

Interim Report

Q4 FY'16

Innovation continues to drive strong performance

- Sivantos continued its strong performance across all three regions in Q4 2016. The performance of a strong product portfolio (eg. primax platform) resulted in 11.4% organic growth¹⁾ for the quarter.
- Gross Profit margins were higher benefiting from scale effects and cost effectiveness in production.
- Adjusted EBITDA margin increased to 26.6% driven by the improvement in gross margin and lower opex ratio.
- Cash flow development was supported by the lower inventory despite growth and modest investment.

Note:

The financial information for Q4 2016 is unaudited. The financial statements have been prepared based on IFRS. The comparative numbers presented in the Q4 2016 Interim Report have been prepared based on audited Consolidated Financial Statements for the Financial Stub-Period 01 January to 30 September 2015 of Auris Luxembourg II S.A and its subsidiary companies.

The Issuer Auris Luxembourg II S.A. was incorporated on 13 October 2014. On 06 November 2014 EQT announced the acquisition of Sivantos Group (former “Siemens Audiology Solutions”) together with its co-investors for EUR 2.15 bn from Siemens AG. The transaction was closed on 15 January 2015. Therefore, there are no comparable figures for the previous year. For reference, the FY 2015 Proforma Income Statement (pf) are included in the Consolidated Financial Key Figures although the two are not directly comparable.

¹⁾ As per new definition, baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
Consolidated Financial Key Figures For the Quarter ending 30 September 2016

in mn. EUR	Q4 FY'16	Proforma ¹⁾ FY'15
Revenue	246.3	835.3
<i>Organic Growth % ²⁾</i>	<i>11.4%</i>	<i>10.5%</i>
Gross Profit	144.6	476.7
<i>% of revenue</i>	<i>58.7%</i>	<i>57.1%</i>
R&D	-12.6	-54.7
<i>% of revenue</i>	<i>-5.1%</i>	<i>-6.6%</i>
SG&A	-101.8	-344.7
<i>% of revenue</i>	<i>-41.3%</i>	<i>-41.3%</i>
EBIT	28.4	68.0
<i>% of revenue</i>	<i>11.5%</i>	<i>8.1%</i>
EBITDA	56.7	162.4
<i>% of revenue</i>	<i>23.0%</i>	<i>19.4%</i>
Adj. EBITDA	65.5	205.9
<i>% of revenue</i>	<i>26.6%</i>	<i>24.7%</i>

¹⁾ Pro-forma (Pf) financial Key figures have been prepared to present the results of Auris Luxembourg II S.A. as-if Sivantos Group and its consolidated subsidiaries formerly “Siemens Audiology Solutions” were included for the period October 2014 to September 2015. Proforma (Pf.) financial key figures are not audited.

²⁾ As per new definition, baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

MD&A:

Revenue

Sivantos Group delivered double digit growth of 13% in Q4 2016, which translates to 11% organic growth¹⁾ (pf). The growth was mainly driven by the primax platform. All regions had a favourable (organic¹⁾) performance with Asia/Pacific (APAC) 3%, Europe including Middle East & Latin America (EMEA-LA) 13% and North America (NA) growing 15%.

Gross Margin

The gross margin in Q4 2016 was 59%. The gross margin included effects from depreciation due to the step-up of tangible assets as part of the purchase price allocation and normalization items. Excluding these effects, the gross margin Q4 2016 was 65% benefiting mainly from the revenue scale effects.

Research and Development expenses

Total research and development costs incurred in Q4 2016 amounted to EUR 15 million. Capitalized Development costs amounted to EUR 3 million and amortization of capitalized development costs amounted to EUR 1 million. Total research and development costs expensed were 5% as a percentage of revenue both before and after effects of normalization items. This reflects investments into future technologies in order to further strengthen the competitive advantage currently experienced with primax.

Selling expenses

Total selling expenses in Q4 2016 were 32% as a percentage of revenue and include effects from the amortization of customer relationship management software as part of the purchase price allocation and normalization items. Excluding these effects total selling expenses were 28% as a percentage of revenue.

General Administration expenses

Total general administration expenses in Q4 2016 were 10% as a percentage of revenue. Excluding normalization items, total general and administration expenses were 9% as a percentage of revenue.

EBITDA and Adjusted EBITDA

EBITDA margin for Q4 2016 of 23% includes the impact of normalization items, operating expenses of new acquisitions and accelerated audibene roll-out. Adjusted EBITDA margin was 27%.

¹⁾ As per new definition, baseline revenue of acquisitions < 12 months is computed as average revenue of last twelve months (LTM) prior to acquisition

Leverage

Priority Gross Bank Debt includes the Term Loan B tranches with outstanding balances as of 30 September 2016 of EUR 300.5 mn (B3) and 109.2mn (B5), USD 591.1 mn (B4) – after 0.25% quarterly principal repayments and converted into 534.36 mn EUR at the LTM average exchange rate of 1.1061 as well as repayment of the RCF utilization. In addition, total Gross Debt includes the Senior Notes of EUR 275.0 mn and accrued interest on the Senior Notes.

Net Debt amounts to EUR 1,164.8 mn. This includes Cash&Cash Equivalents adjusted for Cash not readily available as per definition of the Senior Facility Agreement as well as Finance Lease obligations.

Consolidated EBITDA (as per SFA definition) was at EUR 223.6 mn.

The above results in net leverage of 5.2x as of 30 September 2016.

Pro-forma interest was calculated at EUR 63.2 mn, including 4.25% p.a. (Margin plus 1% floor) on TLB after inclusion of the newly issued Term Loan B5, 8.00% p.a. on the Notes and including the non-utilization fee for the RCF.

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the Quarter ending 30 September 2016
(in thousands of EUR, except where otherwise stated)

	<u>01 July to 30 September FY2016</u>	<u>01 January to 30 September FY2015</u>
Revenue	246,328	611,672
Cost of goods sold	(101,756)	(269,497)
Gross profit	<u>144,571</u>	<u>342,175</u>
Research and development expenses	(12,594)	(39,986)
Selling and general administration expenses	(101,754)	(274,852)
Other operating income	1,775	64
Other operating expenses	(3,740)	(3,569)
Share of profit of associate, net of tax	118	-
Interest income	1,759	3,424
Interest expenses	(21,331)	(56,315)
Other financial income (expenses), net	24,533	(33,296)
Income before income taxes	<u>33,336</u>	<u>(62,355)</u>
Income taxes	(39,030)	7,111
Net loss	<u>(5,694)</u>	<u>(55,244)</u>
Attributable to:		
Non-Controlling Interests	421	1,627
Owners of the Company	(6,115)	(56,870)
	<i>Unaudited</i>	<i>Audited</i>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 September 2016
(in thousands of EUR, except where otherwise stated)

	30 September	30 September
	FY2016	FY2015
Assets		
Current assets		
Cash and cash equivalents	65,939	38,876
Trade receivables	152,109	119,760
Other current financial assets	7,601	19,865
Inventories	56,728	81,326
Current income tax assets	2,989	2,501
Other current assets	21,610	19,032
Total current assets	306,978	281,361
Non-current assets		
Goodwill	1,407,429	1,405,755
Other intangible assets	671,970	742,953
Property, plant and equipment	64,917	64,658
Investments accounted for using the equity method	2,197	-
Other financial assets	40,005	14,210
Deferred tax assets	54,656	44,517
Other assets	3,374	6,136
Total non-current assets	2,244,548	2,278,229
Total assets	2,551,526	2,559,589
Liabilities and equity		
Current liabilities		
Short-term debt and current maturities of long-term debt	5,094	48,540
Trade payables	69,354	73,569
Other current financial liabilities	13,582	16,106
Current provisions	31,528	30,403
Current income tax liabilities	33,347	11,672
Other current liabilities	66,648	66,815
Total current liabilities	219,554	247,105
Non-current liabilities		
Long-term debt	1,149,741	1,028,471
Post-employment benefits	22,664	11,859
Deferred tax liabilities	116,058	121,212
Provisions	14,670	13,682
Other financial liabilities	66,288	30,139
Other liabilities	17,115	17,846
Total non-current liabilities	1,386,536	1,223,208
Total liabilities	1,606,090	1,470,313
Equity		
Share Capital	31	31
Capital Reserve	1,047,108	1,155,058
Retained Earnings	(117,702)	(74,504)
Reserves	6,350	(183)
Total equity attributable to owners of the Company	935,788	1,080,402
Non-controlling interests	9,649	8,875
Total equity	945,436	1,089,277
Total liabilities and equity	2,551,526	2,559,589
	<i>Unaudited</i>	<i>Audited</i>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOW
For the Quarter ending 30 September 2016
(in thousands of EUR, except where otherwise stated)

	01 July to 30 September FY2016	01 January to 30 September FY2015
Cash flow from operating activities		
Net loss	(5,694)	(55,244)
Adjustments to reconcile net loss to cash provided		
Amortization and depreciation	28,300	86,005
Income tax (income) expense, net	39,030	(7,111)
Interest expense, net	19,573	52,891
Losses on sales and disposals of intangibles and property, plant and equipment, net	361	847
Losses on disposals and impairm. of afs fin. assets	-	1
Share of profit of associate, net of tax	(118)	-
Other non-cash expenses	(3,009)	40,304
Change in current assets and liabilities:	15,318	(11,072)
<i>(Increase) decrease in inventories</i>	14,060	3,941
<i>(Increase) decrease in trade and other receivables</i>	(11,419)	(2,014)
<i>(Increase) decrease in other current assets</i>	4,057	(18,836)
<i>Increase (decrease) in trade payables</i>	609	(11,459)
<i>Increase (decrease) in current provisions</i>	1,107	(2,441)
<i>Increase (decrease) in other current liabilities</i>	6,904	19,737
Change in other assets and liabilities	(20,516)	18,743
Income taxes paid	(1,602)	(11,875)
Interest received	109	447
Net cash provided by (used in) operating activities	71,752	113,937
Cash flows from investing activities		
Additions to intangible assets and property, plant and equipment	(10,952)	(25,122)
Purchase of investments	-	-
Acquisitions, net of cash	(36)	(1,976,503)
Proceeds from disposal of intangibles and property, plant and equipment	56	2,309
Net cash provided by (used in) investing activities	(10,932)	(1,999,316)
Cash flows from financing activities		
(Redemption)/proceeds from capital contribution without issuance of new shares	-	937,139
Change in other financing activities	(1,921)	-
Transaction costs paid for issuance of SFA and senior notes	-	(42,963)
Proceeds of long-term and short term debt	412	1,101,312
Repayment of long-term and short term debt	(2,376)	(24,212)
Interest paid	(22,289)	(47,070)
Net cash provided by (used in) financing activities	(26,174)	1,924,206
Effect of exchange rates on cash and cash equivalents	(4,474)	31
Net increase (decrease) in cash and cash equivalents	30,171	38,858
Cash and cash equivalents at beginning of period	35,769	18
Cash and cash equivalents at end of period	65,939	38,876
	<i>Unaudited</i>	<i>Audited</i>

AURIS LUXEMBOURG II S.A. AND ITS SUBSIDIARY COMPANIES
PRO FORMA FINANCIAL INDICATORS
For the period ended 30 September 2016
(in millions of EUR, except where otherwise stated)

Leverage

Priority Net	EUR
Priority Gross	944.4
Cash	(59.3)
Net Priority Debt	885.1
Leverage	4.0x

Total Net	EUR
Gross Debt	1,224.1
Cash	(59.3)
Net Total Debt	1,164.8
Leverage	5.2x

Fixed Charge Coverage Ratio

Total Net	EUR
Total PF interest	63.2
Consolidated EBITDA ¹⁾	223.6
Fixed Charge Coverage Ratio	3.5x

¹⁾ Consolidated EBITDA calculated as per SFA definition