 2,035 million – up 4.3% in Swiss francs and 6.2% in local currencies
- EBITA of CHF 455.6 million – up 5.9% in Swiss francs and 9.8% in local currencies
- Operating free cash flow of CHF 366 million – up 15.1% from last year
- Hearing instruments segment – sales of CHF 1,841 million, up 6.9% in local currencies
- Cochlear implants segment – sales unchanged at CHF 194 million
- The Board of Directors proposes a dividend increase of 8% to CHF 2.05 per share
- Changes to the Board of Directors – Andy Rihs announces that as planned he will not stand for re-election at the 2015 Annual General Shareholders' Meeting
- Outlook – for FY 2015/16, sales are anticipated to grow by 7% to 9% and EBITA to rise by 9% to 13%, both measured in local currencies

Commenting on the results, Lukas Braunschweiler, CEO of Sonova said: "We again delivered very solid results overall, with a strong performance in hearing instruments and driven by double-digit growth of all our businesses in Europe and in parts of Asia. I am particularly proud about our strong ability to continuously expand our margins and to effectively convert earnings into cash as demonstrated by the robust growth in operating free cash flow. This was achieved despite temporary challenges in the US market in the first half and headwind from the strong Swiss franc. We remained focused executing on our strategic plan by broadening our product and solution offering, significantly strengthening our global distribution capabilities and further pursuing our global resource allocation strategy. Building on these achievements, I am confident that we continue to deliver on our strategy of customer-driven innovation and sustainable growth."

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland

Phone +41 58 928 33 33
Fax +41 58 928 33 45
info@sonova.com
www.sonova.com

Continued solid organic growth

Sonova Group sales in 2014/15 grew by 4.3% in reported Swiss francs or 6.2% in local currencies, reaching CHF 2,035.1 million. Reported sales and EBITA were adversely impacted by exchange rate fluctuations, which included the strong appreciation of the Swiss franc following the decision by the Swiss National Bank in January 2015 to discontinue its minimum exchange rate policy vis-à-vis the euro. Organic growth represented 5.1% of sales growth, with acquisitions adding another 1.1%. About a third of this arose from the acquisition of Comfort Audio, effective October 2014; the remainder represented the addition of various smaller retail distribution businesses, including the full-year effect of such acquisitions made in the previous financial year.

Strong growth in the EMEA region

The Europe, Middle East, and Africa region (EMEA), which accounted for 44% of Group sales, reported a strong 15.1% sales increase in local currencies, building on the region's double digit growth in the prior year. Both the hearing instruments and the cochlear implants segment showed further acceleration, based broadly across Europe. The hearing instruments segment achieved pronounced market share increases in Scandinavia, Italy, and the UK. In Germany, a sales increase was achieved due to strong market growth and market share gains achieved in the first nine months of the financial year, despite a slower pace of business towards the end of the period.

After a strong prior year, the Group's business in the United States, representing 35% of total sales, showed a modest decrease of 2.1% in local currency. This is the result of largely-expected factors: private-market customer reaction to the adoption of a new commercial distribution channel, along with contractual and supply chain limitations in business with the US Department of Veterans Affairs (VA). These effects abated in the second half of the financial year. In addition, the cochlear implants segment in the US could not increase sales volume over its exceptionally strong prior year. Sales in the rest of the Americas reported only modest sales growth of 2.4% in local currencies. This mostly reflects stagnant government spending on health care in Brazil and the expected temporary adverse effect of an IT system change on the Group's Canadian retail business.

The Asia/Pacific region represented 10% of Group sales and achieved sales growth of 5.2% in local currencies. This reflects the continued successful execution of Sonova's China growth strategy as well as strong market development in Australia, partly offset by restrained growth in Japan due to weak economic trends and the fact that there were no larger orders for cochlear implant systems from government tenders in China this year.

Positive operating margin development

Gross profit reached CHF 1,394.7 million for the year under review (2013/14: CHF 1,340.4 million). This figure is normalized for non-recurring costs of CHF 7.1 million, including CHF 6.0 million booked for a restructuring provision related to the transfer of approximately 100 hearing aid assembly staff positions from Switzerland to the UK and China and a one-off charge of CHF 1.1 million related to a move from Group-owned to third-party wholesale hearing aid distribution in non-core emerging markets. These measures should serve to further reduce the Group's exposure to foreign exchange fluctuations. Normalized gross profit rose 4.0% in Swiss francs or 6.3% in local currencies over the prior year, corresponding to a gross margin of 68.5%. Including the non-recurring items, reported gross profit reached CHF 1,387.5 million (margin: 68.2%).

Total operating expenses rose by 3.3% in Swiss francs or 4.8% in local currencies to CHF 940.7 million, normalized for three non-recurring items that resulted in a combined net benefit of CHF 8.8 million. These items include a one-time cost of CHF 2.4 million for personnel restructuring, as well as working capital provisioning related mainly to the above-mentioned move to third-party distribution in non-core emerging markets, and a provision of CHF 2.0 million to address risks related to prior years' indirect taxes in one particular market. On the other hand, operating expenses were reduced by CHF 13.2 million (reported under "other income") because of the release of a provision for cochlear implant product liabilities related to Advanced Bionics' Vendor B product recall in 2006, due to better-than-expected development in the number of claims. Reported operating expenses amounted to CHF 932.0 million.

Keeping up its commitment to rapid innovation, the Group maintained a high level of investment in research and development. R & D expenses grew in 2014/15 by 4.4% in local currencies to CHF 130.9 million or 6.4% of sales. Gross R & D spending (including the net increase in capitalized development costs) amounted to CHF 150.3 million, corresponding to 7.4% of sales. Sales and marketing costs, normalized for non-recurring items, increased by 3.8% in Swiss francs or 5.7% in local currencies to reach CHF 612.2 million or 30.1% of sales. Normalized general and administrative expenses rose by 1.2% in Swiss francs or 2.1% in local currencies, well below reported sales growth; together, they represent 9.7% of sales.

As a result, the Group's reported operating profit before acquisition-related amortization (EBITA) was CHF 455.6 million, an increase of 5.9% in Swiss francs or 9.8% in local currencies over the prior year. This reflects the fact that non-recurring restructuring costs included in the cost of sales (CHF 7.1 million) were offset by a non-recurring net gain in total operating expenses (CHF 8.8 million). The reported EBITA margin rose to 22.4% from 22.0% last year. Excluding the unfavorable exchange rate development, which reduced reported EBITA by CHF 16.5 million, EBITA margin improved by solid 80 basis points. Operating profit (EBIT) reached CHF 429.1 million, an increase of 6.2% in Swiss francs over the prior year.

Solid growth in EPS

Net financial expenses, including the result from associates, fell from CHF 9.5 million to CHF 8.7 million, reflecting lower interest expenses and a higher profit from associates. Income taxes for the financial year totaled CHF 52.0 million, up from CHF 47.2 million in 2013/14, and representing an effective tax rate of 12.4%. Reported income after taxes was CHF 368.3 million, up 6.0% from the previous year. Basic earnings per share (EPS) therefore reached CHF 5.37 (2013/14: CHF 5.08), a solid rise of 5.7% over the previous year.

Workforce increases to 10,184

At the end of the 2014/15 financial year, the Group's total workforce stood at 10,184 full time equivalents – an increase of 655 over the previous year. This growth is broadly based across our sales and distribution organization and also includes additions from acquisitions. Our manufacturing work force also increased at the China and Vietnam operation centers, which continue to gradually absorb some manufacturing functions that were previously hosted in the distribution companies.

Hearing instruments segment – Solid growth and innovation in products and distribution

Driven by organic growth, sales in the hearing instruments segment reached CHF 1,840.9 million, representing an increase of 4.8% in reported Swiss francs and 6.9% in local currencies. Organic growth was 5.6% in local currencies, supplemented by 1.3% or CHF 22.1 million from acquisitions in this financial year and the full year effect from prior year acquisitions. About a third of this contribution came from the acquisition of Comfort Audio. Growth in the second half was supported by the strongly positive market response to Phonak Audéo V, the highly popular Receiver-In-Canal (RIC) form factor and the first product family to take advantage of the possibilities offered by the new Venture product platform.

Sales in Europe and Asia Pacific developed strongly: both the wholesale and retail business accelerated over the prior year, measured in local currencies, and clearly exceeded market growth in several countries. In the UK, the success of the Boots Hearingcare partnership further extended Sonova's leading position in the private market. In Scandinavia, sales increased based on a strong presence in government tenders. Italy developed well both in the independent and key account customer groups. Business in Germany experienced a strong positive development during the first nine months while business slowed towards the end of the financial year. This was partly due to declining market volumes and partly caused by customer reactions connected to the Group's decision to have a presence in the German retail market. In China, the Group continued to execute its long term growth plans, delivering a double digit sales increase. The strong position in the Australian market was further expanded, while tightening government healthcare spending in Brazil and weak economic trends in Japan resulted in restrained growth in these markets.

In the United States, sales in the commercial business initially slowed after the strategic decision to supply Phonak products to the innovative shop-in-shop concept at the retailer Costco, but then accelerated in the second half of the year to surpass the prior year's level. Business with the VA was hampered by a temporary contractual value limit that ended in October 2014. In addition, changes in the VA's ordering routines and the consolidation of Unitron into the Phonak contract (effective November 2014) meant that both brands experienced a phase of slow order activity. Starting in 2015, the business regained market share by reducing order cycle times and implementing other measures to improve ease of ordering for VA audiologists.

Among the product categories, Premium hearing instruments (which also includes Phonak Lyric) posted the strongest growth rate, achieving a sales increase of 12.3% in local currencies. This was followed by the Standard category, which was up 8.0% in local currencies, helped by above-average growth in Germany and China. Sales in the Advanced category fell by 3.2% in local currencies. Premium and advanced hearing instruments accounted for 24% and 20% of Group sales respectively, while Standard accounted for 29%. Based on the continued strong sales of Phonak's Roger products and supported by the addition of Comfort Audio, sales of wireless communication systems grew by 30.0% in local currencies. Sales in the "miscellaneous" product category grew by 6.2% in local currencies, accounting for 13% of Group sales.

Sales growth, stringent cost discipline, and a healthy trend in the product mix lifted normalized EBITA for the hearing instruments segment by 6.3% in Swiss francs and 10.0% in local currencies to CHF 443.5 million. This corresponds to an operating margin of 24.1%. Excluding the unfavorable currency impact, the normalized operating margin rose by 70 basis points and demonstrates continued solid operating leverage. The reported EBITA, including the non-recurring cost amounted to CHF 434.7 million.

Cochlear implants segment – A year of consolidation

Following its extraordinary performance in 2013/14, particularly during the second half of the financial year, the cochlear implants segment consolidated its overall position, albeit with differing trends between the US market and China versus other parts of the world. Total sales were CHF 194.2 million, on the same level as in the prior year. After strong growth in the first half year, the second half saw a partly expected decline due to the exceptional second-half growth in the prior year of 50.2% in local currencies. This extraordinary performance had been driven by the approval of the Naída CI Q70 processor in the US in August 2013 and the fulfillment of a central government tender in China. Furthermore, there was an adverse operating development in the US market, where we saw increased competitive pressure and where customers exercised some restraint during the period when the company undertook product optimizations to further improve the performance of the Naída CI Q70 sound processor under intensive wear conditions. Positive data from several clinical studies continues to demonstrate the strong advantages of the processor and bodes well for future sales.

These factors were only partly offset by very satisfactory sales growth in all other larger markets outside the US and China, where sales continued to grow throughout the year, further strengthening the company's position in Europe and emerging markets. The strong value proposition of Naída CI Q70, representing a competitive advantage in key audiological and connectivity functionalities, drove sales, along with the balanced portfolio of electrodes and Advanced Bionics' strong offering of waterproof solutions.

Cost management was a key priority, though research and development programs proceeded as planned. With sales at the prior year level, the normalized EBITA for the cochlear implants segment reached CHF 10.4 million, down slightly from the CHF 12.8 million reported in 2013/14. This corresponds to an operating margin of 5.4%. Reported EBITA, including the non-recurring gains from the release of the product liability provision and non-recurring costs, amounted to CHF 20.9 million.

While the development of the cochlear implants segment did not fully meet management's ambitious expectations in 2014/15, the business remains on its expected long-term growth trajectory, achieving a mid-teens compound annual growth rate over the past two financial years.

Significant free cash flow

Cash flow from operating activities rose by 11.8% to CHF 459.5 million in the year under review. The increase reflects the rise in EBITA of 5.9% over the prior year. The cash flow further benefited from significantly lower expenses connected with the settlement of product liability claims linked to the Advanced Bionics' Vendor B product recall. Net expenditure for this purpose in 2014/15 amounted to CHF 5.0 million (after including the benefit of a CHF 4.8 million insurance reimbursement), against CHF 43.4 million in the prior year. The prior year expenditure included the settlements announced in October 2013, which covered the majority of claims pending at that time. Investments in tangible and intangible assets decreased by CHF 5.7 million or 6.0% to CHF 89.0 million, which was partly offset by higher cash out from changes in other financial assets of CHF 4.8 million. This resulted in an operating free cash flow of CHF 366.4 million, up by a strong 15.1% from the prior year. The cash consideration for acquisitions, including earn-out payments for prior period acquisitions, amounted to CHF 57.7 million in 2014/15, compared to CHF 29.8 million in the prior year. This resulted in a free cash flow of CHF 308.7 million, up 7.0% from the prior year.

Cash outflow from financing stood at CHF 327.3 million in the period under review, compared to CHF 309.1 million in the previous year. In 2014/15, Sonova retired the final CHF 80 million tranche of its financial debt assumed in connection with the acquisition of Advanced Bionics in 2009, rendering the Group essentially debt-free. An installment of CHF 150 million had been paid in the prior year. In December 2014 the Group started a three year share buy-back program and CHF 73.6 million was spent to buy back 546,900 shares. In addition, CHF 19.0 million was spent on the purchase of treasury shares to serve the equity-based compensation plans, compared to CHF 39.1 million in the prior year. The cash outflow from financing also reflects the increase in the dividend by CHF 20.2 million.

Maintaining a solid balance sheet

Reported net working capital was CHF 181.4 million, compared to CHF 190.6 million at the end of the 2013/14 financial year. Capital employed was CHF 1,489.5 million, compared to CHF 1,462.9 million in the prior year. Helped by its strong free cash flow, the Group ended the period with a net cash position of CHF 382.3 million, up CHF 70.8 million from CHF 311.5 million at the end of the prior year. The return on capital employed (ROCE) was 29.1% compared to 27.7% in the prior year, showing that we are on track to reach our mid-term financial targets.

In light of its solid performance during the 2014/15 financial year, as well as the solid financial position of the Sonova Group, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 16, 2015 a dividend of CHF 2.05. Compared to the prior year, the proposed distribution is up 7.9% and represents a payout ratio of 38% compared to 37% in the prior year.

Changes to the Board of Directors

Andy Rihs, a long-standing member of the Board of Directors, has announced that he will not stand for re-election at the 2015 Annual General Shareholders' Meeting, for age reasons. He was one of the founders and has been a true pioneer in our industry. Andy Rihs joined Phonak in 1966, concentrating on marketing and commercial operations. He managed the Group as CEO until April 2000 and again as interim CEO in 2002. Under his leadership, the company grew continuously and established an outstanding reputation as a provider of technologically advanced products and outstanding customer service in audiology.

Robert Spoerry, Chairman of the Board of Directors of Sonova adds: "Andy's wide industry expertise and commitment to innovation helped form the spirit of Sonova. His strong people focus created our open and inclusive culture: as his phrase is, "ohni Lüt gaht nüt" – you can't achieve anything without people. We thank him warmly for his great contributions to Sonova's success and wish him well in his many other entrepreneurial endeavors."

Outlook 2015/16

Continuous customer-driven innovation and building on our strong market positions remain the Sonova Group's chosen paths to profitable and sustainable growth. We foresee solid sales and earnings increases during 2015/16 in both the hearing instruments and cochlear implants segments, with Group sales expected to grow by 7%-9% and EBITA to increase by 9%-13%, both measured in local currencies. Growth will be supported by the acquisition of Hansaton Akustik GmbH, which became effective in April 2015.

Our online Annual Report 2014/15 is available at:
http://report.sonova.com/2015

The Annual Report 2014/15 is available on our website at:
http://www.sonova.com/en/investors/reporting/financial

The presentation of the Full-Year Results 2014/15 can be downloaded at:
http://www.sonova.com/en/investors/presentations

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Key Figures Sonova Group (consolidated)

in 1,000 CHF unless otherwise specified	2014/15	2013/14
Sales	**2,035,085**	**1,951,312**
change compared to previous year (%)	4.3	8.7
Gross profit	**1,387,524**	**1,340,449**
change compared to previous year (%)	3.5	8.1
in % of sales	68.2	68.7
Research & development costs	**130,897**	**125,657**
in % of sales	6.4	6.4
Sales & marketing costs	**613,217**	**589,627**
in % of sales	30.1	30.2
Operating profit before acquisition-related amortization and impairment (EBITA)	**455,564**	**430,109**
change compared to previous year (%)	5.9	11.6
in % of sales	22.4	22.0
Operating profit (EBIT)	**429,069**	**404,030**
change compared to previous year (%)	6.2	12.5
in % of sales	21.1	20.7
Income after taxes	**368,323**	**347,382**
change compared to previous year (%)	6.0	12.9
in % of sales	18.1	17.8
Number of employees (average)	**9,960**	**9,175**
change compared to previous year (%)	8.6	5.4
Number of employees (end of period)	**10,184**	**9,529**
change compared to previous year (%)	6.9	6.4
Net cash[1)]	**382,343**	**311,525**
Net working capital[2)]	**181,379**	**190,571**
in % of sales	8.9	9.8
Capital expenditure (tangible and intangible assets)[3)]	**88,735**	**93,918**
Capital employed[4)]	**1,489,461**	**1,462,850**
in % of sales	73.2	75.0
Total assets	**2,691,631**	**2,593,748**
Equity	**1,871,804**	**1,774,375**
Equity financing ratio (%)[5)]	**69.5**	**68.4**
Free cash flow[6)]	**308,700**	**288,618**
Operating free cash flow[7)]	**366,385**	**318,430**
in % of sales	18.0	16.3
Return on capital employed (%)[8)]	**29.1**	**27.7**
Return on equity (%)[9)]	**20.2**	**20.3**
Basic earnings per share (CHF)	5.37	5.08
Diluted earnings per share (CHF)	5.35	5.07
Dividend / distribution per share (CHF)	2.05[10)]	1.90

[1)] Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
[2)] Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
[3)] Excluding goodwill and intangibles relating to acquisitions.
[4)] Equity – net cash.
[5)] Equity in % of total assets.
[6)] Cash flow from operating activities + cash flow from investing activities.
[7)] Free cash flow – cash consideration for acquisitions, net of cash acquired.
[8)] EBIT in % of capital employed (average).
[9)] Income after taxes in % of equity (average).
[10)] Proposal to the Annual General Shareholders' Meeting of June 16, 2015.

Contacts:

Investor Relations

Thomas Bernhardsgrütter
Phone +41 58 928 33 44
Mobile +41 79 618 28 07
Email thomas.bernhardsgruetter@sonova.com

Media Relations

Michael Isaac
Phone +41 58 928 33 24
Mobile +41 79 420 29 56
Email michael.isaac@sonova.com

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About Sonova
Sonova Holding AG, headquartered in Staefa, Switzerland, is the leading manufacturer of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Advanced Bionics and Connect Hearing. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Founded in 1947, the Group is currently present in over 90 countries across the globe and has a workforce of over 10,000 dedicated employees. Sonova generated sales of CHF 2.0 billion in the financial year 2014/15 and a net profit of CHF 368 million. By supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

For more information please visit www.sonova.com and www.hear-the-world.com.

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