FINANCIAL REPORT

Semi-Annual Report 2017/18

Highlights & key figures First half 2017 / 18

In the first half of fiscal year 2017/18, the Sonova Group achieved strong growth across all businesses, driven by the successful launch of innovative new products and supported by the acquisition of AudioNova.

Sonova Group: 16.9 % sales growth in local currencies

In the first half of the fiscal year 2017 / 18 Sonova generated sales of CHF 1,253.0 million, an increase of 16.9 % in local currencies or 17.1 % in Swiss francs. Organic growth reached 5.0 %.

Hearing instruments segment: 17.6 % sales growth in local currencies

Sales in the hearing instruments segment reached CHF 1,151.7 million, an increase of 17.6 % in local currencies and 17.8 % in Swiss francs. Excluding one-time costs [1], EBITA increased by 16.7 % in local currencies.

Cochlear implants segment: 9.7 % sales growth in local currencies

Sales in the cochlear implants segment reached CHF 101.3 million, up 9.7 % in local currencies. Affected by an adverse country mix, this resulted in an EBITA loss of CHF 0.8 million versus a CHF 1.0 million loss in the prior year period.

Normalized Group EBITA of CHF 240.5 million

Excluding one-time costs [1], Group EBITA increased by 16.9 % in local currencies and 16.8 % in Swiss francs to CHF 240.5 million. As reported, Group EBITA reached CHF 233.7 million, up 19.3 % over the prior year period.

Sound cash flow, healthy balance sheet

Supported by continued strong cash generation, operating free cash flow reached CHF 153.0 million and the equity ratio reached 54.9 %.

Introduction of revolutionary new wireless chip

Sonova unveiled SWORD™, a new wireless chip, which enables universal direct connectivity. The chip is designed to power future generations of hearing aids across our product brands.

Sonova Group key figures – First half 2017 / 18

April 1 to September 30, in CHF m unless otherwise specified	2017	2016	Change in Swiss francs	Change in local currencies
Sales	1,253.0	1,069.9	17.1 %	16.9 %
EBITA	233.7	195.8	19.3 %	19.4 %
EPS (CHF)	2.64	2.29	15.4 %	
Operating free cash flow	153.0	146.8	4.2 %	
EBITA (normalized) [1]	240.5	205.9	16.8 %	16.9 %
EBITA margin (normalized) [1]	19.2 %	19.2 %		
EPS (CHF) (normalized) [1]	2.73	2.43	12.2 %	

[1] Excluding one-time costs of CHF 6.8 million (prior year CHF 10.1 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Letter to shareholders

Driven by our innovative product portfolio and supported by the acquisition of AudioNova, Sonova achieved strong sales and earnings growth during the first half of fiscal year 2017 / 18.

Dear shareholders

In the first half of the fiscal year 2017 / 18 Sonova generated sales of CHF 1,253.0 million, up 16.9 % in local currencies or 17.1 % in Swiss francs. Growth was driven by the ongoing success of our innovative products and further supported by the AudioNova acquisition, which closed in September 2016. Both the hearing instruments and cochlear implants segment contributed to the increase. Excluding one-time costs related to the acquisition of AudioNova, the EBITA increased by 16.9 % in local currencies and 16.8 % in Swiss francs to CHF 240.5 million. The normalized EBITA margin was stable at 19.2 % – the dilutive effect of the acquired retail businesses was offset by a strong margin expansion in the existing business.

Hearing instruments segment

Both businesses of the segment, hearing instruments and retail, contributed to the strong sales increase of 17.6 % in local currencies. Growth of the hearing instruments business was driven by the continued success of Belong™, Phonak's latest generation product platform. A highlight in the period was the unveiling of the SWORD™ (Sonova Wireless One Radio Digital) wireless chip, which enables universal direct connectivity. The chip made its debut in the Phonak Audéo™ B-Direct hearing aid, which is the industry-first true Made For All solution to directly connect to phones of any brand including Samsung and Apple. The new hearing aid allows true hands-free calling and offers superior stereo sound quality for TV streaming. The SWORD chip will power future generations of hearing aids with even more sophisticated connectivity features across all our brands. The retail business reported a strong sales increase during the period, due to the acquisition of AudioNova. The integration of AudioNova and the conversion to Sonova products are well on track. The development of our retail business in the US and the Netherlands was impacted by the strategic repositioning and streamlining of the respective store networks.

Cochlear implants segment

Sales in the cochlear implants segment were up by 9.7 % in local currencies, driven by strong upgrade sales and deliveries related to a government tender in China. In July 2017, Advanced Bionics launched the Phonak Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for unilateral cochlear implant candidates with no hearing in their opposite ear. This was followed in September 2017 by the TÜV approval of the HiFocus™ SlimJ electrode, featuring a thin, straight design for easy insertion and providing the surgeon with a choice of electrodes with proven patient performance.

Leadership succession

In September, Sonova announced that Lukas Braunschweiler decided to retire from his role as CEO at the end of this fiscal year for age reasons. The Board of Directors appointed Arnd Kaldowski as his successor starting April 1, 2018. A proven and successful leader with a strong track record in the healthcare industry, Arnd Kaldowski initially joined Sonova as COO on October 1, 2017. To further support the long-term continuity in the leadership of the company, the Board of Directors will propose Lukas Braunschweiler for election as a member of the Board of Directors of Sonova at the Annual General Shareholders' Meeting.

Outlook

We continue to expect solid growth in sales and profitability through continued, industry-leading innovation combined with the benefits of our fully integrated business model. We maintain the outlook provided at the start of the fiscal year.

Robert Spoerry
Chairman of the Board of Directors

Lukas Braunschweiler
CEO

Financial review

In the first half of the fiscal year 2017 / 18 Sonova generated sales of CHF 1,253.0 million, an increase of 16.9 % in local currencies or 17.1 % in Swiss francs. Normalized for one-time costs, Group EBITA reached CHF 240.5 million, up 16.9 % in local currencies or 16.8 % in Swiss francs.

Solid organic growth complemented by the acquisition of AudioNova

Sonova Group sales increased by 16.9 % in local currencies during the first six months of fiscal year 2017 / 18. Organic growth was 5.0 %, whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 12.2 %. The annualization effect mainly consists of five additional months of AudioNova, acquired effective September 2016. Disposals reduced growth by 0.3 %. Exchange rate fluctuations had a minor impact, adding 0.2 % to the reported growth rate. This resulted in Group sales of CHF 1,253.0 million, which represents an increase of 17.1 % in Swiss francs.

Growth across all regions

EMEA (Europe, Middle East and Africa), the Group's largest region, showed a strong sales increase of 34.6 % in local currencies. Strong organic growth was achieved in most major European markets including the UK, France and Italy while the business in Germany and the Netherlands was held back by a slower market environment. In addition, sales were lifted by the annualization effect of the AudioNova acquisition. As a result, the EMEA share of Group sales increased significantly from 44 % in the first six months of fiscal year 2016 / 17 to 50 % in the period under review.

Sales in the United States grew 0.5 % in local currency versus the prior year period. A very solid increase in the hearing instruments business across all brands was driven by the continued success of new product introductions. This was partially offset by a decline in the US retail network, which is undergoing a streamlining and strategic repositioning program. The cochlear implants segment showed a solid increase driven by upgrade sales. The region accounted for 31 % of Group sales in the first six months of fiscal year 2017 / 18. The rest of the Americas (excluding the US) achieved a sales increase of 5.0 % in local currencies, reflecting a good progression of the hearing instruments business considering both the Phonak and Unitron brands and the cochlear implants business.

Sales in the Asia / Pacific region increased by 9.4 % in local currencies. Strong growth in Japan and China was partly offset by a weak development in Australia. The cochlear implants business in China benefited from sales related to a central government tender worth CHF 4.5 million.

Solid gross margin development driven by the hearing instruments segment

Gross profit reached CHF 883.3 million, an increase of 21.8 % in local currencies and of 22.0 % in Swiss francs. The gross profit margin was at 70.5 %, up from 67.6 % in the prior year period. The improvement was driven by the higher share of the retail business, an increase in average selling prices across the hearing instruments segment, as well as continuous efficiency improvements. This was partly offset by lower margins in the cochlear implants segment, mainly related to the China tender.

Sales by regions

April 1 to September 30, in CHF m	2017			2016	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	633.1	50 %	34.6 %	470.0	44 %
USA	385.3	31 %	0.5 %	383.0	36 %
Americas (excl. USA)	109.5	9 %	5.0 %	102.7	10 %
Asia / Pacific	125.1	10 %	9.4 %	114.2	10 %
Total sales	**1,253.0**	**100 %**	**16.9 %**	**1,069.9**	**100 %**

Sales by product groups – Hearing instruments segment

April 1 to September 30, in CHF m	2017			2016	
	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	322.1	28 %	18.4 %	272.8	28 %
Advanced hearing instruments	237.2	21 %	14.3 %	207.8	21 %
Standard hearing instruments	361.9	31 %	13.2 %	318.6	33 %
Wireless communication systems	56.7	5 %	12.3 %	50.5	5 %
Miscellaneous	173.8	15 %	34.8 %	127.8	13 %
Total hearing instruments segment	**1,151.7**	**100 %**	**17.6 %**	**977.5**	**100 %**

Reported operating expenses, including other operating income, reached CHF 649.6 million. This included one-time costs of CHF 6.8 million (1H 2016 / 17: CHF 10.1 million) in connection with the AudioNova acquisition, which related to integration and restructuring. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses in local currencies rose by 23.8 % or by 24.1 % in Swiss francs to CHF 642.8 million, mainly driven by the consolidation of AudioNova.

Research and development (R & D) expenses were CHF 70.8 million, an increase of 4.1 % in local currencies, demonstrating the continued commitment to innovation. Due to the increased relative share of the retail business after the acquisition of AudioNova, R & D as a percentage of sales declined from 6.4 % to 5.6 %.

As a result of the AudioNova acquisition, both sales and marketing as well as general and administrative (G & A) costs increased as a percentage of sales compared to the prior year period. Normalized sales and marketing costs were up 26.5 % in local currencies and reached CHF 446.9 million which is 35.7 % of sales, compared to 32.9 % in the prior year period. Normalized G & A costs increased by 30.9 % in local currencies to CHF 128.5 million representing 10.3 % of sales versus 9.2 % in the prior year period. Other income for the current period was CHF 3.4 million (1H 2016 / 17: CHF 0.2 million) and included a CHF 3.9 million capital gain from the sale of non-core retail activities in Portugal.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 233.7 million (1H 2016 / 17: CHF 195.8 million), representing an increase of 19.4 % in local currencies or 19.3 % in Swiss francs. Reported EBITA margin reached 18.6 % (1H 2016 / 17: 18.3 %). Exchange rate developments had a minimal impact on the reported EBITA margin. Normalized for one-time costs, EBITA increased by 16.9 % in local currencies or 16.8 % in Swiss francs to CHF 240.5 million, corresponding to a margin of 19.2 %.

Reflecting the growth in reported EBITA and an expected increase in acquisition related amortization from the AudioNova acquisition, reported operating profit (EBIT) reached CHF 209.7 million (1H 2016 / 17: CHF 180.5 million), up by 16.2 %. Net financial expenses, including the result from associates, decreased from CHF 4.8 million to CHF 3.1 million. The effective tax rate was 14.7 % (1H 2016 / 17: 13.5 %) with the increase reflecting the temporary effect of a higher tax rate of the acquired AudioNova entities. This resulted in an income after taxes of CHF 176.2 million. For the first six months of 2017 / 18, normalized basic earnings per share were CHF 2.73 (reported: CHF 2.64) compared to CHF 2.43 in the prior year period.

Hearing instruments segment – Solid growth and favorable mix development

Sales in the hearing instruments segment grew by 17.6 % in local currencies to reported sales of CHF 1,151.7 million. Organic growth was 4.6 %, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 13.4 % or CHF 130.5 million. Growth was lowered by 0.4 % as a result of the disposal of non-core retail businesses and other minor portfolio adjustments. Exchange rate fluctuations, mainly a stronger Euro, had a positive effect of CHF 2.6 million or 0.2 %. This resulted in a reported sales growth of 17.8 %.

All hearing instrument product categories achieved solid double-digit growth in local currencies. The success of our innovative product portfolio, in particular the rechargeable solutions, resulted in a favorable development of the product mix and average selling prices. With an increase of 18.4 % in local currencies, the premium product category showed the strongest growth. Growth of wireless communication systems continued at a double-digit rate, almost exclusively from organic growth. Sales in the "miscellaneous" product category, which includes accessories, batteries, and services, increased by 34.8 % in local currencies, largely driven by the AudioNova annualization effect.

Sales by business – Hearing instruments segment

April 1 to September 30, in CHF m	2017			2016	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing instruments business	700.4	61 %	5.7 %	661.4	68 %
Retail business	451.3	39 %	42.4 %	316.1	32 %
Total hearing instruments segment	**1,151.7**	**100 %**	**17.6 %**	**977.5**	**100 %**

The hearing instruments business, which includes sales to independent audiologists, retail chain, multinational and government customers, but excludes our own retail business, grew 5.7 % in local currencies to CHF 700.4 million. Organic growth was 6.7 %, driven by the continued success of Phonak Belong™ and the recently introduced Unitron Tempus™ platform. Solid growth was achieved across all regions. Double-digit organic growth was reached in major markets including Canada, France, UK, Italy and Japan whereas sales in Germany were affected by a slower market dynamic. In the United States, growth was supported by a solid development across all channels, in particular by an increased market share in our business with the US Department of Veterans Affairs (VA) as well as by the ongoing success of our updated product offering at Costco.

The retail business increased sales by 42.4 % in local currencies to CHF 451.3 million driven by acquisitions while sales in our legacy retail network were flat as a result of a slow first quarter and a strongly improving momentum in the second quarter. Solid organic growth in a number of key markets, including double-digit increases in the UK and France, were offset by the development in the US and the Netherlands which continued to be affected by a challenging retail market environment. In both markets a streamlining and strategic repositioning of the store-networks is under way. The integration of the AudioNova acquisition, which was completed in September 2016, is well on track and by the end of the period the product portfolio has largely been converted to Sonova technology. Growth was also affected by the sale of non-strategic retail assets, including the AudioNova businesses in France and Portugal in March and April 2017, respectively.

Reported EBITA for the hearing instruments segment amounted to CHF 234.5 million, up 19.3 % in local currencies. The normalized EBITA increased by 16.7 % in local currencies to CHF 241.3 million, corresponding to an EBITA margin of 20.9 %. A strong positive organic margin development was achieved through a positive product mix and strict cost control, offset by the expected margin effect of the increased share of retail business.

Cochlear implants segment – Strong growth in upgrade sales

The cochlear implants segment achieved sales of CHF 101.3 million, up 9.7 % in local currencies and in Swiss francs, strongly driven by upgrade sales. After a double-digit increase in the prior year period, growth in Western markets slowed due to increased competition. New systems sales growth was 1.6 % in local currencies and included deliveries of CHF 4.5 million related to the government tender in China. The new thinner HiRes™ Ultra implant, introduced in the prior year, continued to achieve a favorable response. In July, 2017, the range of bimodal solutions was further expanded by the launch of the Phonak Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for unilateral cochlear implant candidates with no hearing in

Sales by product groups – Cochlear implants segment

April 1 to September 30, in CHF m	2017			2016	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	73.7	73 %	1.6 %	72.5	78 %
Upgrades and accessories	27.6	27 %	39.3 %	19.9	22 %
Total sales	**101.3**	**100 %**	**9.7 %**	**92.4**	**100 %**

their opposite ear. Late in the period, Advanced Bionics successfully introduced the HiFocus™ SlimJ electrode, featuring a thin, straight design for preservation of residual hearing.

Lower average selling prices, mostly from the China tender, impacted the gross profit margin, partly offset by significantly stronger high margin upgrade sales. Operating costs were tightly managed but also accommodated significant investments in new product launches. As a result, the cochlear implants segment reported a small EBITA loss of CHF 0.8 million, stable versus the prior year period.

Sound cash flow – Strong balance sheet

Cash flow from operating activities reached CHF 203.7 million, an increase of 6.5 % versus the prior year period. Operating free cash flow increased by 4.2 % to CHF 153.0 million. The cash consideration for acquisitions, net of disposals, amounted to CHF 55.3 million, reflecting a further expansion of our retail network, in particular in Germany, as well as the proceeds from the sale of the Portuguese retail business. The cash outflow from financing activities of CHF 178.9 million reflects the dividend payment of CHF 150.3 million and the purchase of treasury shares to support equity based compensation plans.

Net working capital stood at CHF 225.5 million versus CHF 169.7 million in March 2017. This is mostly driven by seasonal fluctuations, including temporary effects from product launches, the AudioNova product transition and the move of the company's European distribution center as well as effects of acquisitions closed within the period. Capital employed increased to CHF 2,708.1 million after CHF 2,535.9 million in March 2017, largely driven by acquisitions and by a higher working capital position.

The Group's equity amounted to CHF 2,219.6 million, resulting in a solid equity ratio of 54.9 %. The net debt position stood at CHF 488.4 million compared to CHF 404.6 million in March 2017, reflecting the strong free cash flow, the dividend payment as well as the cash spent on acquisitions.

Outlook 2017 / 18

Maintaining the outlook provided at the start of the fiscal year, we continue to expect solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2017 / 18. The development will be supported by our attractive product and solutions portfolio as well as our continued commitment to innovation. Coupled with the annualization of prior year acquisitions, in particular AudioNova, we expect overall sales to grow in the range of 10 % – 12 % in local currencies. Before one-time costs related to AudioNova in both the 2016 / 17 and 2017 / 18 financial years, we expect a corresponding increase in the EBITA of 10 % – 14 % in local currencies.

Interim consolidated financial statements as of September 30, 2017

Key figures

April 1 to September 30, in 1,000 CHF unless otherwise specified	Normalized 2017[1]	Normalized 2016[1]	Reported 2017	Reported 2016
Sales	**1,253,025**	**1,069,936**	**1,253,025**	**1,069,936**
change compared to previous year (%)	17.1	6.7	17.1	6.7
Gross profit	**883,265**	**723,797**	**883,265**	**723,797**
change compared to previous year (%)	22.0	9.5	22.0	9.5
in % of sales	70.5	67.6	70.5	67.6
Research & development costs	**70,753**	**67,950**	**70,753**	**67,950**
in % of sales	5.6	6.4	5.6	6.4
Sales & marketing costs	**446,945**	**352,159**	**448,717**	**352,159**
in % of sales	35.7	32.9	35.8	32.9
Operating profit before acquisition-related amortization (EBITA)	**240,457**	**205,941**	**233,661**	**195,841**
change compared to previous year (%)	16.8	5.2	19.3	0.0
in % of sales	19.2	19.2	18.6	18.3
Operating profit (EBIT)	**216,526**	**190,633**	**209,730**	**180,533**
change compared to previous year (%)	13.6	4.6	16.2	(0.9)
in % of sales	17.3	17.8	16.7	16.9
Income after taxes	**181,611**	**161,300**	**176,233**	**152,058**
change compared to previous year (%)	12.6	2.5	15.9	(3.4)
in % of sales	14.5	15.1	14.1	14.2
Basic earnings per share (CHF)	2.73	2.43	2.64	2.29
Net debt[2]	**488,446**	**672,906**	**488,446**	**672,906**
Net working capital[3]	**225,507**	**230,142**	**225,507**	**230,142**
Capital expenditure (tangible and intangible assets)[4]	**44,604**	**47,446**	**44,604**	**47,446**
Capital employed[5]	**2,708,075**	**2,565,458**	**2,708,075**	**2,565,458**
Total assets	**4,040,536**	**3,731,768**	**4,040,536**	**3,731,768**
Equity	**2,219,629**	**1,892,552**	**2,219,629**	**1,892,552**
Equity financing ratio (%)[6]	**54.9**	**50.7**	**54.9**	**50.7**
Free cash flow[7]	**97,696**	**(510,692)**	**97,696**	**(510,692)**
Operating free cash flow[8]	**153,004**	**146,790**	**153,004**	**146,790**
in % of sales	12.2	13.7	12.2	13.7
Number of employees (average)	**13,963**	**11,463**	**13,963**	**11,463**
change compared to previous year (%)	21.8	7.7	21.8	7.7
Number of employees (end of period)	**14,114**	**13,728**	**14,114**	**13,728**
change compared to previous year (%)	2.8	27.5	2.8	27.5

1) Excluding one-time costs of CHF 6.8 million (prior year CHF 10.1 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related and cash flow key figures (including respective ratios) as reported.
2) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
3) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
4) Excluding goodwill and intangibles relating to acquisitions.
5) Equity + net debt.
6) Equity in % of total assets.
7) Cash flow from operating activities + cash flow from investing activities.
8) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested.

Consolidated income statements

April 1 to September 30, in 1,000 CHF	2017	2016
Sales	**1,253,025**	**1,069,936**
Cost of sales	(369,760)	(346,139)
Gross profit	**883,265**	**723,797**
Research and development	(70,753)	(67,950)
Sales and marketing	(448,717)	(352,159)
General and administration	(133,572)	(108,029)
Other income / (expenses), net	3,438	182
Operating profit before acquisition-related amortization (EBITA)[1]	**233,661**	**195,841**
Acquisition-related amortization	(23,931)	(15,308)
Operating profit (EBIT)[2]	**209,730**	**180,533**
Financial income	1,047	4,009
Financial expenses	(5,771)	(7,844)
Share of profit / (loss) in associates / joint ventures, net	1,603	(917)
Income before taxes	**206,609**	**175,781**
Income taxes	(30,376)	(23,723)
Income after taxes	**176,233**	**152,058**
Attributable to:		
Equity holders of the parent	173,116	149,720
Non-controlling interests	3,117	2,338
Basic earnings per share (CHF)	2.64	2.29
Diluted earnings per share (CHF)	2.63	2.29

[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).

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

Consolidated statements of comprehensive income

April 1 to September 30, in 1,000 CHF	2017	2016
Income after taxes	**176,233**	**152,058**
Other comprehensive income		
Actuarial gain / (loss) from defined benefit plans, net	7,193	12,460
Tax effect on actuarial gain / (loss) from defined benefit plans, net	(1,007)	(1,542)
Total items not to be reclassified to income statement in subsequent periods	**6,186**	**10,918**
Currency translation differences	77,181	(13,661)
Tax effect on currency translation items	54	(408)
Total items to be reclassified to income statement in subsequent periods	**77,235**	**(14,069)**
Other comprehensive income, net of tax	**83,421**	**(3,151)**
Total comprehensive income	**259,654**	**148,907**
Attributable to:		
Equity holders of the parent	255,539	148,643
Non-controlling interests	4,115	264

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

Consolidated balance sheets

Assets 1,000 CHF	**30.9.2017**	**31.3.2017**	**30.9.2016**
Cash and cash equivalents	296,319	374,504	172,882
Other current financial assets	7,368	4,164	6,540
Trade receivables	429,444	413,375	384,848
Current income tax receivables	5,649	6,426	8,545
Other receivables and prepaid expenses	95,540	86,328	93,322
Inventories	272,266	255,655	259,608
Total current assets	**1,106,586**	**1,140,452**	**925,745**
Property, plant and equipment	313,251	310,321	314,333
Intangible assets	2,460,352	2,323,087	2,339,084
Investments in associates / joint ventures	14,361	11,471	9,611
Other non-current financial assets	19,054	20,365	18,237
Deferred tax assets	126,932	129,984	124,758
Total non-current assets	**2,933,950**	**2,795,228**	**2,806,023**
Total assets	**4,040,536**	**3,935,680**	**3,731,768**

Liabilities and equity 1,000 CHF	**30.9.2017**	**31.3.2017**	**30.9.2016**
Current financial liabilities	18,087	13,355	839,597
Trade payables	80,867	106,028	80,294
Current income tax liabilities	112,032	117,583	96,677
Other short-term liabilities	280,328	259,175	235,015
Short-term provisions	110,502	112,279	108,789
Total current liabilities	**601,816**	**608,420**	**1,360,372**
Non-current financial liabilities	767,709	766,960	8,137
Long-term provisions	183,409	185,929	208,354
Other long-term liabilities	124,007	106,278	135,739
Deferred tax liabilities	143,966	136,821	126,614
Total non-current liabilities	**1,219,091**	**1,195,988**	**478,844**
Total liabilities	**1,820,907**	**1,804,408**	**1,839,216**
Share capital	3,267	3,271	3,271
Treasury shares	(849)	(12,130)	(12,565)
Retained earnings and reserves	2,195,052	2,117,271	1,881,241
Equity attributable to equity holders of the parent	**2,197,470**	**2,108,412**	**1,871,947**
Non-controlling interests	22,159	22,860	20,605
Equity	**2,219,629**	**2,131,272**	**1,892,552**
Total liabilities and equity	**4,040,536**	**3,935,680**	**3,731,768**

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

Consolidated cash flow statements

April 1 to September 30, in 1,000 CHF		2017		2016
Income before taxes		**206,609**		**175,781**
Depreciation and amortization of tangible and intangible assets	64,289		48,325	
Loss on sale of tangible and intangible assets, net	93		186	
Share of (gain) / loss in associates / joint ventures, net	(1,603)		917	
Decrease in long-term provisions	(6,999)		(3,243)	
Financial expense / (income), net	4,724		3,835	
Share based payments and other non-cash item	4,986		8,768	
Income taxes paid	(37,738)	27,752	(26,532)	32,256
Cash flow before changes in net working capital		**234,361**		**208,037**
(Increase) / decrease in trade receivables	(6,355)		2,207	
Decrease / (increase) in other receivables and prepaid expenses	2,633		(15,075)	
(Increase) / decrease in inventories	(7,148)		1,088	
Decrease in trade payables	(25,325)		(11,033)	
Increase in other payables, accruals and short-term provisions	5,511	(30,684)	5,944	(16,869)
Cash flow from operating activities		**203,677**		**191,168**
Purchase of tangible and intangible assets	(44,678)		(46,626)	
Proceeds from sale of tangible and intangible assets	203		988	
Cash consideration for acquisitions, net of cash acquired	(73,745)		(657,482)	
Cash consideration from divestments, net of cash divested	18,437			
Changes in other financial assets	(6,838)		284	
Interest received and realized gain from financial assets	640		976	
Cash flow from investing activities		**(105,981)**		**(701,860)**
Proceeds from borrowings	82		880,493	
Repayment of borrowings			(340,740)	
(Purchase) / sale of treasury shares, net	(23,884)		(30,235)	
Dividends paid by Sonova Holding AG	(150,250)		(137,178)	
Transactions with non-controlling interests	(4,816)		(3,593)	
Interest paid and other financial expenses	(50)		(1,857)	
Cash flow from financing activities		**(178,918)**		**366,890**
Effect of exchange rate changes on cash and cash equivalents		3,037		(582)
Decrease in cash and cash equivalents		**(78,185)**		**(144,384)**
Cash and cash equivalents as of April 1		374,504		317,266
Cash and cash equivalents as of September 30		**296,319**		**172,882**

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

Consolidated changes in equity

1,000 CHF

	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, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**
Income for the period		149,720			2,338	152,058
Actuarial gain from defined benefit plans, net		12,460				12,460
Tax effect on actuarial gain		(1,542)				(1,542)
Currency translation differences		(30)	(11,557)		(2,074)	(13,661)
Tax effect on currency translation			(408)			(408)
Total comprehensive income		**160,608**	**(11,965)**		**264**	**148,907**
Capital decrease – share buy-back program	(60)	(155,579)		155,639		
Share-based payments		(3,961)				(3,961)
Sale of treasury shares		(5,361)		31,555		26,194
Purchase of treasury shares				(44,083)		(44,083)
Dividend paid		(137,178)			(3,593)	(140,771)
Balance September 30, 2016	**3,271**	**2,189,252**	**(308,011)**	**(12,565)[1]**	**20,605**	**1,892,552**
Balance April 1, 2017	**3,271**	**2,419,177**	**(301,906)**	**(12,130)[1]**	**22,860**	**2,131,272**
Income for the period		173,116			3,117	176,233
Actuarial gain from defined benefit plans, net		7,193				7,193
Tax effect on actuarial gain		(1,007)				(1,007)
Currency translation differences		(82)	76,265		998	77,181
Tax effect on currency translation			54			54
Total comprehensive income		**179,220**	**76,319**		**4,115**	**259,654**
Capital decrease – share buy-back program	(4)	(11,785)		11,789		
Share-based payments		(2,283)				(2,283)
Sale of treasury shares		(13,440)		44,609		31,169
Purchase of treasury shares				(45,117)		(45,117)
Dividend paid		(150,250)			(4,816)	(155,066)
Balance September 30, 2017	**3,267**	**2,420,639**	**(225,587)**	**(849)[1]**	**22,159**	**2,219,629**

[1] Includes derivative financial instruments on treasury shares.

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

Notes to the interim consolidated financial statements as of September 30, 2017

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 Group operates in industries where no material seasonal or cyclical variations in sales are experienced. The ultimate parent company is Sonova Holding AG, a public limited liability company incorporated in Switzerland. Sonova Holding AG's registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

2. Basis of preparation of the consolidated financial statements

These unaudited financial statements are the interim consolidated financial statements of Sonova Holding AG and its subsidiaries for the six month period ended September 30, 2017. These financial statements are prepared in accordance with IAS 34 "Interim Financial Reporting" and should be read in conjunction with the consolidated financial statements for the year ended March 31, 2017. The interim consolidated financial statements were approved by the Board of Directors on November 9, 2017.

Except for the revised IFRS standards and amendments, the Group consistently applied the same accounting policies as in the Annual Financial Statements for the financial year ended March 31, 2017. The implementation of the revised standards and amendments had no material impact on the Group's result and financial position.

The Group is currently assessing the potential impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2018 and beyond, notably IFRS 9 "Financial Instruments", IFRS 15 "Revenues from Contract with Customers" and IFRS 16 "Leases" as summarized in the Annual Financial Statements.

The preparation of financial statements requires management to make assumptions and estimates that affect the amounts reported for assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported. Actual results could differ from these estimates.

As of September 30, 2017, the actuarial valuations for the main pension plans were updated. For the Swiss pension plans the discount rate remained unchanged at 0.6 %.

From the total of CHF 23.9 million acquisition-related amortization costs (prior year CHF 15.3 million), CHF 0.6 million (prior year CHF 2.2 million) relate to research and development and CHF 23.3 million (prior year CHF 13.1 million) relate to sales and marketing.

Income tax expense is recognized based upon the best estimate of the average annual income tax rate expected for the full year.

3. Significant events and transactions

In the first six months of the financial year 2017 / 18 there were no significant events or transactions.

On September 14, 2016 Sonova Holding AG completed the acquisition of AudioNova International B.V., a Rotterdam (Netherlands) based hearing aid retailer, following regulatory approvals. The company is one of Europe's leading hearing aid retailers and service providers. AudioNova employed around 2,750 staff (including 1,600 acousticians) across eight countries. In the calendar year 2015 sales were approx. EUR 360 million (CHF 395 million). For further details refer to the Group's annual financial statements for the year ended March 31, 2017.

4. Changes in Group structure

During the first six months of the financial year 2017 / 18 several small companies were acquired in Europe and Asia / Pacific. During first half of 2016 / 17, apart from the acquisition of AudioNova International B.V. several small companies were acquired in Europe, North America and Asia / Pacific.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the purchase method of accounting. Incremental assets and liabilities resulting from the acquisitions are as follows:

1,000 CHF	**2017**	**2016**
	Total	Total
Trade receivables	3,533	32,671
Other current assets	18,168	84,147
Property, plant & equipment	2,222	46,098
Intangible assets	23,609	279,598
Other non-current assets	120	25,622
Current liabilities	(6,932)	(36,854)
Non-current liabilities	(30,377)	(451,519)
Net assets	**10,343**	**(20,237)**
Goodwill	69,218	729,440
Purchase consideration	**79,561**	**709,203**
Liabilities for contingent considerations and deferred payments[1]	(3,138)	(212)
Cash and cash equivalents acquired	(3,447)	(53,022)
Cash outflow for investments in associates, contingent considerations and deferred payments	769	1,513
Cash consideration for acquisitions, net of cash acquired	**73,745**	**657,482**
Settlement of pre-existing HAL intragroup financing		290,794
Total consideration paid, net of cash acquired	**73,745**	**948,276**

[1] Contingent considerations and deferred payments (earn-out payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments is based on the latest estimate of the future performance.

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of wallet 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 23.5 million contain customer relationships (prior year period CHF 276.3 million mainly relating to trademarks and customer relationships). For acquisition-related intangibles the lifetimes assigned range between 10 and 20 years. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.3 million (prior year period CHF 8.4 million) have been expensed and are included in the line "General and administration".

In the first six months of 2017 / 18 reporting period, the Group divested two minor group companies in the EMEA region. The net gain of those transactions of CHF 3.4 million has been recognized in the income statement and is included in "other income / (expenses), net".

April 1 to September 30, 1,000 CHF	**2017**	**2016**
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	2,501	33,667
Net income	(54)	1,138
Contribution, if the acquisitions occurred on April 1		
Sales	14,684	180,897
Net income	2,881	4,873

5. Segment information

The Group is active in two business segments, hearing instruments and cochlear implants.

The segment information for the first six months of the financial years 2017 / 18 and 2016 / 17 is as follows:

1,000 CHF	2017	2016	2017	2016	2017	2016	2017	2016
	Hearing instruments		Cochlear implants		Corporate / Eliminations		Total	
Segment sales	1,152,749	978,299	103,193	93,079			1,255,942	1,071,378
Intersegment sales	(1,067)	(760)	(1,850)	(682)			(2,917)	(1,442)
Sales	**1,151,682**	**977,539**	**101,343**	**92,397**			**1,253,025**	**1,069,936**
Operating profit before acquisition-related amortization (EBITA)	**234,464**	**196,843**	**(803)**	**(1,002)**			**233,661**	**195,841**
Depreciation and amortization	(52,834)	(38,648)	(11,455)	(9,677)			(64,289)	(48,325)
Segment assets	**3,759,184**	**3,541,127**	**601,745**	**598,657**	**(758,050)**	**(715,267)**	**3,602,879**	**3,424,517**
Unallocated assets[1)]							437,657	307,251
Total assets							**4,040,536**	**3,731,768**

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

Reconciliation of reportable segment profit 1,000 CHF	2017	2016
EBITA	233,661	195,841
Acquisition-related amortization	(23,931)	(15,308)
Financial costs, net	(4,724)	(3,835)
Share of gain / (loss) in associates / joint ventures, net	1,603	(917)
Income before taxes	**206,609**	**175,781**

6. Earnings per share

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.

Basic earnings per share	2017	2016
Income after taxes (1,000 CHF)	173,116	149,720
Weighted average number of outstanding shares	65,316,215	65,327,039
Basic earnings per share (CHF)	**2.64**	**2.29**

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted for all outstanding dilutive options. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through 2017 and which have not yet been exercised. The calculation of diluted earnings per share is based on the same income after taxes for the period as used in calculating basic earnings per share.

Diluted earnings per share	2017	2016
Income after taxes (1,000 CHF)	173,116	149,720
Weighted average number of outstanding shares	65,316,215	65,327,039
Adjustment for dilutive share options	230,214	102,533
Adjusted weighted average number of outstanding shares	65,546,429	65,429,572
Diluted earnings per share (CHF)	**2.63**	**2.29**

7. Contingent liabilities

There have been no material changes in contingent liabilities since March 31, 2017.

8. Bonds

As of September 30, 2017, unchanged to March 31, 2017, the Group has bonds in three tranches outstanding.

Bonds (1,000 CHF)	Currency	Nominal value	Maturity
Variable rate bond (floating rate note)	CHF	150,000	October 11, 2018
Fixed-rate bond	CHF	250,000	October 11, 2019
Fixed-rate bond	CHF	360,000	October 11, 2021

9. Movements in share capital

The Annual General Shareholders' Meeting of June 13, 2017 resolved a gross dividend of CHF 2.30 per registered share for the financial year 2016 / 17. The dividend was paid in June 2017 to all shares outstanding, excluding treasury shares.

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2016	66,626,387	(1,209,989)	65,416,398
Purchase of treasury shares		(244,208)	(244,208)
Sale / transfer of treasury shares		240,004	240,004
Cancelation of treasury shares[2]	(1,203,500)	1,203,500	
Purchase of shares intended to be cancelled[3]		(92,000)	(92,000)
Balance September 30, 2016	**65,422,887**	**(102,693)**	**65,320,194**
Balance April 1, 2017	65,422,887	(100,190)	65,322,697
Purchase of treasury shares		(283,375)	(283,375)
Sale / transfer of treasury shares		286,378	286,378
Cancelation of treasury shares[2]	(92,000)	92,000	
Balance September 30, 2017	**65,330,887**	**(5,187)**	**65,325,700**

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 Shareholder's Meeting of June 13, 2017, approved the proposed cancelation of 92,000 treasury shares (previous year 1,203,500 treasury shares), resulting in a reduction of share capital of 4,600 Swiss francs (previous year 60,175 Swiss francs), retained earnings and other reserves of CHF 11.8 million (previous year CHF 155.6 million) offset by changes in treasury shares of CHF 11.8 million (previous year CHF 155.6 million). This cancelation has been executed on September 25, 2017.

3) Shares purchased by the Group as part of the share buyback program.

10. Events after balance sheet date

There have been no material events after the balance sheet date.

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