FINANCIAL REPORT

Semi-Annual Report 2018/19

Highlights & key figures First half 2018 / 19

Sonova Group: up 4.0 % in CHF

Consolidated sales in the first half of the fiscal year 2018 / 19 were CHF 1,303.3 million, an increase of 4.0 % in Swiss francs or 2.1 % in local currencies. Organic growth was 2.6 % in local currencies.

Hearing instruments segment: up 3.7 % in CHF

The hearing instruments segment achieved sales of CHF 1,194.0 million, up 3.7 % in Swiss francs or 1.7 % in local currencies. Excluding one-time costs[1] in the prior year period, EBITA increased by 1.1 % in Swiss francs.

Cochlear implants segment: up 7.9 % in CHF

Sales in the cochlear implants segment reached CHF 109.4 million, up 7.9 % in Swiss francs or 6.7 % in local currencies. This resulted in an EBITA of CHF 7.7 million vs. a small loss in the prior year period.

Group EBITA of CHF 251.3 million

Group EBITA reached CHF 251.3 million, up 7.6 % in Swiss francs or 3.3 % in local currencies. Excluding one-time costs[1] in the prior year period, EBITA increased by 4.5 % in Swiss francs.

Earnings per share, up 10.2 % to CHF 2.91

Sonova achieved a solid increase in earnings per share, which rose by 10.2 % vs. the prior year period to CHF 2.91.

Innovative new product platform unveiled

In October, Sonova unveiled Phonak Marvel, its latest product platform to be launched in November 2018. It received strong interest from customers and is expected to drive growth in the second half of the year.

Sonova Group key figures – First half 2018 / 19

April 1 to September 30, in CHF m unless otherwise specified	2018	2017	Change in Swiss francs	Change in local currencies
Sales	1,303.3	1,253.0	4.0 %	2.1 %
EBITA	251.3	233.7	7.6 %	3.3 %
EPS (CHF)	2.91	2.64	10.2 %	
Operating free cash flow	165.6	153.0	8.3 %	
EBITA (normalized)[1]	251.3	240.5	4.5 %	0.3 %
EBITA margin (normalized)[1]	19.3 %	19.2 %		
EPS (CHF) (normalized)[1]	2.91	2.73	6.8 %	

[1] Prior year excluding one-time costs of CHF 6.8 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Letter to shareholders

Growth in the hearing instruments segment was driven by the audiological care (retail) business while, as expected, the hearing instruments business recorded lower growth ahead of the important Phonak Marvel product launch. The cochlear implants segment achieved good growth in the period under review.

Dear shareholders

Sales in the first half of the fiscal year 2018 / 19 Sonova reached CHF 1,303.3 million, up 4.0 % in Swiss francs. Growth was supported by good organic growth in the audiological care and cochlear implants businesses. As expected, growth in the hearing instruments business was more moderate ahead of the announced launch of our new Phonak Marvel product platform in November 2018. The previously announced disposals in the US further reduced the reported growth. Reported EBITA increased by 7.6 % in Swiss francs to CHF 251.3 Mio. excluding one-time costs related to the acquisition of AudioNova in the prior year period, EBITA increased by 4.5 % in Swiss francs. The normalized EBITA margin increased slightly to 19.3 %, reflecting our ongoing focus on productivity gains, partly offset by lower average selling prices due to mix shifts in our hearing instruments business.

Hearing instruments segment

Growth in the hearing instruments segment reached 3.7 % in Swiss francs, driven by a further acceleration of organic growth within our audiological care business and supported by bolt-on acquisitions. The audiological care business successfully completed the streamlining of the store networks in the US and the Netherlands, which in both countries achieved above market growth on a same-store basis. As expected, growth in the hearing instruments business was more modest, in part due to the late stage in the Phonak Belong™ product cycle. Growth is expected to pick up in the second half of the year, driven by the introduction of the new Phonak Marvel product platform, which received very strong initial interest from customers. The Phonak Audéo™ M is the first product family launched on the new platform and combines the benefits of exceptional speech understanding, reduced listening effort in noise and rechargeability with the ability to stream audio content from billions of Bluetooth enabled devices to both ears. Powered by our SWORD™ chip first introduced a year ago, it provides true universal "Made for All" direct connectivity.

Cochlear implants segment

Sales in the cochlear implants segment were up by 7.9 % in Swiss francs, driven by strong system sales, despite lower deliveries related to the central government tender in China compared to the prior year period. We made good progress in terms of profitability. Growth was driven by strong performance in the EMEA, LATAM and Asia / Pacific regions. A highlight during the period under review was the FDA approval of the HiRes™ Ultra 3D cochlear implant, featuring a new magnet technology compatible with MRI examinations.

Total shareholder return strategy

As part of its total shareholder return strategy, Sonova initiated a new share buyback program of up to CHF 1.5 billion. Maintaining a conservative financial policy, Sonova expects to have sufficient funds for further investments and maintains ample financial flexibility to embark upon acquisition opportunities that contribute to our strategy. The total shareholder return strategy, consisting of significant dividends and the share buyback program, is based on our confidence in the future cash generating capacity of Sonova.

Outlook

We maintain the outlook for 2018 / 19 provided at the start of the fiscal year. We continue to expect solid growth in sales and profitability in both segments, driven by our innovative product portfolio, our broad multi-channel approach and supported by continuous process improvements.

Robert Spoerry
Chairman of the Board
of Directors

Arnd Kaldowski
CEO

Financial review

In the first half of the fiscal year 2018 / 19 Sonova generated sales of CHF 1,303.3 million, an increase of 4.0 % in Swiss francs or 2.1 % in local currencies. Reported EBITA reached CHF 251.3 million, up 7.6 % in Swiss francs or 3.3 % in local currencies.

Organic growth and acquisitions partly offset by divestments

Sonova Group sales increased by 2.1 % in local currencies during the first six months of fiscal year 2018 / 19. Organic growth was 2.6 %, whereas growth from acquisitions made in the reporting period and the annualization of prior year acquisitions accounted for 1.1 %. Disposals made in the US reduced growth by 1.6 %, mainly considering an audiological care store restructuring and the sale of the US Hearing Service Plan business. Exchange rate fluctuations had a significant impact, adding 1.9 % to the reported growth rate. This resulted in Group sales of CHF 1,303.3 million, which represents an increase of 4.0 % in reported Swiss francs.

Solid growth in EMEA and APAC – US held back by divestments and late stage product lifecycle

EMEA (Europe, Middle East and Africa), the Group's largest region, showed a sales increase of 6.9 % in local currencies. Strong organic growth was achieved in key markets including Germany, France, Spain, Eastern Europe and the Middle East also on the back of the launch of Phonak Vitus™ in the value category. The EMEA share of Group sales increased from 50 % in the first six months of fiscal year 2017 / 18 to 54 % in the period under review.

Sales in the United States declined by 8.8 % in local currency versus the prior year period. This was partially the effect of a streamlining and strategic repositioning of the audiological care business. Post restructuring, the audiological care business achieved good same-store growth. Furthermore, the Group sold its US Hearing Service Plan business at the end of the last fiscal year. In combination these divestments affected growth negatively by 5.2 %. The hearing instruments business had a challenging half year as customers in the US were particularly restrained during the late stage of the current product lifecycle.

The rest of the Americas (excluding the US) achieved a solid sales increase of 6.2 % in local currencies, reflecting good progress made in Brazil and in the audiological care business in Canada.

Sales in the Asia / Pacific (APAC) region increased by 8.0 % in local currencies. Strong growth in Japan, China and New Zealand was partly offset by a slower development in Australia.

Stable gross profit margin

Gross profit reached CHF 919.4 million, an increase of 4.1 % in Swiss francs and 1.7 % in local currencies. The gross profit margin was at 70.5 % in line with the prior year period. Excluding the favorable impact from currencies the gross margin declined slightly by 0.3 %. The late stage of the current product cycle combined with a shift in the customer and product mix, in part driven by the successful introduction of the Vitus™ and Vitus+ products in the value category, drove significant volume growth but negatively affected average selling prices (ASP) within the hearing instruments business. The effect of the conversion to Sonova products within the audiological care business continued to have a positive effect. In addition, the gross margin of the cochlear implants segment improved versus the prior year period,

Sales by regions

April 1 to September 30, in CHF m			2018		2017
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	701.2	54 %	6.9 %	633.1	50 %
USA	355.0	27 %	(8.8 %)	385.3	31 %
Americas (excl. USA)	112.2	9 %	6.2 %	109.5	9 %
Asia / Pacific	134.9	10 %	8.0 %	125.1	10 %
Total sales	**1,303.3**	**100 %**	**2.1 %**	**1,253.0**	**100 %**

reflecting ongoing productivity improvements as well as lower sales related to central government tenders in China.

Reported operating expenses, including other operating income, reached CHF 668.1 million reflecting an increase of 1.1 % in local currencies. In the prior year period they included one-time costs of CHF 6.8 million related to the AudioNova acquisition, specifically to integration and restructuring. Where relevant, we refer to the growth figures normalized for such one-time costs. Normalized operating expenses rose by 2.1 % in local currencies.

Research and development (R & D) expenses were CHF 71.7 million, an increase of 1.1 % in local currencies. The expenses supported the new Phonak Marvel product platform presented in October, work on subsequent technology advances and eSolutions as well as new products in the cochlear implants business. The reported growth considers customary fluctuations in project expenses and capitalized development costs in the cochlear implants business.

Sales and marketing (S & M) cost reached CHF 473.7 million, growing 3.8 % in local currencies normalized over the prior year period. S & M increased as a percentage of sales mainly due to a mix effect resulting from the stronger growth in the audiological care business and from acquisitions net of disposals. General and administration (G & A) costs were CHF 126.5 million down 3.0 % in local currencies normalized over the prior year period. The reduction reflects a continued focus on cost controls and lower bad debt expenses. Other income for the current period was CHF 3.8 million from a release of a provision for cochlear implant product liability in the cochlear implants segment. Year-over-year, this was offset by a CHF 3.9 million capital gain in the prior year period from the sale of non-core audiological care activities in Portugal in the hearing instruments segment.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 251.3 million (1H 2017 / 18: CHF 233.7 million), representing an increase of 7.6 % in Swiss francs and 3.3 % in local currencies. Reported EBITA margin reached 19.3 % (1H 2017 / 18: 18.6 %). Exchange rate developments had a positive impact on the reported EBITA margin of + 0.4 %. Normalized for one-time costs, EBITA increased by 4.5 % in Swiss francs or 0.3 % in local currencies, reflecting good volume growth, efficiency improvements and a modest growth in R&D expenses, partly offset by the effects of lower ASP in the hearing instruments business.

Reflecting the EBITA growth and a slight reduction in the acquisition-related amortization, reported operating profit (EBIT) reached CHF 227.7 million (1H 2017 / 18: CHF 209.7 million), up by 8.6 %. Net financial expenses increased from CHF 3.1 million to CHF 4.2 million due to lower profit from associates. The effective tax rate was 13.5 % (1H 2017 / 18: 14.7 %). The reduction reflects ordinary country mix related fluctuations and further progress in the integration of AudioNova into the Group structures. This resulted in an income after taxes of CHF 193.4 million. For the first six months of 2018 / 19, basic earnings per share were CHF 2.91 compared to CHF 2.73 normalized in the prior year period.

Hearing instruments segment – Solid organic growth in audiological care and US divestments

Sales in the hearing instruments segment grew by 1.7 % in local currencies to CHF 1,194.0 million. Organic growth was 2.3 %, while the contribution from acquisitions in the reporting period and the annualization of prior year acquisitions was 1.2 % or CHF 13.9 million. Growth was lowered by 1.8 % as a result of the disposal of non-core audiological care stores in the US and the sale of the US Hearing Service Plan business. Exchange rate fluctuations, mainly a stronger Euro, had a positive effect of CHF 22.6 million or 2.0 %. This resulted in a reported sales growth of 3.7 %.

As expected, the hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own audiological care business, had a more moderate start to the year. Solid overall volume growth was offset by a decline in ASP, reflecting the late stage of the product lifecycle. Organic growth in local currencies was 0.5 %, resulting in sales of CHF 696.8 million. Divestments, namely the sale of the US Hearing Service Plan business, reduced sales by CHF 15.9 million or 2.3 %. Europe, Latin America and the Asia / Pacific region achieved a solid high single digit percentage increase. Growth was hampered by a decline in North America where we faced strong competitive pressure across all customer segments. This resulted in modest sales decline of 0.5 % in Swiss francs in the period under review.

Sales by business – Hearing instruments segment

April 1 to September 30, in CHF m	2018			2017	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing instruments business	696.8	58 %	(1.7 %)	700.4	61 %
Audiological care business	497.2	42 %	7.0 %	451.3	39 %
Total hearing instruments segment	**1,194.0**	**100 %**	**1.7 %**	**1,151.7**	**100 %**

The audiological care business increased sales by 7.0 % in local currencies to CHF 497.2 million driven by organic growth of 4.9 %, while acquisitions contributed 3.1 %. The restructuring and streamlining of the US audiological care store network reduced growth by 0.9 %. Solid organic growth was achieved in several key markets. Double-digit increases in Canada, Brazil, France Germany and New Zealand, were offset by a more challenging market environment in the UK. The US restructuring has been successfully completed and the business has shown improving momentum in the second quarter.

Reported EBITA for the hearing instruments segment amounted to CHF 243.9 million, up 4.0 % in reported Swiss francs with a margin of 20.4 %. Normalized for one-time costs in the prior year period, EBITA rose 1.1 % in Swiss francs but decreased by 2.6 % in local currencies. The above-mentioned pressure on ASP could not be fully compensated by good volume growth and productivity improvements.

Cochlear implants segment – Strong growth in systems sales

The cochlear implants segment achieved sales of CHF 109.4 million, up 7.9 % in reported Swiss francs and 6.7 % in local currencies, strongly driven by EMEA, LATAM and Asia / Pacific. Sales in the US declined due to lower upgrade sales, but growth momentum recovered towards the end of the reporting period after the successful launch of the new HiRes™ Ultra 3D implant. Organic growth in Asia / Pacific was high despite the prior year comparison period, which included higher Chinese tender sales.

The gross margin improved versus the prior year period. This was driven by a slight increase in ASP, in part due to lower China tender sales, partly offset by slower growth in higher margin upgrades. Operating costs benefited from structural and productivity improvements and profits were further helped by the above-mentioned provision release of CHF 3.8 million. As a result, the cochlear implants segment reported a significantly increased EBITA of CHF 7.7 million, versus a loss of CHF 0.8 million in the prior year period.

Sales by product groups – Cochlear implants segment

April 1 to September 30, in CHF m	2018			2017	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	81.0	74 %	8.8 %	73.7	73 %
Upgrades and accessories	28.4	26 %	1.2 %	27.6	27 %
Total sales	**109.4**	**100 %**	**6.7 %**	**101.3**	**100 %**

Strong cash flow and balance sheet

Cash flow from operating activities reached CHF 221.7 million, an increase of 8.9 % versus the prior year period. Operating free cash flow increased by 8.3 % to CHF 165.6 million. The cash consideration for acquisitions, net of disposals, amounted to CHF 23.5 million, reflecting a further expansion of our audiological care network. The cash outflow from financing activities of CHF 207.2 million reflects the dividend payment of CHF 169.8 million and the purchase of treasury shares to support equity based compensation plans.

Net working capital stood at CHF 155.3 million versus CHF 190.5 million in March 2018. This is mainly driven by a CHF 64.6 million increase in new net current liabilities due to the implementation of the IFRS 15 revenue recognition accounting standard (opening adjustment April 1, 2018), the effects of acquisitions and divestments, as well as seasonal fluctuations and foreign exchange effects. Capital employed decreased to CHF 2,573.0 million after CHF 2,702.9 million in March 2018, largely driven by the dividend payment within the period, the underlying increase in working capital and a CHF 125.1 million increase in net liabilities also resulting from the implementation of IFRS 15.

The Group's equity amounted to CHF 2,283.0 million, resulting in a solid equity ratio of 53.9 %. The net debt position stood at CHF 290.0 million compared to CHF 228.0 million in March 2018, reflecting the working capital build up and dividend payment.

Outlook 2018 / 19

Maintaining the outlook provided in May 2018, we continue to expect growth in sales and profitability in both the hearing instruments and cochlear implants segments for the fiscal year. The development in the second half will be supported by the introduction of Phonak Audéo™ M in the third quarter. Coupled with the annualization of prior year acquisitions and disposals, we expect overall sales to grow in the range of 2 % – 4 % and EBITA to increase 6 % – 9 % (compared to normalized fiscal year 2017 / 18 EBITA), both measured in local currencies.

Key figures

April 1 to September 30, in 1,000 CHF unless otherwise specified	Reported 2018	Normalized 2017[1]	Reported 2017
Sales	**1,303,315**	**1,253,025**	**1,253,025**
change compared to previous year (%)	4.0	17.1	17.1
Gross profit	**919,433**	**883,265**	**883,265**
change compared to previous year (%)	4.1	22.0	22.0
in % of sales	70.5	70.5	70.5
Research & development costs	**71,679**	**70,753**	**70,753**
in % of sales	5.5	5.6	5.6
Sales & marketing costs	**473,725**	**446,945**	**448,717**
in % of sales	36.3	35.7	35.8
Operating profit before acquisition-related amortization (EBITA)	**251,343**	**240,457**	**233,661**
change compared to previous year normalized (%)	4.5	16.8	19.3
in % of sales	19.3	19.2	18.6
Operating profit (EBIT)	**227,718**	**216,526**	**209,730**
change compared to previous year normalized (%)	5.2	13.6	16.2
in % of sales	17.5	17.3	16.7
Income after taxes	**193,355**	**181,611**	**176,233**
change compared to previous year normalized (%)	6.5	12.6	15.9
in % of sales	14.8	14.5	14.1
Basic earnings per share (CHF)	2.91	2.73	2.64
Net debt[2]	**290,047**	**488,446**	**488,446**
Net working capital[3]	**155,333**	**225,507**	**225,507**
Capital expenditure (tangible and intangible assets)[4]	**51,898**	**44,604**	**44,604**
Capital employed[5]	**2,573,036**	**2,708,075**	**2,708,075**
Total assets	**4,234,263**	**4,040,536**	**4,040,536**
Equity	**2,282,989**	**2,219,629**	**2,219,629**
Equity financing ratio (%)[6]	**53.9**	**54.9**	**54.9**
Free cash flow[7]	**142,182**	**97,696**	**97,696**
Operating free cash flow[8]	**165,634**	**153,004**	**153,004**
in % of sales	12.7	12.2	12.2
Number of employees (average)	**14,238**	**13,963**	**13,963**
change compared to previous year (%)	2.0	21.8	21.8
Number of employees (end of period)	**14,447**	**14,114**	**14,114**
change compared to previous year (%)	2.4	2.8	2.8

1) In 2017, excluding one-time costs of CHF 6.8 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 – short-term contract 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.

Interim consolidated financial statements as of September 30, 2018

Consolidated income statements

April 1 to September 30, in 1,000 CHF	2018	2017
Sales	**1,303,315**	**1,253,025**
Cost of sales	(383,882)	(369,760)
Gross profit	**919,433**	**883,265**
Research and development	(71,679)	(70,753)
Sales and marketing	(473,725)	(448,717)
General and administration	(126,470)	(133,572)
Other income / (expenses), net	3,784	3,438
Operating profit before acquisition-related amortization (EBITA)[1]	**251,343**	**233,661**
Acquisition-related amortization	(23,625)	(23,931)
Operating profit (EBIT)[2]	**227,718**	**209,730**
Financial income	699	1,047
Financial expenses	(5,865)	(5,771)
Share of profit / (loss) in associates / joint ventures, net	982	1,603
Income before taxes	**223,534**	**206,609**
Income taxes	(30,179)	(30,376)
Income after taxes	**193,355**	**176,233**
Attributable to:		
Equity holders of the parent	190,179	173,116
Non-controlling interests	3,176	3,117
Basic earnings per share (CHF)	2.91	2.64
Diluted earnings per share (CHF)	2.90	2.63

[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	2018	2017
Income after taxes	**193,355**	**176,233**
Other comprehensive income		
Actuarial (loss) / gain from defined benefit plans, net	(4,964)	7,193
Tax effect on actuarial (loss) / gain from defined benefit plans, net	695	(1,007)
Total items not to be reclassified to income statement in subsequent periods	**(4,269)**	**6,186**
Currency translation differences	(53,535)	77,181
Tax effect on currency translation items	1,883	54
Total items to be reclassified to income statement in subsequent periods	**(51,652)**	**77,235**
Other comprehensive income, net of tax	**(55,921)**	**83,421**
Total comprehensive income	**137,434**	**259,654**
Attributable to:		
Equity holders of the parent	135,423	255,539
Non-controlling interests	2,011	4,115

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

Consolidated balance sheets

Assets 1,000 CHF	**30.9.2018**	**31.3.2018**	**30.9.2017**
Cash and cash equivalents	484,260	552,121	296,319
Other current financial assets	5,196	4,373	7,368
Trade receivables	426,677	449,545	429,444
Current income tax receivables	8,493	6,708	5,649
Other receivables and prepaid expenses	114,652	90,615	95,540
Inventories	259,582	264,468	272,266
Total current assets	**1,298,860**	**1,367,830**	**1,106,586**
Property, plant and equipment	311,806	315,493	313,251
Intangible assets	2,429,775	2,466,396	2,460,352
Investments in associates / joint ventures	14,013	13,700	14,361
Other non-current financial assets	27,322	23,914	19,054
Other non-current assets[1]	6,144		
Deferred tax assets	146,343	114,645	126,932
Total non-current assets	**2,935,403**	**2,934,148**	**2,933,950**
Total assets	**4,234,263**	**4,301,978**	**4,040,536**

Liabilities and equity 1,000 CHF	**30.9.2018**	**31.3.2018**	**30.9.2017**
Current financial liabilities	155,542	161,637	18,087
Trade payables	65,694	89,235	80,867
Current income tax liabilities	143,308	141,812	112,032
Short-term contract liabilities[1]	106,517		
Other short-term liabilities	239,276	275,670	280,328
Short-term provisions	103,766	117,922	110,502
Total current liabilities	**814,103**	**786,276**	**601,816**
Non-current financial liabilities	619,471	619,059	767,709
Long-term provisions	144,179	166,540	183,409
Long-term contract liabilities[1]	219,327		
Other long-term liabilities	13,112	113,878	124,007
Deferred tax liabilities	141,082	141,316	143,966
Total non-current liabilities	**1,137,171**	**1,040,793**	**1,219,091**
Total liabilities	**1,951,274**	**1,827,069**	**1,820,907**
Share capital	3,267	3,267	3,267
Treasury shares	(6,911)	(536)	(849)
Retained earnings and reserves	2,266,320	2,449,001	2,195,052
Equity attributable to equity holders of the parent	**2,262,676**	**2,451,732**	**2,197,470**
Non-controlling interests	20,313	23,177	22,159
Equity	**2,282,989**	**2,474,909**	**2,219,629**
Total liabilities and equity	**4,234,263**	**4,301,978**	**4,040,536**

[1] New balance sheet line items due to the implementation of IFRS 15. For details refer to Note 3.

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		2018		2017
Income before taxes		**223,534**		**206,609**
Depreciation and amortization of tangible and intangible assets	63,466		64,289	
Loss on sale of tangible and intangible assets, net	137		93	
Share of gain in associates / joint ventures, net	(982)		(1,603)	
Increase / (decrease) in long-term provisions and long-term contract liabilities	5,605		(6,999)	
Financial expense / (income), net	5,166		4,724	
Share based payments and other non-cash item	2,947		4,986	
Income taxes paid	(30,563)	45,776	(37,738)	27,752
Cash flow before changes in net working capital		**269,310**		**234,361**
Decrease / (increase) in trade receivables	6,370		(6,355)	
(Increase) / decrease in other receivables and prepaid expenses	(16,738)		2,633	
Decrease / (increase) in inventories	2,617		(7,148)	
Decrease in trade payables	(22,769)		(25,325)	
(Decrease) / increase in other payables, accruals, short-term provisions and short-term contract liabilities	(17,056)	(47,576)	5,511	(30,684)
Cash flow from operating activities		**221,734**		**203,677**
Purchase of tangible and intangible assets	(51,935)		(44,678)	
Proceeds from sale of tangible and intangible assets	247		203	
Cash consideration for acquisitions, net of cash acquired	(24,928)		(73,745)	
Cash consideration from divestments, net of cash divested	1,476		18,437	
Changes in other financial assets	(4,953)		(6,838)	
Interest received and realized gain from financial assets	541		640	
Cash flow from investing activities		**(79,552)**		**(105,981)**
Proceeds from borrowings			82	
Repayment of borrowings	(16)			
(Purchase) / sale of treasury shares, net	(31,848)		(23,884)	
Dividends paid by Sonova Holding AG	(169,794)		(150,250)	
Transactions with non-controlling interests	(4,754)		(4,816)	
Interest paid and other financial expenses	(741)		(50)	
Cash flow from financing activities		**(207,153)**		**(178,918)**
Exchange (losses) / gains on cash and cash equivalents		(2,890)		3,037
Decrease in cash and cash equivalents		**(67,861)**		**(78,185)**
Cash and cash equivalents as of April 1		552,121		374,504
Cash and cash equivalents as of September 30		**484,260**		**296,319**

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, 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**

Balance April 1, 2018	**3,267**	**2,659,889**	**(210,888)**	**(536)**	**23,177**	**2,474,909**
Effect on initial application of IFRS 15 and IFRS 9		(132,299)			(121)	(132,420)
Adjusted balance April 1, 2018	**3,267**	**2,527,590**	**(210,888)**	**(536)**	**23,056**	**2,342,489**
Income for the period		190,179			3,176	193,355
Actuarial loss from defined benefit plans, net		(4,964)				(4,964)
Tax effect on actuarial loss		695				695
Currency translation differences			(52,370)		(1,165)	(53,535)
Tax effect on currency translation			1,883			1,883
Total comprehensive income		**185,910**	**(50,487)**		**2,011**	**137,434**
Share-based payments		(2,417)				(2,417)
Sale of treasury shares		(13,594)		46,780		33,186
Purchase of treasury shares				(53,155)		(53,155)
Dividend paid		(169,794)			(4,754)	(174,548)
Balance September 30, 2018	**3,267**	**2,527,695**	**(261,375)**	**(6,911)**	**20,313**	**2,282,989**

[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, 2018

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 that ended September 30, 2018. 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 that ended March 31, 2018. The interim consolidated financial statements were approved by the Board of Directors on November 13, 2018.

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, 2018, the actuarial valuations for the main pension plans were updated. For the Swiss pension plans the discount rate was increased from 0.85% to 0.90%.

From the total of CHF 23.6 million acquisition-related amortization costs (prior year CHF 23.9 million), CHF 0.5 million (prior year CHF 0.6 million) relate to research and development and CHF 23.1 million (prior year CHF 23.3 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. Changes in accounting policies

Except for the new and revised IFRS standards and amendments, the Group consistently applied the same accounting policies as in the Annual Financial Statements for the financial year that ended March 31, 2018.

The Group adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial instruments" beginning April 1, 2018 as described below. In addition, a number of minor amendments to existing standards and interpretations were effective from April 1, 2018 without having a significant 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, 2019 and beyond, notably IFRS 16 "Leases" as summarized in the Annual Financial Statements.

IFRS 15 "Revenue from Contracts with Customers"

The standard combines, enhances and replaces specific guidance on recognizing revenue with a new single standard based on a five step approach. The core principle of IFRS 15 is that revenue is recognized at an amount that reflects the consideration an entity expects to be entitled to in exchange for transferring goods or services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied.

The primary impact for the Group is on the timing of revenue recognition for the performance obligations related to extended warranties, loss and damage, battery plans, loyalty programs and on additional revenue related disclosures.

The Group has adopted IFRS 15 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 18, IAS 11 and related interpretations.

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings and non-controlling interests as of April 1, 2018.

in 1,000 CHF	**Impact of adopting IFRS 15 as of April 1, 2018:**	
	Retained earnings	Non-controlling interests
Recognition of contract liabilities	(190,768)	(272)
Recognition of contract assets	8,929	
Release of provisions	28,581	135
Deferred taxes	26,973	
Net impact on retained earnings and on non-controlling interests at April 1, 2018	**(126,285)**	**(137)**

Changes to previous accounting policies in relation to the group's various goods and services

The group recognizes revenue at point in time when ownership of the products is transferred to the buyer, mainly upon delivery. The transaction price is adjusted for any variable elements, such as rebates and discounts. For retail customers, revenue recognition usually occurs after fitting of the device or when the trial period ends. 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.

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. Under IFRS 15, a return provision for the expected returns is recognized as an adjustment to revenue. In addition, there is a new asset for the right to recover returned goods measured by reference to the carrying amount, which is presented as part of other receivables and prepaid expenses.

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 is reinsuring loss and damage. Insurance costs are capitalized as contract assets and are recognized as cost of sales over the loss and damage service period.

Effect of change in accounting policies

Under IFRS 15, a higher portion of revenue is allocated to the group's services and therefore, more revenue is deferred. The impact of these changes at the transition date of April 1, 2018 is a decrease in deferred income, which is now included in contract liabilities for services that were already deferred under the old standard. For services that were previously not deferred, contract liabilities were recognized with the corresponding transition effect recognized in equity. The transition further resulted in a release of provisions due to the methodology change from providing for future costs as opposed to deferral of revenue.

The adoption of the new standard did not result in a material impact on the Group's consolidated income statement for the six month period that ended September 30, 2018, as the deferral and release of revenue is largely offsetting. For the first half of the financial year 2018 / 19 the adoption contributed CHF 0.2 million to the EBITA result.

Impact on interim consolidated balance sheet

The following table summarizes the impact of IFRS 15 on the Group's interim consolidated balance sheet as of September 30, 2018 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-total and totals disclosed cannot be recalculated from the numbers provided.

Assets 1,000 CHF	**30.9.2018 (as reported)**	**Adjustments**	**30.9.2018 (without adoption of IFRS 15)**
Other receivables and prepaid expenses	114,652	(10,041)	104,611
Total current assets	**1,298,860**	**(10,041)**	**1,288,819**
Other non-current assets	6,144	(6,144)	
Deferred tax assets	146,343	(38,886)	107,457
Total non-current assets	**2,935,403**	**(45,030)**	**2,890,373**
Total assets	**4,234,263**	**(55,071)**	**4,179,192**

Liabilities and equity 1,000 CHF	**30.9.2018 (as reported)**	**Adjustments**	**30.9.2018 (without adoption of IFRS 15)**
Short-term contract liabilities	106,517	(106,517)	
Other short-term liabilities	239,276	35,766	275,042
Short-term provisions	103,766	(3,876)	99,890
Total current liabilities	**814,103**	**(74,627)**	**739,476**
Long-term provisions	144,179	24,019	168,198
Long-term contract liabilities	219,327	(219,327)	
Other long-term liabilities	13,112	102,133	115,245
Deferred tax liabilities	141,082	(12,412)	128,670
Total non-current liabilities	**1,137,171**	**(105,587)**	**1,031,584**
Total liabilities	**1,951,274**	**(180,214)**	**1,771,060**
Retained earnings and reserves	2,266,320	125,024	2,391,344
Equity attributable to equity holders of the parent	**2,262,676**	**125,024**	**2,387,700**
Non-controlling interests	20,313	119	20,432
Equity	**2,282,989**	**125,143**	**2,408,132**
Total liabilities and equity	**4,234,263**	**(55,071)**	**4,179,192**

IFRS 9 "Financial instruments"

The new standard completes the guidance on recognition / derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments, including a new expected credit loss model for calculating provisions for impairments on financial assets.

The primary impact for the Group is a change from an "incurred loss" model as per IAS 39 to an "expected credit loss" (ECL) model for the calculation of provisions for impairments on trade receivables, contract assets and loans to associates and third parties.

The group has elected to measure loss allowances for trade receivables at an amount equal to the lifetime ECLs. To measure the ECLs, trade receivables have been grouped based on regions and the days past due. ECLs were calculated separately for state and non-state customers.

The Group has adopted IFRS 9 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported.

The impact of the new impairment model is an increase in the provision for doubtful receivables and loans to associates and third parties in the amount of CHF 6.0 million with a corresponding decrease in retained earnings as of April 1, 2018.

There was no material impact on the Group's interim consolidated financial statements for the six month period that ended September 30, 2018.

4. Significant events and transactions

In the first six months of the financial year 2018 / 19 and 2017 / 18 there were no significant events or transactions.

5. Changes in Group structure

During the first six months of the financial year 2018 / 19 several small companies were acquired in Europe and North America. During first half of 2017 / 18 several small companies were acquired in Europe 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	2018	2017
	Total	Total
Trade receivables	653	3,533
Other current assets	1,828	18,168
Property, plant & equipment	713	2,222
Intangible assets	6,984	23,609
Other non-current assets	513	120
Current liabilities	(2,603)	(6,932)
Non-current liabilities	(6,618)	(30,377)
Net assets	**1,470**	**10,343**
Goodwill	18,779	69,218
Purchase consideration	**20,249**	**79,561**
Liabilities for contingent considerations and deferred payments[1]	(2,247)	(3,138)
Cash and cash equivalents acquired	(1,133)	(3,447)
Cash outflow for investments in associates, contingent considerations and deferred payments	8,059	769
Total consideration paid, net of cash acquired	**24,928**	**73,745**

[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 7.0 million contain customer relationships (prior year period CHF 23.5 million). For acquisition-related intangibles the assigned lifetime range is between 10 and 15 years. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.1 million (prior year period CHF 0.3 million) have been expensed and are included in the line "General and administration".

In the first six months of 2018 / 19 reporting period, the Group divested several audiological care stores in the US region. The total consideration amounting of CHF 1.5 million was settled in cash. The resulting net loss of those transactions of CHF 0.1 million has been recognized in the income statement and is included in "other income / (expenses), net".

April 1 to September 30, 1,000 CHF	2018	2017
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	1,283	2,501
Net income	226	(54)
Contribution, if the acquisitions occurred on April 1		
Sales	5,055	14,684
Net income	1,230	2,881

6. 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 2018 / 19 and 2017 / 18 is as follows:

1,000 CHF	2018	2017	2018	2017	2018	2017	2018	2017
	Hearing instruments		Cochlear implants		Corporate / Eliminations		Total	
Segment sales	1,195,049	1,152,749	110,628	103,193			1,305,677	1,255,942
Intersegment sales	(1,088)	(1,067)	(1,274)	(1,850)			(2,362)	(2,917)
Sales	**1,193,961**	**1,151,682**	**109,354**	**101,343**			**1,303,315**	**1,253,025**
Timing of revenue recognition								
At point in time	1,110,807		106,053				1,216,860	
Over time	83,154		3,301				86,455	
Total sales	**1,193,961**		**109,354**				**1,303,315**	
Operating profit before acquisition-related amortization (EBITA)	**243,901**	**234,464**	**7,731**	**(803)**	**(289)**		**251,343**	**233,661**
Depreciation and amortization	(53,764)	(52,834)	(9,702)	(11,455)			(63,466)	(64,289)
Segment assets	**3,752,827**	**3,759,184**	**610,226**	**601,745**	**(773,410)**	**(758,050)**	**3,589,643**	**3,602,879**
Unallocated assets[1]							644,620	437,657
Total assets							**4,234,263**	**4,040,536**

[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	2018	2017
EBITA	251,343	233,661
Acquisition-related amortization	(23,625)	(23,931)
Financial costs, net	(5,166)	(4,724)
Share of gain / (loss) in associates / joint ventures, net	982	1,603
Income before taxes	**223,534**	**206,609**

7. 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	2018	2017
Income after taxes (1,000 CHF)	190,179	173,116
Weighted average number of outstanding shares	65,312,964	65,316,215
Basic earnings per share (CHF)	**2.91**	**2.64**

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 2018 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	2018	2017
Income after taxes (1,000 CHF)	190,179	173,116
Weighted average number of outstanding shares	65,312,964	65,316,215
Adjustment for dilutive share options	297,066	230,214
Adjusted weighted average number of outstanding shares	65,610,030	65,546,429
Diluted earnings per share (CHF)	**2.90**	**2.63**

8. Contingent liabilities

There have been no material changes in contingent liabilities since March 31, 2018.

9. Bonds

As of September 30, 2018, unchanged to March 31, 2018, 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

10. Movements in share capital

The Annual General Shareholders' Meeting of June 12, 2018 resolved a gross dividend of CHF 2.60 per registered share for the financial year 2017 / 18. The dividend was paid in June 2018 to all shares outstanding, excluding treasury shares.

On August 31, 2018 Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares will be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The new program started in October 2018 and will run up to 36 months. For further details refer to the Group's media releases.

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
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**
Balance April 1, 2018	65,330,887	(3,622)	65,327,265
Purchase of treasury shares		(303,000)	(303,000)
Sale / transfer of treasury shares		267,797	267,797
Balance September 30, 2018	**65,330,887**	**(38,825)**	**65,292,062**

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, resulting in a reduction of share capital of 4,600 Swiss francs, retained earnings and other reserves of CHF 11.8 million offset by changes in treasury shares of CHF 11.8 million. This cancelation has been executed on September 25, 2017.

11. Events after balance sheet date

In 2007, the Alfred E. Mann Foundation for Scientific Research (AMF) initiated a lawsuit claiming patent infringement by Cochlear Ltd. on two patents. Advanced Bionics LLC had exclusively licensed the patents in question from AMF and joined AMF as a plaintiff. On November 4, 2018, a U.S. District Court reinstated a jury judgment from 2014 and awarded damages of USD 268 million. Advanced Bionics will be entitled to a portion of any damages awarded once the verdict is final. Cochlear has appealed the verdict and we expect it could take two years before a final judgement is rendered.

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

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