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# Letter to shareholders

For Sonova, 2016 / 17 marked an important year in our strategic transformation. We significantly strengthened our position as a complete provider of innovative hearing care solutions and took a great stride towards further implementing our fully integrated business model.



Lukas Braunschweiler / CEO  
Robert F. Spoerry / Chairman of the Board of Directors

## Dear shareholders,

We are pleased to report that the Sonova Group again achieved strong progress in the 2016 / 17 financial year, with solid growth across our businesses. Moreover, the acquisition of AudioNova marks a major milestone in the Group's transformation to a fully integrated business model that extends along the entire hearing care value chain.

We took further significant steps in executing our strategy, which focuses on three key areas:

**New products:** Sonova's commitment to continuous platform-based innovation has delivered an array of new products that once again raised the standards in hearing care, including the introduction of a broad range of rechargeable hearing aids based on lithium-ion technology.

**Market access:** Building on our global footprint and our strategic commitment to vertical integration, we have continued to extend the number and breadth of channels through which we reach our customers.

**eSolutions:** We aim to lead the digital revolution in hearing care and have ensured that each new product and service that we launch is integrated into our full portfolio of digital solutions, connecting the people who use our products with their hearing care professionals and with Sonova.

The details of all these developments are outlined in the "Strategy and businesses" section of this report, starting on page 10.

To show how our strategy works in practice and give vivid examples of the world in which we operate, this year's report offers a closer look at the Asia / Pacific region, starting on page 13.

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*We made great strides in our transformation to a vertically integrated business model.*

Robert F. Spoerry

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*Our innovative solutions aim to set new industry standards with every launch.*

Lukas Braunschweiler

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### Hearing instruments segment

Sonova's hearing instruments segment saw continued growth in 2016/17, based both on organic growth in its hearing instruments and retail businesses and on acquisitions – particularly that of AudioNova, which completed in September 2016. This resulted in a total sales increase of 15.9 % in local currencies.

Sonova continued to set new industry and technology standards throughout 2016/17 with the introduction of innovative breakthrough products. Belong™, Phonak's latest generation product platform, came to market with the launch of the Audéo™ B Receiver-In-Canal product family in August 2016, followed in February 2017 by the Bolero™ B Behind-The-Ear family. Both feature improved audiological performance through the second generation of AutoSense OS™, one of the most sophisticated sound processing systems in the industry, and both include a rechargeable instrument based on innovative lithium-ion battery technology. Unitron and Hansaton have also introduced rechargeable hearing instruments, giving Sonova the industry's broadest portfolio of rechargeable solutions.

In February 2017, Phonak introduced Virto™ B-Titanium, the first Phonak custom product made from titanium and formed using state-of-the-art 3D metal printing for increased strength and functionality in a 26 % smaller size than its predecessor. Unitron launched in August 2016 the smallest Receiver-In-Canal instrument in the world, Moxi™ Now, followed by the launch of the new Tempus™ product platform. Hansaton unveiled its new product platform, SphereHD, and the 2017/18 financial year will see a further portfolio expansion including the most advanced wireless connectivity solution in the industry.

In the Group's retail business, the acquisition of AudioNova helped to accelerate the implementation of Sonova's vertically integrated business model. Despite causing some headwinds on our hearing instruments business from independent audiologists, particularly in Germany, the acquired business met our financial expectations during 2016/17, and the country-by-country integration with our previous Connect Hearing retail business is well on track. We have a strong leadership team in place, we have taken steps to harmonize our systems and processes, and we are ready to convert the AudioNova product offering to Sonova technology. In general, we made solid progress in all major markets,

although some countries face challenges: in the Netherlands, for example, recent changes in the reimbursement conditions have some impact on sales, but we are taking steps to mitigate negative effects.

### Cochlear implants segment

We are pleased to announce that Sonova's cochlear implants segment has returned to growth and profitability after a flat development in the previous year: sales grew by 9.6 % in local currencies, with double-digit growth in new system sales somewhat offset by slower development in upgrade sales. The product highlight of the year was the introduction of HiRes™ Ultra, the thinnest implant from Advanced Bionics, which delivers precise and proven HiRes stimulation electronics in a profile 30 % thinner than its predecessor. The synergies between Advanced Bionics and Phonak sound processing R&D were demonstrated yet again in the launch of the Naída™ Link solution for recipients who use a cochlear implant in one ear but a hearing aid in the other. This fast-growing "bimodal" market segment gains unprecedented control and convenience from the ability of Naída CI sound processors to communicate and coordinate wirelessly with Phonak Naída Link hearing aids.

### Financial highlights

The Group has continued to build on its solid performance history. Consolidated sales for the year reached CHF 2,396 million, up 15.6 % in Swiss francs and 15.3 % in local currencies. The rise was driven both by organic growth and by acquisitions, particularly the effect of the AudioNova acquisition for seven months of the year. Organic revenue growth accelerated in the second half-year. Excluding one-time costs related to the acquisition of AudioNova, normalized operating profit before acquisition-related amortization (EBITA) was CHF 481.4 million, a rise of 12.1 % in local currencies. The Group once again achieved a strong cash flow. In connection with the acquisition of AudioNova, a bond issue of CHF 760 million was placed at attractive rates; we expect to pay this off within the next few years. In summary, this brings net debt to CHF 404.6 million; the balance sheet remains strong and the equity ratio stands at a solid 54.2 %.

### Use of cash

In 2016/17, we spent CHF 675 million on acquisitions, which includes the net amount paid for AudioNova. In connection with the acquisition, we suspended the share buyback program: up to the suspension, Sonova had bought back 92,000 shares for CHF 12 million in this financial year. These shares will be proposed for cancellation at the 2017 Annual General Shareholders' Meeting. The Board of Directors also proposes a dividend of CHF 2.30 per share, an increase of 9.5%.

### Corporate social responsibility

Sonova's corporate social responsibility (CSR) activities keep their strategic focus on two areas: expanding access to hearing care and doing business in a responsible manner. The Hear the World Foundation has been a main pillar of the Sonova Group's CSR engagement for ten years. During this time, it has supported over 80 separate projects, concentrating on helping disadvantaged children with hearing loss in developing countries. Sonova covers all the Foundation's administrative costs and provides hearing equipment and professional support without cost.

The company remains listed in the internationally-recognized Dow Jones Sustainability and FTSE4Good Global indices, which track sustainable business practices. You will find more about our CSR activities in the separate Corporate Social Responsibility Report, prepared in accordance with the Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

### Our thanks

Technology is just the means to an end: real, effective innovation is based on people fulfilling the needs of other people. Our success as a company shows the deep knowledge our employees have both about the challenges of hearing loss and the potential for new, never-before-seen solutions to those challenges. Coupled with that knowledge is drive: the motivation to make a positive difference in the lives of millions around the world. We highly appreciate these qualities, both in those who work at Sonova and in the health care professionals whose partnership brings us into ever closer contact with the people who need our solutions. Those people – our customers – stand at the center of our business. We aim to set new standards with every innovation because they deserve the best we can do. And it is our shareholders whose continuing trust lets us develop the company for the future. We thank you all.

### Outlook 2017 / 18

With an expanding global market, and an increasing appetite for truly innovative solutions, Sonova is well placed to continue to grow. As we implement our fully integrated business model, we anticipate that all our businesses will benefit from synergies and efficiencies along the value chain. The combination of continuous, industry-leading product innovation, multiple channels to market, and integrated eSolutions linking us with our customers will sustain our position as market leader in hearing care. Including the acquisition of AudioNova, we expect to increase consolidated sales in 2017/18 by 10%–12% in local currencies, while further expanding profitability.



Robert Spoerry  
Chairman of the Board  
of Directors

Lukas Braunschweiler  
CEO



**sonova**  
HEAR THE WORLD

**PHONAK** **unitron**  **HANSATON**

 **Advanced Bionics**

**AudioNova** 

# The Sonova Group

The Sonova Group is the world's largest hearing care provider, committed to offering the most comprehensive range of industry-leading solutions. Our brands – Phonak, Unitron, Hansaton, Advanced Bionics, and AudioNova – create compelling new products to offer the optimal solution for every user, provided by hearing care professionals through a broad range of service channels tailored to the individual's needs.



## Hearing instruments business

(54.7 % of Group sales)

Through its three brands – **Phonak**, **Unitron** and **Hansaton** – Sonova offers a complete range of digital hearing instruments with complementary wireless communication systems. Phonak represents the cutting edge of technical development and innovation in hearing instruments and wireless connectivity. Unitron aims to help customers achieve success in their business through delivering an outstanding client experience; and Hansaton drives growth by forging exclusive customer relationships.

## Retail business

(36.7 % of Group sales)

The retail business of Sonova is consolidated under the **AudioNova** umbrella, operating under several market-specific local brands. As a fast growing international professional service network of hearing care providers, it is dedicated to delivering advanced audiological care through outstanding service and technology solutions for people with hearing loss. Constantly thinking of ways to improve information, education, screening, counseling, and support, AudioNova always puts its customers in the center of attention, knowing that better hearing starts with understanding their individual needs.

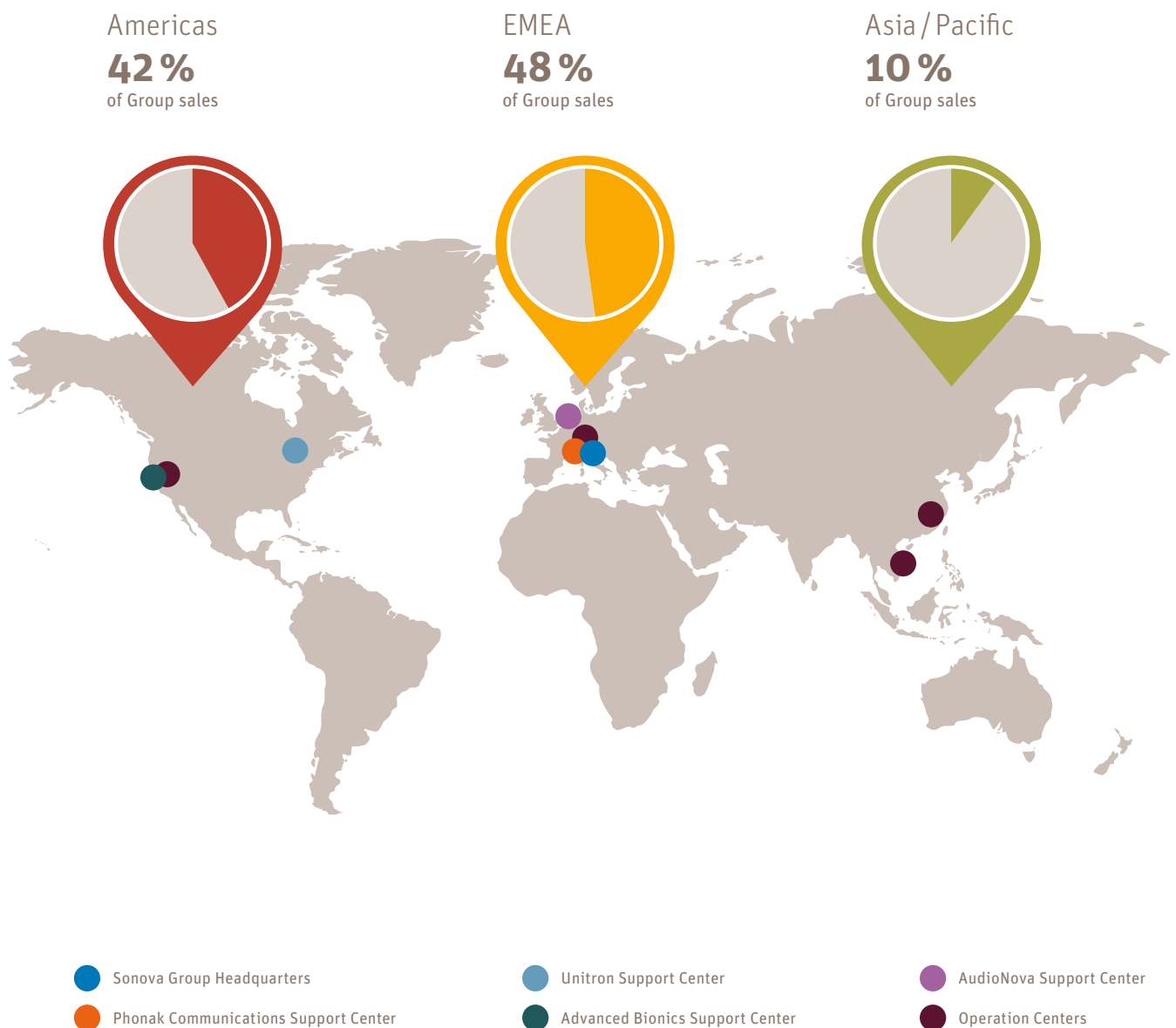
## Cochlear implants business

(8.6 % of Group sales)

Sonova serves the market for cochlear implants through its **Advanced Bionics** brand, a global leader in developing the world's most advanced cochlear implant systems. Founded in 1993 and acquired by the Sonova Group in 2009, Advanced Bionics develops cutting-edge cochlear implant technology that incorporates Phonak's state-of-the-art sound processing to help children and adults with significant or complete hearing loss enjoy clear, high-resolution sound, optimal speech understanding and an outstanding music experience.

# Our global presence

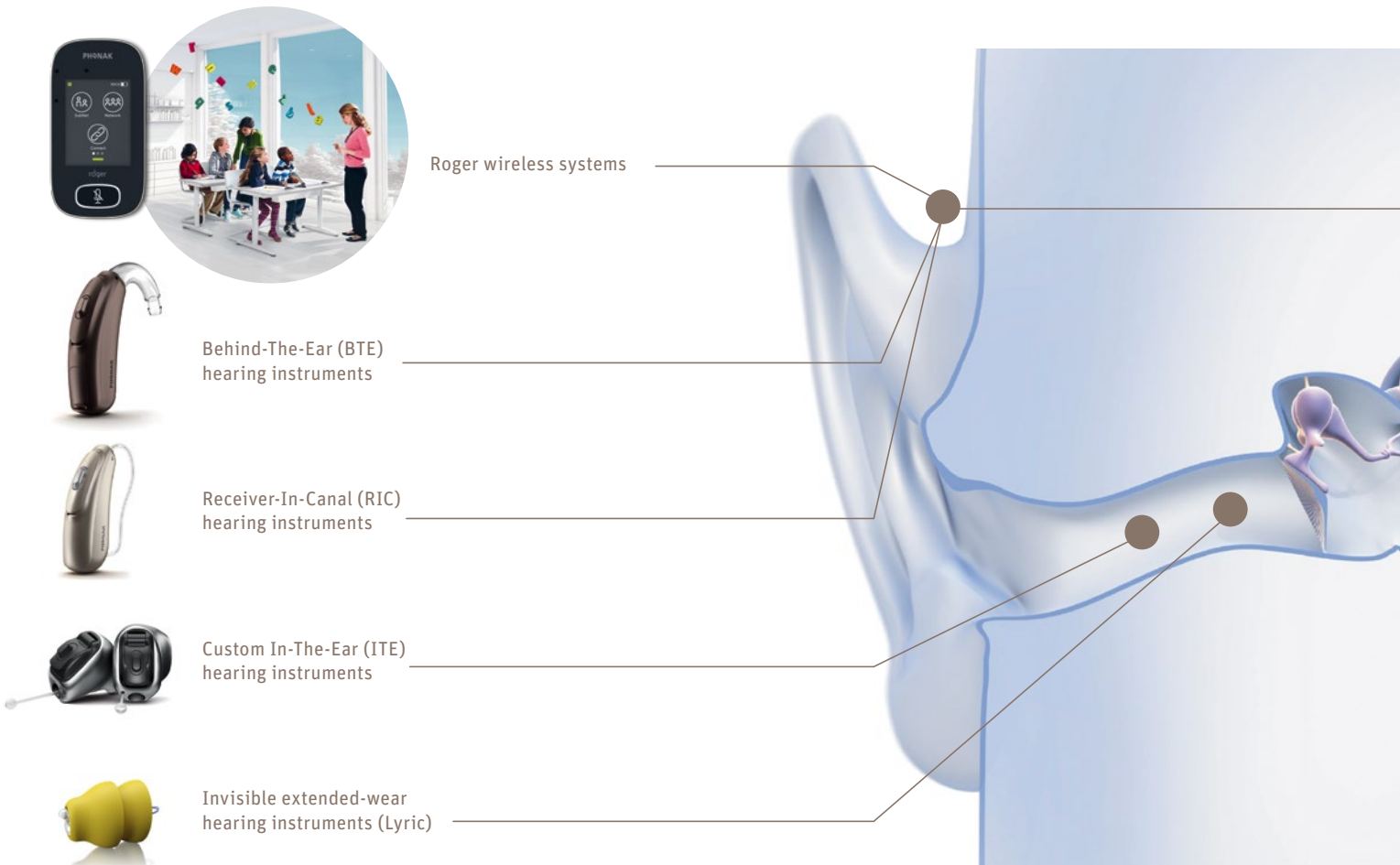
Sonova's market is worldwide. We sustain our brands with six innovation centers and four operations sites on three continents. Our sales and support presence is the widest in the industry: over 50 wholesale companies and more than 100 independent distributors. Our audiological service network has more than 3,300 locations in twelve key markets.



# Our product and service offering

The Sonova hearing care solution portfolio seamlessly covers every need, from hearing aids to cochlear implants to wireless communications, along with professional audiological services.

## Hearing instruments business



**PHONAK** **unitron** **HANSATON**

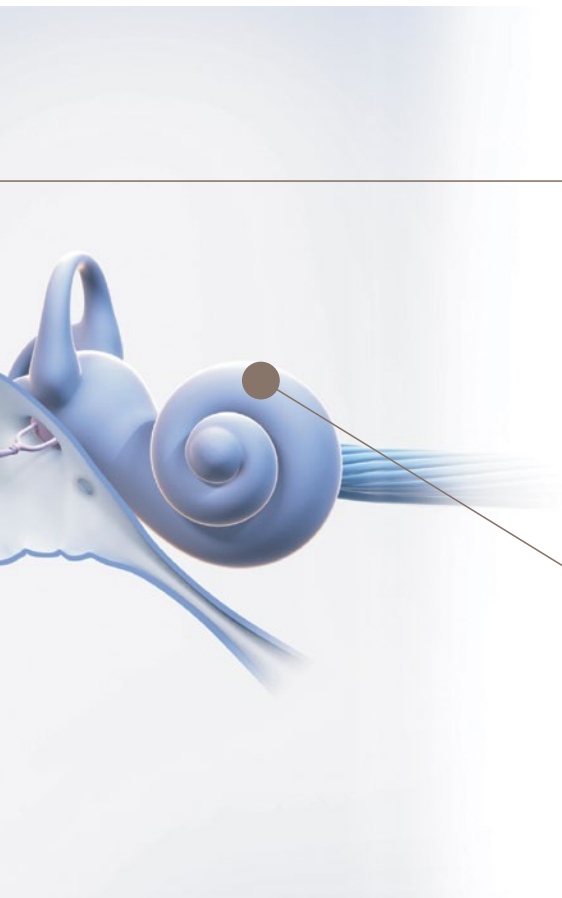
## Retail business – Professional audiological services

**AudioNova** 





## Cochlear implants business



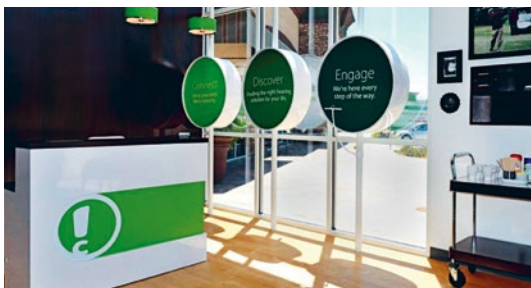
Sound processors



Cochlear implants with electrodes



Advanced Bionics



# Strategy and businesses

We are energized by our vision: a world where everyone enjoys the delight of hearing and therefore lives a life without limitations. We bring this closer to reality each day through continuous, customer-driven innovation.



Hearing loss creates challenges for people in every aspect of life; so we tackle those challenges through the industry's most comprehensive range of solutions: hearing aids, cochlear implants, wireless communication products, and professional audiological services. We deliver our solutions worldwide through multiple channels within an increasingly integrated business model that maximizes customer value.

The success of our businesses and the effectiveness of our solutions both rest on the same foundation: innovation. We drive continuous innovation in what we do, how we do it, and how we market it – because we are convinced that this, in turn, drives growth in sales, earnings, and cash flow. We annually reaffirm our commitment to innovation by consistently investing in research and development.

The Sonova Group operates through three core businesses, each individually addressing its segment of the hearing care market while sharing expertise, operational synergies, and best practice in research, production, distribution, and marketing.

**Hearing instruments business:** Sonova is the world's leading manufacturer and developer of hearing instruments, operating through three distinct and complementary brands. Phonak is the industry's innovation leader and brand, pioneering life-changing technology advances in hearing aids and wireless communication products. Unitron leads in enhanced consumer experience, delivered through close working partnerships with hearing care professionals. Hansaton builds exclusive, trusted, and entrepreneurial relationships with independent audiologists in key markets.

**Retail business:** Now consolidated under the AudioNova umbrella, our retail business provides advanced audiological care through an extensive international network focused on key markets. Its emphasis is on growth, world-class standards of service, and efficient working practices, giving customers the combined best features and access of a trusted local partner and a global, industry-leading provider.

**Cochlear implants business:** Our Advanced Bionics brand offers cochlear implant recipients – children and adults with severe-to-profound hearing loss – the chance to hear clear, real-life

sound through sophisticated, reliable solutions incorporating Phonak sound processing technology. The two brands also benefit from complementary customer bases and joint marketing opportunities.

In all our businesses, our growth strategy emphasizes three key areas of activity: creating innovative new products and services, extending our access to the market, and developing eSolutions to integrate our work into the expanding digital universe.

### New products

For Sonova, innovation is never a matter of chance. It is a planned process, based on a consistent, repeated platform approach in which new generations of fundamental technology enable new features and thereby new products. This, combined with our continued high level of investment in research and development, has made possible our sustained and rapid tempo of new product launches, systematically renewing our broad offering of solutions year by year.

Every new hearing solution needs to pass the scrutiny of its potential users, and our continuous and intensive consumer research shows the need to satisfy three key fundamental concerns:

**Does it sound good?** Audiological performance – clear, lifelike sound with good speech comprehension in all relevant life and listening situations – is naturally the most important criterion. People buy our products to hear better, and there will always be room for improvement. In 2016 we substantially enhanced our Phonak hearing aid operating system with new features, including an adaptive frequency-compression algorithm to help those who are affected by hearing loss hear high-frequency sounds – an important part of speech comprehension as well as of natural sounds like birdsong or a child's laughter.

**Does it look good?** Design is not an afterthought, but is integral to the appeal of a hearing care product. Most people may want their hearing aid or sound processor to be inconspicuous, but it is still something that will be with them every waking hour: its look and feel are important. We are pleased that we have continued to win a number of prestigious design awards, and we are continuing to innovate in this area: this year, we have introduced the smallest custom hearing aid from Phonak with a robust 3D-printed titanium shell.

**Is it easy to use?** People do not want to spend lots of time fiddling with their hearing solutions. They want something they can put on and forget about, with the technology taking care of the rest. Our solutions are therefore designed to adapt automatically to any given listening situation, making the hearing experience more natural and trouble-free. Similarly, having to replace hearing aid batteries is a hassle, one that wearers often complain about. We therefore developed and brought to market reliable rechargeable technology for all our brands, and the hassle is gone.

### Market access

There is never just one path to the market. As a global company, we are always seeking the most appropriate way to bring our broad portfolio of solutions to each of the millions around the world who want to reconnect with the sounds of the people and experiences that they love.

Our business brands are strongly supported by our broad global footprint: our sales and distribution network, the widest in the industry, comprises over 50 Sonova-owned wholesale companies and more than 100 independent distributors, covering every important hearing care market. Our AudioNova retail network operates from more than 3,300 locations in twelve key markets. This global presence, added to our integrated business model, represents a firm growth platform.

Sonova's growth strategy acknowledges the diversity of the hearing market by following four distinct paths. Our customer base is growing, and we will accelerate that growth by increasing demand through more direct and digital marketing. We will deepen, integrate, and optimize the professional service channels that lead to customers, increasing productivity and extending our retail network where required. We will continue to expand into accessible and emerging markets with appropriate product formats. And we will increase our share of existing markets by continued innovation presented through multiple brands.

In May 2016, we announced the acquisition of AudioNova, which was completed in September 2016. The combination of Audio Nova and Sonova creates one of the widest hearing aid professional service networks in the world, covering twelve major countries. The two networks are complementary, and their combined strengths will advance our strategy of providing world-class professional audiological services and getting closer to our customers.

### eSolutions

Our customers' lives are increasingly digital. Tech-savviness is no longer restricted to the young. More and more healthcare services are being offered through web-connected personal technology, and the "internet of things" will increasingly blur the distinction between hardware, software, and communication. We therefore continue to extend our technology platforms by introducing comprehensive digital solutions and services linking Sonova with its customers and their hearing care providers. We aim to provide a seamless, efficient, and easy digital experience to connect, empower, and assist people throughout their hearing journey.

Today, potential customers can test their own hearing online in the comfort of their home, directly book an appointment with a health care professional in their area, and fill out their initial questionnaire electronically, making their first face-to-face consultation immediately personal and productive.

After being fitted, they can remain in touch with their hearing care professional through remote monitoring, messaging, video conversations, satisfaction ratings, tips, and coaching. The customer remains in control of the process, gaining familiarity with a new experience in a way that enhances understanding and peace of mind. New technology to be introduced over the next year will make remote monitoring and adjustment even easier, using the advanced wireless technology features of Sonova hearing aids to customize their fitting to each individual's lifestyle.

### Investing in our people

Our business is built on innovation – and innovation is built on innovators. We rely for our success on the initiative, talent, knowledge, and collaborative spirit of all our employees. Sonova is a place where people know what they are working for: helping people to enjoy the delight of hearing and enabling them to live a life without limitations. We keep that goal firmly in mind and strive to create a workplace where everyone understands how they are contributing to it. We believe that work should be meaningful, because that is what makes it worth being very good at.

With our diverse markets and broad product range, we make a conscious effort to keep our work environment flexible and integrated. We have a flat hierarchy and assume that talented and motivated people will move between our businesses, brands, and companies. We insist on mutual respect, encourage open communication at all levels, and expect – and reward – personal engagement.

We believe in nurturing talent, identifying employees with high potential and ensuring that they get the training and feedback they need to develop to their potential. We take a strategic view of career paths, looking ahead to potential future roles and identifying what skill gaps may need to be filled. We anticipate the possibility of key positions opening up by active succession planning: over 50 % of these roles have a potential internal candidate.

The result is a fruitful balance between the novel and the constant: we are always innovating because the spirit of innovation is part of our DNA.





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## Asia / Pacific facts & figures:

### Population:

over 4.5 billion

of which:

China: 1.37 billion

India: 1.31 billion

Australia: 24.4 million

Growth: +0.9% (2016)

### GDP:

China:

GDP: USD 11.4 trillion (2016)

Growth: +6.6% (2016)

India:

GDP: USD 2.3 trillion (2016)

Growth: +7.6% (2016)

Australia:

GDP: USD 1.2 trillion (2016)

Growth: +2.9% (2016)

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## Region with significant potential

Around 60% of the world's population lives in the Asia / Pacific region. Mature markets, such as Australia, New Zealand, and Japan, continue to develop steadily.

The largest countries in the region, China and India, show a low penetration rate.

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## Sonova in the region

The Asia / Pacific region contributed 10% to Group sales in 2016 / 17 and has achieved significant sales growth in recent years. Sonova further extended its strong positions in Australia, Japan and New Zealand. Emerging markets such as China and India offer great potential for further growth.

# On the path to growth

The Asia / Pacific region is becoming increasingly important for Sonova's business. A journey into the growth region of the present – and the future.

"Isn't it a pleasure to study and to practice what you have learned at the right time?" wrote Confucius in the fifth century BC, and the Chinese scholar's wise words still hold true to this day: learning is what turns human beings into cultural beings – and applying what has been learned makes progress possible and helps people to advance. This appetite for progress is palpable throughout the Asia / Pacific growth region: China has long since become one of the leading global markets and tiger economies like South Korea and Singapore are pushing ahead at full steam, while Australia and New Zealand are stable, highly developed markets that are nonetheless still growing steadily.

The region's per capita income is constantly rising – in lockstep with purchasing power and the demand for top quality technological products – and this is opening up extremely promising prospects for Sonova. World Health Organization (WHO) figures indicate that about a third of the world's population over 65 are affected by hearing loss, and this is particularly acute in the Asia / Pacific region. In China alone, an estimated 60 million people suffer from hearing loss, but a mere 5% of these individuals own hearing aids. At 3 – 4%, market penetration rates have also been low in the other Asian countries up to now, and many regions are woefully undersupplied. By comparison, the USA has coverage rate of about 30% and in Europe it is up to 40%.

"One of the reasons for the low market penetration in Asia is that there is insufficient knowledge of the treatment options available for hearing loss. We are using our educational work to help raise awareness, step by step," says Lukas Braunschweiler, Sonova's CEO. "This is helping us to further drive growth in the region." Demographic change is also a key factor. The age pyramid is soon to flip in many Asian countries and by 2025, more than a third of Chinese citizens will be older than 50, with only about a fifth aged 19 or younger.

Sonova is pursuing a long-term growth strategy in the Asia / Pacific region that factors in the extremely heterogeneous market conditions in individual countries. "Our tailored approach is the key to our success here," explains Braunschweiler. In Australia, for example, both the wholesale and retail business are making a significant contribution to Sonova's growth, while in China, the sale of hearing solutions via private specialist stores and chains is playing an increasingly important role. The volume of hearing care programs supported by state agencies is likewise growing, with government initiatives being launched in more and more regions.

All these strands converge at Sonova's regional hub in the city-state of Singapore, where synergies between the various Group companies are forged, ensuring cost efficiency and integrated service. Sonova's Asia / Pacific hub is optimally located: the



flight to Shanghai is five hours, you can be in Delhi in six, and the west coast of Australia is only five hours away. The Sonova Group operates its own companies in countries such as China, India, Vietnam, South Korea, Japan, Australia, New Zealand and Singapore while other parts of the region are covered via distributors.

The Sonova Group's operation centers in Vietnam and China manufacture products for the entire world. The Ho Chi Minh City production facility in Vietnam was enlarged by 10,000 m<sup>2</sup> in 2016; the new factory is built to accommodate a production team of 1,200 and is equipped to produce a variety of hearing instruments. The operation center also meets the highest environmental protection standards, with a state-of-the-art building management system helping to minimize energy consumption. The production capacity of the operation center in China has also grown rapidly over the last few years; the facility in Suzhou manufactured around one million units (predominantly behind-the-ear hearing aids) in the 2007/08 financial year but production has since increased several times over. This success is rooted in the commitment of the employees and

close cooperation within the team. General Manager Davy Ling believes it is especially important for everyone to feel part of the Sonova Group and to be motivated to contribute new ideas. "At the entrance to our operation center we have a pinboard showing improvements suggested by our staff – tips on how to optimize production processes, for example," explains Ling.

Sonova has also opened a new training center at its Suzhou site that will provide hands-on courses for hearing care professionals. "At our training center, we instruct course participants in our customer-focused approach, which has the consultation and sales processes at its core," explains CEO Lukas Braunschweiler. The center is equipped with sound-proof rooms for hearing tests and workstations where earmolds can be adjusted, so hearing care professionals can immediately put what they have learned during their training days into practice. "We think it is important for our technical staff to extend and refine their qualifications on a rolling basis," says Braunschweiler. In parallel, Sonova is establishing an interactive, online audiology academy that pursues the same objectives and will like-

wise be launched in China. "Our training courses will help us supply more and more people with professional hearing solutions," adds Braunschweiler.

Sonova's hearing aid brand Phonak is represented in the entire region and has also proved to be a technology pioneer in the Asia/Pacific area. Audéo B-R, the company's new rechargeable hearing aid, is the first of its kind and features a specially developed lithium-ion battery that provides up to 24 hours of hearing on a single charge. It has already enjoyed an excellent reception on all the markets in the region where it has been launched. "These kinds of innovative products allow us to serve the needs of our customers even better," says Thomas Lang, Senior Vice President Phonak Marketing. A further success has been scored with a new speech algorithm that has decisively improved speech recognition in tonal languages for users of Phonak hearing aids: Adaptive Phonak Digital was introduced in May 2015. Studies carried out since the product launch have shown that Chinese-speaking hearing aid users are very happy with the improvements, and new conversion software has been specially developed for China.





These innovations, which incorporate the particular characteristics of tonal languages, are allowing Phonak to meet the increasingly sophisticated needs of its Chinese customers. “An urban middle class has grown up in China over the last few decades, and it is looking for quality and attractive design. The number of Chinese users with high expectations of their hearing equipment is expanding all the time,” says Lang. A further example of how Phonak is responding to the individual needs of its customers in the region is its provision of hearing solutions for children; Phonak is bringing decades of experience in this field to bear in its role as a core partner for state health and education departments in key markets such as China and Australia. Products with Roger technology are extremely popular in Australia, for example, and not just in the education sector; the National Gallery in Canberra uses the Roger Guide-U system for group tours.

Sonova’s hearing aid brand Unitron is equally well-positioned in the Asia/Pacific region, with Australia figuring as one of its key markets. Here too, hearing care

professionals can offer their customers an opportunity to test out a device before deciding on a purchase. This Flex: Trial™ system has been demonstrated in workshops to hearing care professionals up and down the country with great success, and course participants also learn ways of improving the customer experience: “It’s not about selling a product, it’s about offering a solution,” explains trainer Catherine Brown. The Flex: Trial workshops also introduce participants to Unitron’s Log It All software, which allows hearing care professionals to make use of customer data when giving advice, as Log It All documents user behavior in various acoustic environments. The end result is a comprehensive picture, as data about acoustic conditions and hearing aid settings are recorded. The customer’s personal experiences of hearing situations are linked with these data via an app. “This allows customers and hearing care professionals to work together to assess which situations and settings the wearer was happy with. Customers can try out various levels of technology with the Flex: Trial unit without having to get used to a new device,” explains Brown.

With the Flex: Upgrade program, customers are able to enhance the performance level of a hearing aid they have already bought simply by taking it to the hearing care professional to have it reprogrammed.

Advanced Bionics, Sonova’s cochlear implant brand, is also extremely active in the Asia/Pacific region. There is particular promise in India, the most highly populated country in the world besides China, with only about 1% of potential cochlear implant recipients fitted so far; the number of surgeries is constantly growing and Advanced Bionics’ cochlear implant systems are already in use in more than two-thirds of India’s private clinics. There has been an enthusiastic take-up of innovations such as the Phonak Naída™ Link (the world’s first hearing aid specifically developed for use with a cochlear implant system) among doctors and patients alike. “Advanced Bionics always focuses on cultivating relationships and building up trust,” says Director Vinod Nadig. Advanced Bionics puts particular emphasis on follow-up care and training courses for surgeons, audiologists and speech therapists.



Through its AudioNova Group brands, Sonova also has a strong presence with professional audiological services in the Asia/Pacific region. The Triton brand is represented in more than 50 specialist stores throughout New Zealand and the Connect Hearing brand provides professional audiological services in more than 120 locations in Australia. Because of the vast distances on the Australian continent, eSolutions have proved a particularly important element in connecting with customers; audiologists can use the internet to catch up on information about new technologies, products and offerings right across the country. "Connect Hearing has built an online community in Australia that now has 12,000 members. A live chat is held with an audiologist once a month to answer users' questions," explains Group Marketing Manager Beat Meier; the live chat session is once again being broadcast from Connect Hearing's headquarters in Sydney, with audiologist Julie Sutcliffe taking only seconds to respond to participants with answers and advice.

Many users with hearing problems find that this provides the prompt they need to visit a doctor or hearing care professional.

At the same time, a young dancer is training in the Chinese city of Harbin, 9,000 km northwest of Sydney. Tianjiao (Jiaojiao) Zhang leaps from the floor of the bright training room and glides through the air for a moment, her left arm stretched out above her. She lands gently, relaxes her joints, and laughs. Even as a child, the 20-year-old dancer knew there was only one career for her, despite her profound hearing loss – and she has been supported in this endeavor by hearing aids from Sonova brand Phonak; Jiaojiao has been wearing these since she was five years old. As a little girl, Jiaojiao learned to dance, hear and speak all at the same time. "Lots of people said to me that I would never manage it. But my teacher and especially my mother have always believed in me." Her teacher recognized her talent for dancing at an early age and practiced with her, speaking slowly and with plenty of ges-

tures, and always looking for eye contact. The training was very hard. "I had this determination within me not to cry, but to grit my teeth. I wanted to get better and better." Nowadays, Jiaojiao can smile when she talks about that time. Success came quickly, and even as a teenager, Jiaojiao was winning prizes at national and international competitions before studying dance at a prestigious academy in Beijing. Having graduated, she now works as a freelance dancer with bookings all over the country for appearances with various dance troupes. She also gives ballet lessons to children. "I love teaching children and encouraging them. My dream is to have my own dance school one day. Dancing makes me happy and I want to pass this on," she says, smiling – and preparing for her next pirouette.



A young woman with dark hair tied in a bun is captured in a graceful dance pose. She is wearing a white, sleeveless, form-fitting dance costume with a silver chain detail along the side. Her right arm is raised high, and her left hand is positioned near her face, with fingers spread. She is looking towards the camera with a slight smile. The background is a deep red, vertically pleated curtain.

Jiaojiao has wanted to be a dancer ever since she can remember, despite her profound hearing loss, and Sonova brand Phonak's hearing aids are helping the 20-year-old Chinese woman to achieve her ambitions; she dreams of running her own dance school.

# Hearing instruments business

Our three strong brands – Phonak, Unitron and Hansaton – make us the world's leading provider of hearing instruments. By driving innovation and staying focused on our customers, we deliver ever better hearing for millions of people worldwide.



Our hearing instruments business brings Sonova's vision to reality through the targeted, complementary strategies of each of our product brands.

**Phonak** is the technology innovation leader, delivering life-changing hearing solutions and the broadest product portfolio in the industry. Throughout its 70-year history, Phonak has regularly established new technology, industry standards and benchmarks with pioneering hearing systems and wireless devices.

**Unitron** works in close partnership with hearing care professionals, supporting in-clinic success by enhancing clients' experience and offering effective products, technologies, and services. Unitron acts as a member of the hearing care team, supporting a symbiotic relationship with its customers.

**Hansaton** is focused on independent audiologists, in particular in Germany and France. It provides bespoke individual support, builds trusted, cooperative relationships, and offers customized solutions for optimal hearing.

People who need hearing instruments differ widely in their personal styles and expectations. Some are technology enthusiasts; others are value conscious; some are self-directed; and again others look for personal service. These differing needs lead them to different types of providers, from the independent audiologist's practice to large chain store networks. Our three strong hearing instrument brands, each with its distinct product and service offering, allow us to cater to every type of customer through the most appropriate channel.

Distinct though they are, each of our brands keeps closely to our overall corporate strategy of strong product innovation, efficient market access, and development of modern eSolutions. Here is how our hearing instrument brands delivered on that strategy this year, setting new industry benchmarks for hearing performance, ease of use, and aesthetics.



### New products

With the launch of the **Phonak Belong™** platform in August 2016, we have solved one of the most pressing issues for hearing aid wearers: the hassle of changing batteries. Research<sup>1</sup> showed rechargeable hearing aids right at the top of the list of wished-for features. Following years of research, development, and intensive testing, Phonak launched the first lithium-ion rechargeable hearing aids, providing 24 hours<sup>2</sup> of hearing with a simple charge of just three hours. Lithium-ion batteries last for the lifetime of a hearing aid, freeing wearers from the cumbersome task of changing batteries.

Initially available on Audéo™ B Receiver-In-Canal (RIC) instruments, the Phonak rechargeable offering expanded in February 2017 with the launch of the Bolero™ B-PR Behind-the-Ear (BTE) hearing aid. Hansaton also introduced its version of a lithium-ion rechargeable hearing aid with its AQ HD RIC device. Completing our portfolio of rechargeable solutions, Unitron introduced in February 2017 the Moxi™ Fit R RIC: the world's smallest rechargeable hearing instrument.

The **Phonak Belong** platform delivers market-leading hearing performance, with the second generation of **AutoSense OS™**, one of the most sophisticated and advanced processing systems ever applied to hearing care. In 2016, we further enhanced it with new features, including adaptive **SoundRecover2**, an advance on Phonak's groundbreaking frequency-compression algorithm. The fully automatic operation of AutoSense OS gives customers an effortless hearing experience without having to press buttons or switch between listening programs, and is proven to deliver 20 % better speech understanding<sup>3</sup>. For the most difficult speech environments containing loud noise, AutoSense OS contains features which will improve speech understanding by an average of 60 % versus not wearing any hearing aids<sup>4</sup>.

In February 2017, Unitron also announced the launch of its **Tempus™** product platform. Tempus brings entirely new features to market, allowing wearers to participate more actively in all kinds of conversations, including those in significant background noise. Intelligent **SoundCore™** technology makes this possible by orchestrating four separate features that understand the listening environment and make fluid adjustments to suit the moment. Tempus is more accurate and significantly faster at recognizing and locating speech than the previous Unitron platform, delivering the most realistic and natural sound yet.

Aesthetics are important in choosing a hearing aid, because it will be part of each wearer's everyday life. For maximum discretion, Phonak offers the newly-launched **Virto™ B-Titanium**: the first Phonak custom product line made from titanium, using state-of-the-art 3D metal printing. This groundbreaking technology lets us build a shell that is 15 times stronger and 50 % thinner than a standard acrylic shell, thereby reducing its size by up to 26 % versus its predecessor. Combined with new electronics, packaging and design, this enables smaller custom devices than ever before. Unitron launched the **Moxi™ Now**, the smallest wire-less RIC instrument in the world, delivering amazing comfort, beautiful aesthetics and intuitive functionality.

### Market access

We constantly strive for innovation, not just in what we make and how we make it, but in how we market and sell our products and services: supporting and informing our market is a vital part of our business. Choosing a hearing aid is a life-changing decision; we want to ensure that the people making that decision have all the information they need.

To achieve this, we are making increasing use of digital communications when introducing new products. The launch campaign for the **Phonak Audéo™ B** started just after its announcement in June 2016 with a digital teaser campaign on the internet: a landing page, several waves of emails, and a tailored mix of advertising and social media activities. We achieved a very high awareness by the time of launch, with tens of thousands of visits to the landing page and several million paid and unpaid impressions.

The **Phonak** brand is a vital source of current and future competitive advantage. In preparation for its 70<sup>th</sup> anniversary, we revisited the Phonak brand essence to ensure that we convey to our target markets the key strengths of the brand: our belief in changing lives and creating a world where "Life is on" for everyone; our mission to create solutions that empower people to thrive socially and emotionally; and our offer of the broadest portfolio of innovative hearing solutions.

As part of our overall wholesale market access strategy, we have continued to implement our SCORE (Sonova at the CORE) project. This establishes strong Sonova wholesale entities in our key markets, with joint teams that support our three hearing instrument brands with shared service functions. SCORE allows our group companies to focus their efforts even more effectively on serving their customers through our three distinct brands, enabling an agile response to changing market needs.

## eSolutions

Digital tools are becoming an integral part of the overall hearing solution, enabling ever better hearing aid performance and increased convenience, while strengthening the relationship between the hearing aid wearer and the hearing care professional.

Unitron's strategic focus on this relationship has led to the Flex™ fitting concept, first in the industry. Flex allows customers to trial and upgrade to different technology levels without changing their hearing instrument. In 2016, Unitron took Flex to the next level with **patient insights**, combining the ability to capture real-time objective data about the hearing aid wearer's sound environment with the opportunity for the wearer to log subjective in-the-moment insights and ratings of the hearing aid's performance, thereby enabling evidence-based counseling.

This is just the beginning. We will be introducing new technology over the course of the 2017/18 financial year that will further expand our offering in this area, enabling remote coaching and real-time adjustment services by linking hearing aids with smartphones and other electronic devices. Phonak has been chosen as a partner in a pilot study exploring opportunities for distance support with the US Department of Veterans Affairs (veterans, who have a high incidence of hearing loss, are often also house-bound). We will also be exploring these models for independent healthcare professionals and for larger retail formats such as our AudioNova business.

- 1 MarkeTrak 2015, asked of non-owners only (n=2099) – multiple responses allowed
- 2 Expected results when fully charged, and up to 80 minutes wireless streaming time
- 3 Phonak Field Study News, June 2015. AutoSense OS – Benefit of the next generation of technology automation.
- 4 Phonak Field Study News, April 2011. StereoZoom improved speech understanding even with open fittings.



## Practical training for optimal hearing solutions

Guang Yang focuses her eyes on her colleague's ear and slowly inserts a thin tube. It's a role-play, with her colleague taking the part of a customer with hearing loss for whom "in-situ measurement" is being carried out. The procedure measures the volume of sound directly in front of the eardrum so the device can be fitted perfectly. This young staff member from a local specialist audiology store is one of 16 participants attending a two-day product training course at Sonova's new training center for hearing care professionals in Suzhou. They practice in pairs; a murmur fills the room, constantly punctuated by the gentle white noise that is played while measurements are taken.

China is one of the markets with the greatest potential for hearing aids worldwide, but there is no comprehensive, practical training available to produce qualified hearing care professionals; Sonova is bridging this gap with its training center. "We are extremely well-equipped and can do lots of hands-on exercises," says Training Manager Henry Dai enthusiastically. "We have a sound-proof room for hearing tests, for example, and eight workstations where you can learn how earmolds are correctly adjusted," Dai continues, before taking a look over the course participants' shoulders and lending a steady hand as required to help them insert the little tube.

Sonova is also keen to communicate a new, customer-focused approach in its training courses in Suzhou. "This is globally unique," says Bettina Turnbull, Managing Director of the center. "The advisory process and sales negotiations are not taught with such a focus on practical experience anywhere else."

A good consultation must address the question of customer lifestyles – whether they have children and what they would like to go back to doing if they could hear better, for example. "Patients' needs can be precisely identified – and thus the ideal hearing solution chosen – only through extended dialogue," explains Turnbull.

In parallel, Sonova is establishing an interactive, online audiology academy to pursue the same objectives; it, too, is set to be launched in China. An international curriculum has been drafted for the program which will initially be offered in English and Chinese. "Course participants will be trained to analyze and solve problems using virtual customers who have a clinical history and specific hearing needs," explains Turnbull. "We want to use both our training course options to perfect our analysis of hearing problems, thereby providing more and more people with professional hearing solutions."





There is no comprehensive, practical training available to produce qualified hearing care professionals in China. Sonova's new training center in Suzhou bridges this gap with advanced courses, and the company is also keen to communicate a new, customer-focused approach in its audiology courses.





# Retail business

The AudioNova Group is dedicated to delivering best-in-class service and technology solutions for people with hearing loss.



In May 2016, Sonova announced its agreement to acquire Audio Nova, one of Europe's largest hearing aid professional service providers. The acquisition was completed in September 2016, expanding Sonova's retail service network in Europe by over 1,300 stores with attractive market positions and established customer bases. The acquisition added around 1,600 hearing care professionals, significantly expanding the retail network's service capacity and bringing it even closer to its customers.

AudioNova's complementary footprint and high-quality retail platform are an excellent fit with Sonova's existing state-of-the-art service network and integrated retail strategy, creating an optimal basis to exploit the strengths of the combined businesses. After the completion of the acquisition, Sonova renamed its global retail business "AudioNova": a fast-growing international network of professional hearing care providers, operating from over 3,300 locations in twelve major markets around the world.

The AudioNova Group operates under several market-specific, well-established local brands, which besides AudioNova include Audium, AuditionSanté, Boots Hearingcare, Connect Hearing, Geers, Hansaton, Lapperre, Schoonenberg, and Triton. All these brands share a single, global strategy: to offer best-in-class professional services and to drive sustained growth by putting customer experience at the center of attention.

## **New products and services**

The Sonova model of innovation extends to our retail activities. Hearing loss affects all aspects of life – and life is always changing. Our retail business benefits from direct, timely access to the latest Sonova technology. To be fully effective, our solutions need to be presented, fitted, explained, and supported in a way that works optimally for each customer, every day. Continuous improvement in services allows us to take advantage of step-changes in technology to enhance our customers' experience and further improve our own productivity.

Over recent years, we have successfully expanded our partnership with Boots, the UK's leading pharmacy-led health and beauty retailer. Building on the company's strong customer base of around eight million visits per week to Boots pharmacies and opticians, and through access to around 18 million Boots Advantage loyalty-card customers, our Boots Hearingcare business continues to extend its leading position in the UK private market. Along with increasing sales, we have offered new payment plans and have improved productivity, introducing easy-to-use electronic appointment scheduling and optimizing the deployment of our professionals: many of our nearly 500 locations are fully booked all week and some even on weekends.

In the Netherlands, our Schoonenberg network operates nine Expertise Centers, with a further two due to open soon. These offer a unique experience for people with highly specific or complex hearing needs, as well as customers who demand the most innovative solutions – such as wireless communication systems – and expert service. The Expertise Centers boast state-of-the-art equipment and listening environment simulations, along with highly trained and motivated staff who work in close co-operation with ear, nose, and throat specialists and hospital audiological centers. In a competitive market where insurance-paid standard offerings predominate, the result is higher average sale prices, client value, and private market sales – and, most important, higher customer satisfaction.

### Market access

Our approach to professional hearing care builds customer loyalty through operational excellence. We look closely at every stage of the customer journey and ask: how could this interaction be made better, easier, quicker, more welcoming, more productive? Shared services and training, combined purchasing and equipment standards, uniform performance management and information technology – put together, all these help to deliver an outstanding experience of our people, our services, and our solutions, while at the same time delivering efficiency and increased profitability.

As an international network spanning many key markets, we want to make clear to current and potential customers that the outstanding experience we provide is the same across all our stores and reflects our values. Personal referral is still the largest and most profitable source of new business. To earn that referral, we want to be considered the most trusted brand in our industry, which means connecting the customer's individual experience with the brand identity. The advanced solutions and streamlined procedures you enjoy in your local shop should be expected wherever our brands are seen. To that end, we are working to apply uniform country-level branding across our networks, giving all our stores a consistent appearance to emphasize our shared values.

Our current strategic priority is to shape the merged businesses of the AudioNova and the Connect Hearing Group into one integrated network with a product offering increasingly based on Sonova technology. We have appointed a new manager with extensive retail experience to our Management Board to implement our clear and comprehensive integration plan on both the global and local level. We remain committed to organic growth in each of our stores, achieved through ever better products and services, and enhanced customer experience. We will also continue to fill in gaps in our key markets with new stores, innovative distribution models, and selective acquisitions.

### eSolutions

In an ever-more connected world, customers expect that their experience will be streamlined and easy, and their hearing journey enhanced by efficient digital tools. We consider our suite of eSolutions to be just such essential tools. They automate routine tasks and give our professionals the ability to deliver their expertise through multiple channels.

The most commonly-cited challenge in the hearing care industry is how to convince people with hearing loss to seek help. In the past, this was done predominately through traditional marketing campaigns in newspapers or shop windows, but now people are increasingly turning to the internet to find information.

As part of our partnership with Boots in the UK, we have been providing for over a year our convenient, easy-to-use online or in-store tablet-based screening app, combining a few simple questions with a hearing threshold test at low, mid, and high frequencies. Since we introduced it, tens of thousands of hearing checks have been completed. Once customers complete the screening, they can choose immediately to book directly an appointment at their nearest store, with real-time availability. The booking automatically generates a confirmation email with a link to a questionnaire, which prepares them and their Boots Hearingcare professional for the appointment, enabling a more constructive discussion during the first face-to-face meeting. The program also sends a reminder email 72–48 hours before the appointment to improve attendance rates. We took this approach one step further in late 2016 with a market trial of the eCoach: a smartphone app that engages new hearing aid wearers by providing them with tips, listening tasks, and a direct link to their audiologist. It also provides the Boots Hearingcare professional with real-time data that helps to optimize any hearing aid adjustment during the next face-to-face visit or remotely in the future.



Even within the digital universe, people do not like to have only one way of contacting their professional services. Potential new customers will be reaching out to us through a multitude of channels including email, voice, text and video chat, or even through social media. The wide range of channels comes with a shorter attention span: to capture potential leads, we need to respond knowledgeably, quickly, and efficiently, no matter how they approach us.

Our Geers network, one of the largest hearing care retailers in Germany, addressed this need with the launch of a multi-channel customer management solution, which provides a consistent customer experience with fast and accurate responses, regardless of the contact channel the customer chooses. Trained personnel handle simple customer inquiries, appointment bookings, and responses to marketing campaigns, taking calls or emails when the shop is not available, thus ensuring that leads are not lost. This innovative customer management initiative can be considered as a blueprint for similar centers in other markets.



## Network for better hearing

Australia is almost twice the size of all the countries in the European Union put together, but despite the vast distances, the Connect Hearing team manages to stay in constant contact with customers right across the country: in addition to the face-to-face service offered in more than 120 specialist stores, they have also gone online. “Australia is an ideal market for eSolutions,” explains Managing Director Wolfgang Bennedik. “Many of our customers are very net-savvy; more than half of older people in Australia surf the web and possess smartphones, and we take advantage of this in our customer relationship management.”

Connect Hearing’s marketing team posts new content to the “We’re all Ears” com-

munity’s Facebook page on a near daily basis, and the website already has more than 12,000 fans, with more joining every day. There is also a “We’re all Ears” online platform, through which Connect Hearing provides information on an array of topics. “We want to offer our users genuine added value,” says Marketing Manager Beat Meier. The posts range from tips for jobseekers who wear hearing aids, through recommendations for relatives of people with hearing loss, to the latest research findings. “Dealing with hearing loss has always been the heart and soul of the project, it’s not principally about products,” explains Meier. “We also use promotions to invite potential customers to visit our specialist stores.”

Meier has an appointment with Sonova audiologist Julie Sutcliffe and the “We’re All Ears” community today – every two months, users can ask the hearing care professional questions in a live chat. “This helps the community, and we find out what’s on the minds of

our existing and potential new customers,” adds Sutcliffe.

The Connect Hearing team sits around a conference table in the roomy loft of its Sydney headquarters and waits for questions; the live chat is projected onto a screen and Sutcliffe’s responses are typed directly into the computer. The audiologist mainly supplies contact information for hearing care professionals and doctors – for many, this advice is the spur they need to address their hearing problems. Everyone is content at the end of the nearly two-hour session: “Once again, we’ve been able to help lots of users,” beams Sutcliffe.

“The ‘We’re all Ears’ community has been a complete success,” says Managing Director Wolfgang Bennedik enthusiastically. “It allows us to tap into the huge potential of social media for our company and to forge ahead with developing further eSolutions in Australia.”



Users can browse the latest information from the “We’re all Ears” community on a tablet: Connect Hearing’s online platform in Australia already has 12,000 fans. The content they post is first and foremost about dealing with hearing loss rather than about products.



# Cochlear implants business

Advanced Bionics is committed to creating high-quality, reliable cochlear implant systems that our recipients can depend on each and every day.



Advanced Bionics is a global leader in advanced cochlear implant systems. A cochlear implant is an electronic device that allows people with significant or complete hearing loss to hear the world around them. Unlike hearing aids, which amplify sound, cochlear implants bypass the damaged part of an ear and send electrical signals directly to the brain via the hearing nerve.

Represented in over 50 countries, Advanced Bionics works in close cooperation with surgical clinics and hearing care professionals. We invest more than 25 % of sales in research and development, providing state-of-the-art technology, reliable products, and expert service to support recipients every step of the way on their journey to hearing.

Advanced Bionics began working closely with Phonak following its acquisition by the Sonova Group in 2009. This close collaboration gives us a unique advantage by bringing together the most innovative cochlear implant and hearing instrument technologies.

## New products

While a cochlear implant's effectiveness lies in transforming an acoustic signal into an electrical stimulus, Advanced Bionics products are also able to optimize the acoustic signal itself – helped by Phonak's long-term expertise in intelligent, adaptive programs that analyze the sound environment, recognize difficult listening situations, filter the voice or sound that is most important, and send it to either or both ears for a more natural hearing experience.

The Phonak **Naida™ Link** bimodal hearing solution, first introduced in May 2016, gives cochlear implant recipients access to all these advanced features when they use a cochlear implant for one ear but wear a hearing aid in the other. More than 40 % of cochlear implant recipients are in this category and, until now, they would have been fitted with separate solutions for each ear, sometimes from different manufacturers, fitted by different professionals, with settings and programs that needed separate manual adjustment and control by the user.

The Naída Link is the only hearing aid designed to treat sound in the same way as the Naída CI sound processor. The two constantly and automatically adjust themselves and each other, sending sound and control signals to either or both ears as the listening situation requires. Research shows that this gives a proven advantage for clear, comfortable hearing in noise, compared to using a cochlear implant with any other hearing aid.<sup>1</sup>

Like all Naída CI sound processors, the Naída Link hearing instrument connects automatically with all Phonak wireless accessories to let recipients use phones, televisions, media players, and the Roger suite of wireless microphones.

In the coming year, Advanced Bionics will further expand its Naída Link portfolio with the launch of a CROS solution. This is designed for the many recipients who have complete hearing loss in both ears, but can only receive reimbursement for one cochlear implant. The CROS device, worn on the opposite ear, picks up sound and sends it wirelessly to the Naída CI sound processor – which is the only sound processor capable of operating in this way. Powered by Phonak's Binaural VoiceStream Technology™ the CROS solution works automatically to give recipients a clear, detailed listening experience. In noisy places, it “zooms in” on speech coming from the front. If someone is speaking from the opposite side of the implanted ear, the CROS device sends the voice to the Naída CI sound processor and the recipient is able to hear the speech without having to turn the head.

In September 2016, Advanced Bionics introduced the new HiRes™ Ultra cochlear implant. Built on proven HiRes electronics, the new implant is 30 % thinner than the previous generation, with a lower profile that makes it ideal for recipients of all ages. It exceeds the industry standard for physical impact resistance and can go through 1.5T MRI scans with its magnet left in place. It also includes the HiFocus™ Mid-Scala electrode, designed to protect the delicate structures of the cochlea and preserve residual hearing.

To be able to enjoy music and natural sounds with a cochlear implant depends crucially on accurate coding in the electrical impulses of the sound's physical parameters: intensity, frequency, and time. The new HiRes Ultra relies on HiResolution™ Bionic Ear System technology for its unique capability to steer 16 current sources independently. For the recipient, this means a better ability to distinguish different pitches, with a more accurately timed and natural hearing experience, resulting in a better appreciation of music with HiRes technology than with other implant systems.<sup>2,3</sup>

### Market access

There are around 1,300 clinics worldwide that perform cochlear implant surgery; Advanced Bionics is currently represented in approximately two-thirds of these. Our goal is to be present in every clinic, and to reach that goal we have established a program of close engagement and active, evidence-based dialog with surgeons and audiologists through our team of clinical specialists. We put strong emphasis on education and training of our staff, so that they can sustain peer relationships with clinical decision-makers.

The synergies between Advanced Bionics and Phonak go beyond R&D: it also benefits from Phonak's strong position in the hearing aid market segment for severe-to-profound hearing loss. There are well over a million people who currently wear Naída or other Phonak high-power hearing aids. Of this group, a significant number will develop a level of hearing loss for which a traditional hearing instrument is no longer sufficient and will thus become potential cochlear implant candidates. They will also already be aware of the sophisticated features of Phonak hearing aids that are also available in the Naída CI processor, the Naída Link bimodal solution, and our range of wireless accessories. This puts us in a unique position to further expand our market.

The Sonova Partner Program fosters partnerships between hearing instrument retailers and cochlear implant clinics for the optimal treatment of people with significant hearing loss. It provides a seamless transition for those who are moving from Phonak hearing aids to a cochlear implant by ensuring that they retain the personal service of their trusted, local expert, along with the familiar Phonak look and feel, while benefitting from the functionality of the Naída CI technology. The program allows the cochlear implant clinic and the hearing care practice to concentrate on providing the services that are most appropriate to each, while recipients gain the benefit of expert care and technology upgrades from both. The Sonova Partner Program has been successfully introduced in several European countries including Germany, where we have already built up a network of 100 Certified Partners with positive impact both on earnings and referrals.

## eSolutions

Advanced Bionics provides a range of eSolutions and digital resources to help recipients along their journey to hearing, but we also offer eSolutions for hearing care professionals and cochlear implant professionals. One recent example is our customized version of the InSuite solution from DocCirrus: this practice management software integrates, through the Cloud, all aspects of care for a cochlear implant recipient across the range of professionals who provide that care. This includes routine functions such as scheduling, documentation, prescription, secure storage of patient data, billing, and so on – but it also provides a platform for training and support, as well as telehealth services such as online video consultation. Just as the Sonova Partner Program links the institutions, InSuite links the data and actions that help smooth the hearing journey.

We continue to provide a range of tablet and smartphone apps that offer recipients support, information, and interesting ways to practice listening, build skills, or learn how to get the best out of their hearing technology. Our Hearing Journey™ online forum has recently been redesigned to provide an enhanced experience with online resource aimed at new and existing members. The site's gives community members an informative channel to chat, learn, and share their stories in a welcoming and secure environment.

- 1 Veugen LC, Chalupper J, Snik AF, van Opstal AJ, Mens LH. (2016) Matching automatic gain control across devices in bimodal cochlear implant users. *Ear and Hearing* (2015 Dec 10, epub ahead of print).
- 2 Mirza S, Douglas S, Lindsey P, Hildreth T, Hawthorne M. (2003) Appreciation of music in adult patients with cochlear implants: a patient questionnaire. *Cochlear Implants International* 4(2):85–95.
- 3 Quick A, Koch DB, Osberger MJ. HiResolution with Fidelity 120 sound processing: listening benefits in CII and HiRes 90K implant users. Presentation at the Conference on Implantable Auditory Prostheses, Lake Tahoe, CA, July 15–20, 2007. [Available upon request]



## Focus on follow-up care

“Nice to see you,” says Dr. Shankar Medikeri to Deekshit and shakes hands with the five-year-old. The boy and his mother have traveled to the doctor’s ENT clinic in Bangalore; Medikeri is the surgeon who checks the settings of the sound processor in Deekshit’s cochlear implant once a year. It sounds like the doctor is having a spontaneous conversation with his young patient, but this short chat is also a test. Dr. Medikeri seems happy with Deekshit’s language development: “He understands well and speaks clearly.”

This renowned surgeon has been one of Advanced Bionics’ partners in India for many years and he has placed a good number of the brand’s implants. He conducts live-streamed operations at universities and trains colleagues in im-

plant surgery. Dr. Medikeri admires Advanced Bionics’ technology, its personalized service and its human approach. “The decision to go for an implant is something that will stay with a patient for the rest of their life,” says Medikeri. “So everything has to be right.”

Advanced Bionics is represented in more than two-thirds of the private clinics in the country. “Personal contact with doctors and patients is really important to us,” explains Vinod Nadig, Director of Advanced Bionics India. “We also put a lot of emphasis on follow-up care.” Advanced Bionics conducts vocational training workshops for doctors and audiologists, and patients and their families also receive an introductory session on how to look after and clean the sound processor. State support for cochlear implant use is still not available in every area of the country; regional authorities have the last word. “Indian children will often get their implant very late,” notes Nadig regretfully.

Deekshit was lucky, receiving his cochlear implant at the age of two. That the boy can speak so well is down to his mother’s dedication; she has grown used to giving a running commentary on whatever she is doing. “I’m building a tower,” announces Prabha Reddy as she plays. “Now, I’m making some rice,” she says as she is cooking. Then she asks the five-year-old, “Shall we clean the implant together?” Deekshit nods; it is a weekly ritual between son and mother. The boy takes off the sound processor of his cochlear implant and watches attentively as his mother dabs the fragile components clean with a soft cloth.

“I’m so glad we decided to have the operation,” says Reddy and picks up Deekshit. “This way, he has a chance to lead a completely normal life.”





The mother knocks the spoon against the saucepan as she stirs and asks her son, "Hear that? That's what metal sounds like!" Five-year-old Deekshit nods – he is wearing an Advanced Bionics cochlear implant. The constant training at home is paying off – the boy can understand speech well and speaks clearly.





Tablet in hand, engineer Hot Xi and Corporate Social Responsibility Manager Rex Ge monitor the array of solar collectors on the roof of Sonova's operation center in the Chinese city of Suzhou. The system generated 500,000 kWh in 2016, making it possible to reduce the Sonova Group's CO<sub>2</sub> emissions by 3.5%.



# Corporate social responsibility

At Sonova, we strive to bring the delight of hearing to everyone, while taking responsibility for our actions towards our employees, our business partners, and our planet.

As the world's leading provider of hearing solutions, Sonova has both a duty to act responsibly and an ability to make a positive impact on society. Our CSR program aligns closely with our business strategy; its topics are reviewed both at the highest management level and regularly at meetings of the Board of Directors.

We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations. In accord with this vision, our CSR activities focus on two key areas: expanding access to hearing care and doing business in a responsible manner.

## Access to hearing care

To expand access to hearing care, we offer an extensive product portfolio and support education of local specialists, in particular in emerging markets. We also support people with hearing loss

and limited access to hearing care through our Hear the World Foundation. Over the past ten years, the foundation has provided funding, hearing technology, and expertise with a total value of over CHF 8 million to over 80 projects in 39 countries.

## Responsible business

Sonova is committed to responsible business practices that go well beyond what is legally required. In 2016, Sonova became a signatory to the UN Global Compact, endorsing the ten principles in the areas of human rights, labor, environment and anti-corruption.

The full CSR Report is available at:  
[www.sonova.com/en/csrreport](http://www.sonova.com/en/csrreport)



## High standards

Engineer Hot Xi looks on in contentment at the sunbeams breaking through the clouds. The solar arrays on the roof of Sonova's operation center in Suzhou, China, are working at full capacity. They cover an area of 5,000 m<sup>2</sup> – equivalent to almost 20 tennis courts. "We are very happy with the collectors' performance," says Xi. He has been looking after the system since it went live in February 2015. It generated 500,000 kWh in 2016, and the lower consumption of coal-generated electricity that this enabled has reduced the Sonova Group's CO<sub>2</sub> emissions by 3.5%.

Sonova has been setting a good example in the other countries in the Asia / Pacific region as well; in New Zealand, the company has held the Enviro-Mark environmental certification program's gold status for years. Waste has been cut by 90 % thanks to enhanced recycling

practices, and a new in-house sales team that exploits online tools more effectively has made it possible to drastically reduce the number of business flights taken and car miles driven within New Zealand. In Australia, a detailed environmental management plan ensures low emissions and a high recycling rate.

Sonova is also successfully combining environmental protection with a staff-friendly corporate culture in the Asia / Pacific region. "Sonova is like a second family to me," says Zhou Lijuan, who has been working at the operation center in Suzhou since 2003. The slender 36-year-old started work in assembly and is now in charge of the entire production planning process. She takes one of the operation center's shuttle buses to work. Lijuan values the company's integrated approach, which also takes employee health into account: "We do exercises in the workplace twice a day for 15 minutes." A staff outing is held once a year, allowing workers who have never

traveled before to get to know Beijing, Hong Kong and the Philippines. Relatives can visit the production facility on "family day" and Sonova provides support if employees encounter any problems. "Such as when the father of a warehouse worker had an accident and needed an expensive neurological operation," recalls Lijuan.

"I'm proud to work for Sonova," she says. One personal experience left a particularly deep impression on Lijuan – the sales team had once introduced a young mother to her who had thanked her profusely, saying her son had only learned to speak thanks to a Sonova hearing aid. Lijuan's eyes fill with tears as she thinks back: "I found that very moving."

# Corporate governance

Transparency is one of the key elements of good corporate governance, to which Sonova is committed.

Good corporate governance is essential for Sonova and we strive for high standards in this field. What “good corporate governance” means is an evolving matter and we constantly adopt to the latest requirements.

Compliance is an integral element of our corporate culture and embedded in our core values. We therefore continued to strengthen the Sonova Group compliance program during the 2016/17 financial year, putting particular emphasis on compliance training, process enhancements throughout the globe, and business partner due diligence. Our continuing compliance efforts help us to live our values of ethical behavior and unquestionable integrity.

At Sonova, corporate governance is based upon and structured to conform with relevant standards and practices. The company fulfils its legal duties under the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. This report describes the principles of corporate governance for the Sonova Group and provides background information on the Group’s executive officers and bodies as of March 31, 2017. All the relevant documents can be accessed at the corporate governance section of the Sonova website: [www.sonova.com/en/commitments/corporate-governance](http://www.sonova.com/en/commitments/corporate-governance). For clarity and transparency, the compensation report is presented as a separate chapter of this Annual Report.

## Group structure

### Operational group structure

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 100 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving additional markets. Details of its business segments can be found in Note 6 to the consolidated financial statements.

### Listed companies

Sonova Holding AG is listed on the SIX Swiss Exchange. Apart from the ultimate parent company of the Sonova Group, Sonova Holding AG, no other company belonging to the consolidated Sonova Group is listed on any stock exchange.

Key data for the shares of Sonova Holding AG as of March 31:

	2017	2016	2015
Market capitalization			
In CHF million	9,087	8,182	9,089
In % of equity	426 %	429 %	486 %
Share price in CHF	138.90	122.80	135.30

Registered office	8712 Stäfa, Switzerland
Listed on	SIX Swiss Exchange
Security number	1254978
ISIN	CH0012549785
Ticker symbol	SOON
Par value	CHF 0.05

### Non-listed companies

A list of the significant companies of the Sonova Group as of March 31, 2017, can be found in Note 35 to the consolidated financial statements.



## Shareholders

### Registered shareholders

As of March 31, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2017	Registered shareholders 31.3.2016
1 – 100	6,361	6,664
101 – 1,000	9,918	10,409
1,001 – 10,000	1,369	1,398
10,001 – 100,000	218	189
100,001 – 1,000,000	29	33
> 1,000,000	7	5
<b>Total registered shareholders</b>	<b>17,902</b>	<b>18,698</b>

### Significant shareholders

The following overview shows the registered shareholdings of significant shareholders as of March 31. Nominees are registered without voting rights. Significant shareholders may also hold non-registered shares which are reported under “Not registered”:

	2017	2017	2016	2016
	No. of shares	In %	No. of shares	In %
Beda Diethelm <sup>1)</sup>	6,656,009	10.17	6,652,259	9.98
Chase Nominees Ltd. <sup>2)</sup>	5,586,951	8.54	6,559,041	9.84
Hans-Ueli Rihs <sup>1)</sup>	3,819,000	5.84	4,013,000	6.02
Nortrust Nominees Ltd. <sup>2)</sup>	3,030,549	4.63	2,641,556	3.96
Andy Rihs <sup>1)</sup>	2,064,979	3.16	2,344,979	3.52
Registered shareholders with less than 3 % of shares	23,170,979	35.42	22,708,639	34.09
Not registered	21,094,420	32.24	21,706,913	32.59
<b>Total shares</b>	<b>65,422,887</b>	<b>100.00</b>	<b>66,626,387</b>	<b>100.00</b>

<sup>1)</sup> The founding shareholders Andy Rihs, Beda Diethelm and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements between these individuals and they can trade freely.

<sup>2)</sup> Registered without voting rights.

For information on shareholders of Sonova Holding AG that have reported shareholdings of over 3 % or a reduction of the shareholding below 3 % in the financial year (FY) 2016 / 17, please refer to the website of the Disclosure Office of the SIX Swiss Exchange [www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html](http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

### Cross-shareholdings

Sonova Holding AG has no cross-shareholdings with other companies.

## Articles of Association

The Articles of Association of Sonova Holding AG remained unchanged in FY 2016 / 17 except for article 3: The share capital as stipulated by the previous version of article 3 was reduced according to the resolution of the 2016 General Shareholders' Meeting (see section capital structure below; the Articles of Association are available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).

## Capital structure

### Share capital

As of March 31, 2017, the ordinary share capital of Sonova Holding AG was CHF 3,271,144.35 fully paid up and divided into 65,422,887 registered shares with a par value of CHF 0.05 each.

Sonova Holding AG has neither issued any participation certificates nor any profit-sharing certificates.

With the exception of the treasury shares held by the company itself, each share represents one vote at the General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2017, the company held 100,190 treasury shares (1,209,989 in the previous year), whereof 92,000 shares were bought via a second trading line under the share buyback program.

### Authorized and conditional capital

#### Authorized capital

Sonova Holding AG has no authorized capital.

#### Conditional capital

The Annual General Shareholders' Meeting (AGM) 2005 approved the creation of conditional share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share to improve the company's financial flexibility. This capital may be used for exercising option and conversion rights granted in connection with bonds or similar debt instruments issued by the company to finance the acquisition of companies, parts of companies or shareholdings.

The AGMs in 1994 and 2000 approved the creation of conditional share capital of 8,000,000 registered shares with a par value of CHF 0.05 per share for distribution to key employees of the Sonova Group through an equity participation program.

More information on the conditional share capital can be found in Art. 4 of the Articles of Association available at <http://www.sonova.com/en/investors/articles-association>.

### Options

In FY 2016 / 17, a total of 378,652 options including Stock Option Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2015 / 16 and FY 2014 / 15, the number of options granted totaled 298,520 and 308,459 respectively. As of March 31, 2017, there were still 1,226,072 options and SARs outstanding (compared with 1,113,982 in the previous year). Each of these options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05. The EEAP is described in greater detail in the compensation report (beginning on page 46) and in Note 31 to the consolidated financial statements.

### Convertible bonds

Sonova Holding AG has not issued any convertible bonds.

### Changes in capital

As of March 31, the capital of Sonova Holding AG comprised the following:

	2017	2016	2015
Ordinary capital (in CHF)	3,271,144	3,331,319	3,358,664
Total shares	65,422,887	66,626,387	67,173,287
Conditional capital (in CHF)	266,107	266,107	266,107
Conditional shares	5,322,133	5,322,133	5,322,133

Of the 8,000,000 maximum approved conditional shares, a total of 5,978,987 shares with a par value of CHF 0.05 each were issued prior to FY 2016 / 17. Starting in FY 2014 / 15 Sonova decided to purchase shares on the market to fulfill its obligations under the long-term incentive plans and not to issue shares out of the conditional share capital. The maximum conditional share capital reserved for long-term incentive plans therefore remained unchanged at 2,021,013 shares.

The conditional share capital of 3,301,120 registered shares, which was created on July 7, 2005 in order to increase the company's financial flexibility, has not yet been used.

The AGM 2016 approved a reduction of the share capital by CHF 60,175 through cancellation of 1,203,500 registered shares. This capital reduction was the result of the share buyback program as further outlined below, in which the Company repurchased 546,900 registered shares between April 1, 2015 to March 31, 2016.

### Share buyback program

As announced on November 17, 2014, Sonova Holding AG has initiated a share buyback program with a maximum overall value of CHF 500 million. The shares are repurchased via a second trading line over a period of up to three years terminating at the end of 2017. As of March 31, 2017, a total of 1,842,400 shares have been bought back for a total of CHF 241,007,355.90. With the announcement of the acquisition of AudioNova on May 4, 2016, Sonova has suspended the share buyback program until further notice. The current status of the program can be found on [www.sonova.com/en/investors/current-share-buyback-program](http://www.sonova.com/en/investors/current-share-buyback-program).

### Limitations on transferability and nominee registrations

#### Limitations on transferability for each share category

To be recognized as a shareholder with full voting rights, the acquirer of shares must submit a written application for registration in the share register. The company may refuse registration in the share register if applicants do not explicitly declare that they have acquired and will hold the shares in their own name and for their own account. The company may further refuse entry of the acquirer as a shareholder or usufructuary with a voting right to the extent that the shares held would exceed 5% of the overall number of shares shown in the Commercial Register (Art. 8 para. 6 of the Articles of Association). Linked parties are considered as one person. This registration restriction does not apply to the founding shareholders. The Board of Directors may grant exceptions where there is justified cause, in which case no special quorum is required.

#### Exceptions granted in the year under review

No exceptions were granted by the Board of Directors during the reporting period.

#### Admissibility of nominee registrations

The Board of Directors can issue regulations specifying the conditions under which trustees / nominees are recognized as shareholders with voting rights (Art. 8 para. 5 of the Articles of Association, available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).

#### Procedure and conditions for cancelling statutory privileges and limitations on transferability

A resolution of the General Shareholders' Meeting approved by a relative majority of the votes cast is sufficient for cancellation.

## Board of Directors

### Introduction

The Board of Directors of Sonova Holding AG sets the overall direction and supervision of the management (see Art. 716a para. 1 of the Swiss Code of Obligations).

### Executive management positions

No member of the Board of Directors holds an executive management position with Sonova Holding AG or any of its subsidiaries, or has held such a position in the past three years.

### Business connections of Board members with Sonova Holding AG or its subsidiaries

Except for the transactions disclosed in Note 29 to the consolidated financial statements, there are no business connections between individual Board members, including companies or organizations represented by them, and Sonova Holding AG.

### Other activities and vested interests

Except as disclosed in the biographies of the members of the Board of Directors, no member of the Board of Directors holds any position in a governing or supervisory body of any important private or public sector organization, institution, or foundation; none holds any permanent management or consultancy position with an important interest group, or any public or political office.

### Mandates outside Sonova Holding AG

No member of the Board of Directors may hold more than four additional mandates in listed companies and in total no more than six additional mandates. The following mandates are not subject to these limitations:

- Mandates in companies which are controlled by Sonova or in companies which control Sonova;
- Up to ten mandates held at the request of Sonova or companies controlled by Sonova;
- Up to six mandates in associations, charitable organizations, foundations, trusts, and employee welfare foundations.

For further details please see Art. 30 of the Articles of Association, available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association).

### Elections and terms of office

#### Election procedure and limits on the terms of office

Art. 16 para. 2 of the Articles of Association of Sonova Holding AG states that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors are elected by the shareholders at the General Shareholders' Meeting (Art. 10 no. 2 of the Articles of Association, available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).

Re-elections for successive terms are possible. Members of the Board of Directors shall retire automatically at the first General Shareholders' Meeting following their seventieth birthday. In exceptional cases the Board of Directors can make an exemption.

#### First election and remaining term of office

The following table shows the date of first election for each member of the Board of Directors. The Articles of Association require that the term of office of a Board member ends after completion of the next ordinary AGM. As a consequence, each Board member will have to be re-elected annually at the AGM. Apart from John J. Zei, who did not stand for re-election in accordance with the age limitations stipulated in the Organizational Regulations, all previous Board members were re-elected by the 2016 AGM (the Articles of Association are available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).

Name	Position	First elected
Robert F. Spoerry	Chairman	2003
Beat Hess	Vice Chairman	2012
Lynn Dorsey Bleil	Member	2016
Michael Jacobi	Member	2003
Stacy Enxing Seng	Member	2014
Ronald van der Vis	Member	2009
Anssi Vanjoki	Member	2009
Jinlong Wang	Member	2013





### Robert F. Spoerry

(born 1955, Swiss citizen) has been Chairman of the Board of Sonova Holding AG since March 30, 2011, and a non-executive member of the Board since 2003.

Robert F. Spoerry is also Chairman of the Board of Mettler-Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for use in laboratory, manufacturing, and food retailing applications. He joined Mettler-Toledo in 1983 and was CEO from 1993 to 2007. He led the buyout of Mettler-Toledo from Ciba-Geigy in 1996, and the company's subsequent Initial Public Offering on the New York Stock Exchange (NYSE) in 1997. In 1998, he was nominated Chairman of the Board.

Robert F. Spoerry graduated in mechanical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland, and holds an MBA from the University of Chicago.

#### Other activities:

- Vice Chairman of the Board of Geberit AG (until April 2016)
- Member of the Board of Conzeta Holding AG



### Beat Hess

(born 1949, Swiss citizen) has been Vice Chairman of the Board of Sonova Holding AG since June 19, 2012.

From 1988 to 2003, he served as General Counsel of ABB Group and, from 2003 to 2011, as Group Legal Director and member of the Group Executive Committee of Royal Dutch Shell plc.

Beat Hess studied at the Universities of Geneva, Freiburg, and Miami, is an attorney-at-law and holds a Ph.D. in Law.

#### Other activities:

- Member of the Board of Directors of Nestlé S.A.
- Chairman of the Board of Directors of LafargeHolcim Ltd. (since May 2016; previously Vice Chairman)



### Lynn Dorsey Bleil

(born in 1963, US citizen) retired as Senior Partner (Director) from McKinsey & Company in the US in 2013 after more than 25 years of advising senior management and boards of leading healthcare companies on corporate and business unit strategy, mergers and acquisitions, and public policy across all segments of the healthcare value chain. She was also a member of Board of Directors of Auspex Pharmaceuticals until May 2015.

Lynn Dorsey Bleil holds a Bachelor's Degree in Chemical Engineering from Princeton University and a Master's Degree in Business Administration from the Stanford University Graduate School of Business.

#### Other activities

- Member of the Board of Directors of Stericycle, Inc.
- Member of the Board of Directors of DST Systems, Inc.
- Member of the Governing Board of Intermountain Healthcare (Park City Hospital)



### Michael Jacobi

(born 1953, Swiss and German citizen) has worked as an independent consultant since 2007.

From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba Specialty Chemicals Inc. Prior to this, since 1978, Michael Jacobi held various management positions in the area of finance at Ciba-Geigy Group in Brazil, the US, and in Switzerland.

Michael Jacobi studied economics and business administration at the University of St. Gallen, Switzerland, at the University of Washington in Seattle, and at the Harvard Business School in Boston. He was awarded a Ph.D. from the University of St. Gallen in 1979.

#### Other activities:

- Member of the Board of Hilti AG
- Member of the Board of Actelion Pharmaceuticals Ltd.
- Member of the Board of Trustees of Martin Hilti Family Trust



### Stacy Enxing Seng

(born 1964, US citizen) previously served as an Executive in Residence for Covidien, as well as President of Covidien's Vascular Therapies division. Stacy Enxing Seng joined Covidien in July 2010 through its acquisition of ev3 where she was a founding member and executive officer responsible for leading ev3's Peripheral Vascular Division from inception. She has also held various positions at Boston Scientific, SCIMED Life Systems Inc., Baxter Healthcare, and American Hospital Supply.

Stacy Enxing Seng received a Master of Business Administration from Harvard University and has a Bachelor of Arts in Public Policy from Michigan State University.

#### Other activities:

- Member of the Board of Directors of Solace Therapeutics, Inc.
- Member of the Board of Directors of Hill-Rom Holdings, Inc.
- Member of the Board of Directors of Spirox, Inc.
- Venture Partner, Lightstone Ventures



### Ronald van der Vis

(born 1967, Dutch citizen) was Executive Director of the Board and Group CEO of Esprit Holdings Limited, a global fashion and lifestyle company listed on the Hong Kong Stock Exchange, from 2009 until November 2012.

Prior to this, since 1998, he held various general management positions at Pearle Europe (now GrandVision NV), the world's leading optical retailer. He was CEO of the Pearle Europe group from 2004 to 2009.

Ronald van der Vis graduated from the Nyenrode Business University in the Netherlands and received his Master's degree in business administration from the Manchester Business School in the UK.

#### Other activities:

- Operating Partner and Industry Advisor
- Chairman of the Board of Directors of Basic-Fit NV
- Member of the Board of Directors of Beter Bed Holding N.V.



### Anssi Vanjoki

(born 1956, Finnish citizen) is Professor at Lappeenranta University of Technology and Individual Multicontributor of RKBS Oy, a technology start-up investment company. He was Executive Vice President and General Manager of Nokia until March 2011 and member of the Nokia Group Executive Board from 1998 to 2011. He is also Chairman of the Board of Amer Sports Corporation, one of the world's leading suppliers of sports equipment and owner of Salomon, Atomic, Wilson, Precor, and Suunto brands.

Anssi Vanjoki has a Master's degree in business administration from the Helsinki School of Economics and Business Administration.

#### Other activities:

- Chairman of the Board of Oriola Corporation
- Member of the Board of Basware Corporation Oyj
- Investor and Chairman of small technology companies



### Jinlong Wang

(born 1957, US citizen) is currently serving as managing director / operating partner at Hony Capital. He previously held a number of senior positions at Starbucks including Senior Vice President of Starbucks Corp., President of Starbucks Asia Pacific Region, Chairman and President of Starbucks Greater China Region, Head of the Law & Corporate Affairs department and Vice President International Business Development. He started his career as a government official in the Ministry of Foreign Economic Relations and Trade in China.

Jinlong Wang graduated with a Bachelor degree in International Economics and Trade from the University of International Economics and Trade in Beijing in 1982 and received his Juris Doctor degree at Columbia School of Law, Columbia University, in 1988.

#### Other activities:

- Chairman of the Board for PizzaExpress Group Limited

### Internal organizational structure

#### Allocation of tasks within the Board of Directors

As specified in Art. 17 para. 1 of the Articles of Association, the Board of Directors constitutes itself, except for the Chairman and the members of the Compensation Committee, who must be elected by the shareholders. If the office of the Chairman or a member of the Compensation Committee is vacant, the Board of Directors appoints a replacement from among its members for the remaining term of office (the Articles of Association are available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).

In accordance with the Organizational Regulations which supplement the Articles of Association, the Board appoints an Audit Committee (the Organizational Regulations are available at [www.sonova.com/en/investors/organizational-regulations](http://www.sonova.com/en/investors/organizational-regulations)).

#### Tasks and areas of responsibility of Board of Directors' committees

The duties and authorities of the committees are defined in the Articles of Association (solely for the Compensation Committee), the Organizational Regulations, and the Committee Charters of the Board of Directors (all available at <http://www.sonova.com/en/investors/articles-association>). The committees usually meet before the Board of Directors meetings and report regularly to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

#### Audit Committee

The members of the Audit Committee are Michael Jacobi (Chairman), Ronald van der Vis, and Anssi Vanjoki.

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audit on behalf of the entire Board of Directors; evaluating the company's financial control systems, financial structure, and risk management control mechanisms; and verifying the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee is also kept regularly informed on the company's compliance program. The Audit Committee Charter is available at: [www.sonova.com/en/investors/committee-charters](http://www.sonova.com/en/investors/committee-charters).

The Audit Committee meets as often as required and no fewer than four times per year. During the reporting period, the committee met four times. The Chairman of the Board of Directors was invited to, and attended, every Audit Committee meeting as a guest.

#### Nomination and Compensation Committee

The members of the Nomination and Compensation Committee are Robert F. Spoerry (Chairman), Beat Hess and Stacy Enxing Seng.

The Nomination and Compensation Committee supports the mission of the Board of Directors to attract, retain and motivate people with outstanding professional and human capabilities at

the Board of Directors and top management levels. The Nomination and Compensation Committee also supports the Board of Directors in preparing the Compensation Report, establishing and reviewing the Company's compensation principles, guidelines, and performance metrics, and preparing proposals to the General Shareholders' Meeting on the compensation of the Board of Directors and Management Board. The committee may also submit proposals and recommendations to the Board of Directors on other compensation-related issues. The Nomination and Compensation Committee Charter is available at: [www.sonova.com/en/investors/committee-charters](http://www.sonova.com/en/investors/committee-charters).

The Nomination and Compensation Committee meets as often as required and no fewer than three times per year. During the reporting period, the committee met five times.

#### Work methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held five meetings. The table below shows the individual members' attendance at Board of Directors and committee meetings, as well as the average length of the meetings:

	BoD <sup>1)</sup>	AC <sup>2)</sup>	NCC <sup>3)</sup>
No. of meetings in 2016 / 17	5	4	5
Robert F. Spoerry	5	4 <sup>4)</sup>	5
Beat Hess	5	–	5
Lynn Dorsey Bleil	5 <sup>5)</sup>	–	–
Michael Jacobi	5	4	–
Stacy Enxing Seng	5	–	4
Anssi Vanjoki	5	4	–
Ronald van der Vis	5	4	–
Jinlong Wang	5	–	–
John J. Zei	2 <sup>6)</sup>	–	2 <sup>6)</sup>
Average meeting length	8 h <sup>7)</sup>	3 h	3 h

<sup>1)</sup> Board of Directors

<sup>2)</sup> Audit Committee

<sup>3)</sup> Nomination and Compensation Committee

<sup>4)</sup> As guest

<sup>5)</sup> Member since AGM 2016, participation in May and June 2016 as guest

<sup>6)</sup> Member until AGM 2016

<sup>7)</sup> Excluding telephone conferences and preparation time

Urgent business matters were discussed in various telephone conferences. In addition to formal meetings at which minutes were taken, members of the Board of Directors or of the committees also met informally for other topics and discussions that required additional time. These included, for example, preparations for formal meetings.

The agenda for a meeting of the Board of Directors or of a Board committee is set by its respective Chairman. Any member of the Board of Directors or a committee may request a meeting or ask that an item be put on the agenda. Members of the Board of Directors and the committees are provided in advance of meetings



with all relevant documents that enable them to prepare for the discussion of the items on the agenda during the meeting. The Board of Directors and its committees constitute a quorum if half of the members are present. The Board of Directors and its committees approve resolutions by a majority of members present at the meeting. In the event of an equal number of votes, the Chairman has the casting vote.

The Board of Directors works closely with the Management Board. In general, the meetings of the Board of Directors and its committees are also attended by the CEO and the CFO and, depending on the agenda, other members of the Management Board. The Board of Directors and the committees meet in executive session after every Board and committee meeting respectively. The Board of Directors consults external experts when necessary in connection with specific topics.

### Definition of areas of responsibility

The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. The Board of Directors decides on all matters that have not been reserved for or conferred upon another governing body of the company by law, by the Articles of Association, or by the company's Organizational Regulations. The division of responsibility between the Board of Directors and the Management Board is set out in detail in the company's Organizational Regulations (available at [www.sonova.com/en/investors/organizational-regulations](http://www.sonova.com/en/investors/organizational-regulations)).

### Information and control instruments vis-à-vis the Management Board

The Management Board reports regularly to the Board of Directors and its committees. At each Board meeting, the Management Board informs the Board of Directors of the status of current business matters and financial results, presents relevant strategic initiatives as well as major business transactions such as M&A. Each year a Board of Directors meeting is reserved for presentation and discussion of the company's strategy and long term financial plan. The Board of Directors is provided with monthly consolidated sales reports providing data on revenue, average selling prices, and units for each major product, subsidiary, and market. The Board of Directors also receives on a monthly basis the financial report with the full profit and loss statement, the balance sheet, and the cash flow statement, as well as the CEO's report on business performance, the competitive situation, updates on various initiatives, and an outlook. Telephone conferences are held as required between Board members and the CEO or CFO. Furthermore, each member of the Board of Directors may request information on all matters concerning the company.

### Internal audit, risk and compliance

The mandates of the Internal Audit and Risk Management functions, along with their reporting lines and scope of activities, are defined in the Internal Audit & Risk Charter approved by the

Audit Committee and the Board of Directors. Internal Audit carries out compliance and operational audits and assists the business units in attaining their goals by providing assurance from independent evaluation of the effectiveness of internal control processes. Management is responsible for the control of business risks and for compliance with laws and regulations. The Audit Committee approves the annual work plans of Internal Audit and ensures that the relevant Group companies are adequately reviewed according to their risk scoring. The Audit Committee also reviews and discusses the reports on completed audits submitted by Internal Audit. Internal Audit, together with Business Controlling, monitors the implementation by Group companies of any measures necessary to address findings from previous audits, and regularly reports progress to the Audit Committee. The Head of Internal Audit & Risk reports to the Chairman of the Audit Committee.

The Group has implemented an efficient system to identify and assess strategic, operational, financial, legal, and compliance risks related to the Group's business activities. The risk management function categorizes risks by severity and probability and supports the Management Board in determining the measures necessary to address or mitigate them. In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk assessment prepared by Risk Management before it is presented to the Board of Directors. The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis.

Risk Management also assumes responsibility for the internal control system (ICS) for financial reporting risks. The Board of Directors receives annual updates on the Group companies' compliance with the ICS guidelines.

The Group has a comprehensive compliance program in place which is administered by the Group Compliance Manager and overseen by the Group General Counsel. Amongst other things, the program administers the Ethics Hotline; structures, the policy framework for ethical business conduct and trains the businesses on it; counsels and advises on proposed business approaches; and supports the businesses in their vetting of business partners. Quarterly compliance reports are provided to the Audit Committee and an annual compliance report is addressed to the Board of Directors.

### Corporate Social Responsibility

The Management Board proposes topics related to corporate social responsibility, which are subject to consultation and review on a yearly basis by the full Board of Directors (see the separate corporate social responsibility report for more information).

## Management Board

The Management Board is responsible for the preparation, implementation, and monitoring of the strategic roadmap, the management of the members' respective Group functions, and the preparation, implementation, and delivery of the annual plan and budget. The Management Board also prepares for and executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, the Management

Board is chaired by the CEO and comprises at least the CFO, plus such additional members as appropriately reflect the company's structure and activities. The members of the Management Board are proposed by the CEO and are appointed by the Board of Directors on the request of the Nomination and Compensation Committee.



### Lukas Braunschweiler

(born 1956, Swiss citizen) joined the Sonova Group as CEO in November 2011. Before joining the company, he was CEO of the Swiss technology group RUAG. From 2002 to 2009, as President & CEO, he headed the Dionex Corporation. The California-based company, active in the life sciences industry, was listed on the Nasdaq stock exchange. Previously, he worked from 1995 to 2002 in various group executive positions in Switzerland and the US for Mettler Toledo, a precision instruments manufacturer.

Lukas Braunschweiler received a Master of Science in analytical chemistry (1982) and was awarded a Ph.D. in physical chemistry (1985) from the Swiss Federal Institute of Technology (ETH) in Zurich.

Lukas Braunschweiler is a member of the Board of Directors of the Schweiter Technology Group.



### Hartwig Grevener

(born 1966, German citizen) joined the Sonova Group as CFO in August 2012. Before joining the company, he was Group CFO of Jet Aviation, a business group of General Dynamics. From 2001 to 2006 Hartwig Grevener was CFO for the European operations of Gate Gourmet, one of the leading global airline catering firms. His previous professional experience includes positions at Hapag-Lloyd, a German logistics group, A.T. Kearney management consultants, and BMW.

Hartwig Grevener holds a Diploma in business administration and mechanical engineering from the TU University of Berlin (1991) as well as a Ph.D. in business administration from the University of St. Gallen (1994).



### Claude Diversi

(born 1964, French and Italian citizen) joined the Sonova Group in March 2005 as Managing Director of Phonak France. He was appointed Group Vice President Hearing Instruments Wholesale in April 2016. Before, he was Vice President Hearing Instruments Phonak Wholesale for the Region Europe and South America from May 2012 until March 2016. Claude Diversi has an extensive track record as a sales executive with a broad experience in all disciplines of sales, including reporting, sales force management, and executing trade marketing strategies. Prior to joining Phonak, he worked in sales management positions in companies such as British American Tobacco, Dowbrands & Melitta Europe, Pillsbury, and Kraft Foods France.

Claude Diversi majored in international business at the University of Paris Descartes in France.



### Hansjürg Emch

(born 1968, Swiss citizen) joined the Sonova Group as Group Vice President Cochlear Implants in March 2011. Before joining Sonova, he was President of the Global Spine division of Synthes, the implant manufacturer. During his time at Synthes he held various positions and gained broad specialist and management skills, including experience in general management, sales, product and business development, as well as clinical and regulatory affairs in the US and Europe.

Hansjürg Emch has a Master of Science and Engineering degree from the Swiss Federal Institute of Technology (ETH) in Zurich and completed the Program for Management Development at Harvard Business School.



### Christophe Fond

(born 1966, French citizen) joined the Sonova Group in February 2017 as Group Vice President Retail. Most recently he held the role of President Latin America and was a member of the Executive Board at GrandVision, a global leader in optical retailing. In the course of his career he gained extensive experience in global retail management, leading transformational growth of large-scale retail enterprises, including acquisitions, mergers, and integrations.

Prior to joining GrandVision he held various roles of international responsibility at Pearle, Bata, and FNAC.

Christophe Fond received a Master of Business Administration from IMD-Switzerland and graduated from the Superior School of Military Engineering (ESAG) in France.



### Martin Grieder

(born 1965, Swiss and British citizen) has been Group Vice President Phonak since August 2014 and was appointed Group Vice President Hearing Instruments Marketing in September 2016. He joined Sonova from Nestlé, where he was Vice President and Global Head of Nestlé BabyNes. Martin Grieder joined Nestlé in 1992 and brings over 20 years of experience in senior management roles within the company. His diversified cross-functional work experience in 18 countries ranges from leading the global Nespresso professional division to managing Nestlé Nespresso North America. Further senior roles at Nestlé include Vice President, Head of Finance for the Americas and Head Nestlé Group Audit as well as R & D Head for Food & Beverage systems solutions for the Nestlé Group.

Martin Grieder received a Master of Business Administration degree from IMD-Switzerland and has a Bachelor's degree in business and economics from the University of Applied Science and Arts (FHNW) in Basel.



### Sarah Kreienbühl

(born 1970, Swiss citizen) has been Group Vice President, Corporate Human Resource Management since August 2004 and also Group Vice President, Corporate Communications since 2012. She was previously Head of Global Human Resources and member of the Executive Board of the Tecan Group in Männedorf, Switzerland. Prior to that she was a consultant with Amrop International, Zurich, where she did executive search projects and also introduced new assessment and management audit services. She started her career as a psychologist with Swissair, where she was involved in the selection of pilots and air traffic controllers.

Sarah Kreienbühl studied applied psychology at the University of Zurich and obtained a Master's degree, followed by a number of additional qualifications in the field of human resource management, communications and finance.



### Hans Mehl

(born 1959, German citizen) was appointed Group Vice President, Operations in April 2007. Before joining Sonova, he held various international leadership positions within the Siemens Group in the Netherlands, Singapore, USA, and Switzerland. In his last position, Hans Mehl acted as Co-Division Head of the Fire and Security business at Siemens Building Technologies in Zug, Switzerland.



Between 2000 and 2003, he was CFO of Global Health Services at Siemens Medical Group in Philadelphia, USA. Before that he was a member of the executive management of Siemens Audiology Group.

Hans Mehl completed his education in business administration in Germany.

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### **Franz Petermann**

(born 1964, Swiss citizen) joined the Sonova Group in 2002 as Director Finance & Controlling. In April 2013, he was appointed Vice President Connect Hearing Group and in September 2016 Group Vice President Corporate e-Marketing. Before joining Sonova, he was CFO of Qualiflyer Loyalty Ltd. from 1999 to 2002, before which he held management positions in different industries. In the course of his career he gained international experience working in Germany, Canada, and Hong Kong.

Franz Petermann is a graduate of the Lucerne University of Applied Sciences and Arts and received a Master's degree in business administration in the UK in 2002.

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### **Andi Vonlanthen**

(born 1961, Swiss citizen) has been Group Vice President Research & Development since April 2012. He started his professional career at Phonak in 1984 in the area of product development, where he contributed significantly to a large number of technological innovations and product launches. As one of many innovations, he developed the first ever multi-microphone system for hearing instruments, which revolutionized the entire industry. From 2002 to 2004, he was Vice President R&D at Unitron. As of 2004 he was responsible for the Group System Integration function.

Andi Vonlanthen received a degree in electronic engineering at the School of Engineering (HTL) Brugg Windisch, Switzerland in 1984.

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### Other activities and vested interests

Except as disclosed in the biographies of the members of the Management Board, no member of the Management Board holds any position in a governing or supervisory body of any important private or public sector organization, institution, or foundation; none holds any permanent management or consulting position with an important interest group, or any public or political office.

### Mandates outside Sonova Holding AG

According to Art. 30 of the Articles of Association, no member of the Management Board may hold more than one additional mandate in a listed company and in total no more than five additional mandates (all such mandates are subject to approval by the Board of Directors). Just as stipulated for the Board of Directors, some mandates are not subject to these limitations (see page 35). The Articles of Association are available at <http://www.sonova.com/en/investors/articles-association>.

### Management contracts

The Board of Directors and the Management Board conduct business directly and have not delegated any management tasks to companies outside the Group.

### Compensation and shareholdings

Details of Board and Management compensation are contained in the compensation report (beginning on page 46).

## Compensation, shareholdings and loans

See: Compensation report (beginning on page 46)

## Shareholders' participation rights

### Voting rights and representation restrictions

#### Voting rights restrictions

When exercising voting rights, no shareholder can combine, with their own and represented shares, more than 10 % of the total number of shares as shown in the Commercial Register (Art. 14 para. 2 of the Articles of Association). Linked parties are considered as one person. This voting right restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

### Exceptions granted in the year under review

During the reporting period, no exceptions to the above-listed rules were granted.

### Statutory rules on participation

#### in the General Shareholders' Meeting

According to Art. 14 para. 4 of the Articles of Association, every shareholder entered in the share register with voting rights may have his shares represented by a person with written authorization from him who does not need to be a shareholder, or by the Independent Proxy. All the shares owned by a shareholder can only be represented by one person.

### Independent Proxy and electronic voting

Andreas G. Keller was elected as the Independent Proxy by the AGM 2016 for the period until completion of the AGM 2017.

Sonova Holding AG offers shareholders the option of using an online platform and to grant proxy and provide voting instructions to the Independent Proxy electronically.

### Statutory quorums

Resolutions and elections by the General Shareholders' Meeting require the approval of a relative majority of the votes cast, taking voting right restrictions into account, except as otherwise provided by law or the Articles of Association.

### Convocation of the General Shareholders' Meeting

The ordinary AGM is held within six months following the close of the financial year.

Extraordinary General Shareholders' Meetings may be called as often as necessary, especially if required by law.

General Shareholders' Meetings are convened by the Board of Directors and, if necessary, by the auditors. Shareholders with voting rights, who together represent at least 10 % of the share capital, may request that the Board of Directors convene an Extraordinary General Shareholders' Meeting, provided that they do so in writing and set forth the reason for the meeting.

### Inclusion of items on the agenda

Shareholders with voting rights who represent at least 1 % of the share capital may request that an item be put on the agenda for discussion by indicating the proposal or motion. Such requests must be addressed in writing to the Chairman of the Board of Directors no later than 60 days before the meeting.

### Registration in the share register

For administrative reasons, the share register is closed approximately one week prior to the date of the General Shareholders' Meeting (the exact date is communicated in the invitation to the General Shareholders' Meeting). Admission cards and voting forms are sent to shareholders during this period. The shares can be traded at any time and are not blocked.

## Changes of control and defense measures

### Duty to make an offer

The Articles of Association of Sonova Holding AG do not contain provisions for opting out or opting up. The result is that an investor who directly, indirectly, or in concert with third parties acquires shares in the company and, together with the shares he already possesses, thereby exceeds the 33 ⅓% threshold of voting rights in the company is required to submit an offer for all shares outstanding, according to Swiss stock exchange law. The Articles of Association are available at <http://www.sonova.com/en/investors/articles-association>.

### Clauses on changes of control

In case of a change of control and a related termination of employment (double trigger), unvested equity instruments granted under the EEAP vest on a pro-rata basis only.

## Securities trading policy

The Board of Directors maintains a policy to prevent corporate insiders from making use of confidential information. It institutes blocking periods to prevent insiders from trading in securities of Sonova Holding AG during sensitive time periods and requires pre-trading clearance for members of the Board of Directors, the Management Board, and selected employees.

## Auditors

### Duration of the mandate and term of office of the lead auditor

At the AGM on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the AGM 2016, PricewaterhouseCoopers AG was re-elected for another one-year term. Sandra Boehm has served as lead auditor for the existing auditing mandate since June 18, 2013.

### Fees

PricewaterhouseCoopers charged the following fees during FY 2016 / 17 and 2015 / 16:

1,000 CHF	2016 / 17	2015 / 16
Audit services	1,762	1,374
Audit-related services	59	53
Tax services	336	0
Non-audit services	37	116
<b>Total</b>	<b>2,194</b>	<b>1,543</b>

Audit services are defined as the standard audit work performed each year in order to issue an audit opinion on the parent company and consolidated financial statements of the Sonova Group as well as opinions on the local statutory financial accounts or statements. Also included is extra work within the audit that can only be provided by the Sonova Group auditor, such as auditing of non-recurring transactions or the implementation of new accounting policies as well as consents and comfort letters in relation to regulatory filings.

Audit-related services consist of support to the audit such as providing advice on new accounting rules; this could be provided by sources other than the auditor who signs the audit report.

Tax services consist of services in connection with compliance with tax laws.

Non-audit services mainly consisted of consulting fees in connection with local regulatory requirements.

The values of audit, audit-related, tax, and non-audit services are in line with ratios suggested by commonly applied good practice standards that relate to the independence of auditors. A formal policy issued by the Audit Committee is in place that regulates all non-audit assignments of the auditors.



#### **Informational instruments pertaining to the external audit**

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In FY 2016 / 17, the external auditors attended 3 out of 4 Audit Committee meetings physically or by telephone conference. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

## Information policy

The Sonova Group pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. It is our aim to inform our shareholders, employees, and business partners in the most direct, open, and transparent way possible about our strategy, our global activities, and the current state of the company.

All publications are made available to all shareholders, the media, and the stock exchange at the same time. All shareholders entered in the share register automatically receive the Summary Report, an invitation to the AGM and, on request, a copy of the Annual Report of Sonova Holding AG. Sonova uses a news service that delivers press releases to interested stakeholders.

The website of the Sonova Group [www.sonova.com](http://www.sonova.com) contains information on the company results and the financial calendar as well as current investor presentations. The Investor Relations function includes presentations of annual and interim results, investor presentations, and presentations held at other events.

On the [www.sonova.com/en/registration](http://www.sonova.com/en/registration) website, it is possible to subscribe to news alerts about Sonova via email. Messages are sent in English and German, and it is possible to state theme preferences for the alerts received. All Sonova media releases can be found at [www.sonova.com/en/media/news](http://www.sonova.com/en/media/news).

More information tools, permanent sources of information, and contact addresses are shown at the end of this Annual Report.

# Compensation report

Sonova is all about people: the value and success of our company strongly depend on our highly dedicated employees. We therefore aim to attract and retain the best talent available in a very competitive global employment market. As custodians of shareholders' equity, we take very seriously our responsibility to uphold a transparent and sustainable approach to compensation.

The compensation report provides an overview of Sonova's principles and system of compensation with its key components, as well as information about the method of determining the compensation of members of the Board of Directors and the Management Board. It also describes which bodies are responsible for the design of compensation plans, the approval framework, and the implementation process, as well as the evaluation process for the Board of Directors and the CEO. Furthermore information on the board's organization and regulation is included. The report provides important information to be considered by the shareholders when voting on the proposed maximum aggregate total compensation of the Board of Directors and the Management Board, submitted for approval by the 2017 Annual General Shareholders' Meeting. The abbreviations are summarized in a glossary at the end of this report.

The report is structured as follows:

1. Introduction by the Chairman of the Nomination and Compensation Committee
2. Compensation policy and principles
3. Organization, competence, method of determining compensation and shareholder involvement
  - 3.1 Board of Directors composition, competence, evaluation, and independence
  - 3.2 CEO evaluation process
  - 3.3 Risk Management
  - 3.4 Compliance Management
  - 3.5 Corporate social responsibility
  - 3.6 Diversity
  - 3.7 Nomination and Compensation Committee
  - 3.8 Governance and shareholders' involvement
  - 3.9 Process of determining compensation
4. Compensation system
  - 4.1 Overview of compensation components
  - 4.2 Board of Directors compensation system
  - 4.3 Management Board compensation system
5. Compensation for the financial year
  - 5.1 Board of Directors compensation
    - 5.1.1 Historical total compensation of the Board of Directors over the last five years
    - 5.1.2 Approved versus expected total compensation for the members of the Board of Directors
  - 5.2 Management Board compensation
    - 5.2.1 Historical variable compensation for the members of the Management Board over the last five years
    - 5.2.2 Approved versus effective total compensation for the members of the Management Board
6. Share ownership information
  - 6.1 Shareholdings of members of the Board of Directors
  - 6.2 Shareholdings of members of the Management Board

Report of the statutory auditor on the compensation report



## 1. Introduction by the Chairman of the Nomination and Compensation Committee

Dear Shareholders

The purpose of our compensation system is to attract, engage, and retain employees; to inspire best-in-class performance; and to encourage behavior aligned with Sonova's values. We are keen to ensure that our compensation principles properly reward performance and stay closely aligned with the interests of our shareholders.

Over the past years, we have developed and implemented an attractive, effective, and sustainable compensation system. We focused our efforts on compliance and the alignment of all compensation-related rules and regulations with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies at Public Corporations, which came into force during the 2014/15 financial year. We also implemented claw-back and forfeiture provisions in the Management Board employment agreements and introduced a performance criterion in the Executive Equity Award Plan (EEAP) for members of the Management Board. Building on many changes made over the past years, we are further optimizing our compensation system. These continuous efforts are carefully led in order to ensure the underlying understanding, acceptance, and trust; and we are convinced that this investment will pay off in the future.

Through the 2016/17 financial year, we reviewed our compensation system, taking into account our ongoing dialogue with several proxy advisors and reflecting market trends and best practice principles.

We concluded that, while no immediate further changes to the compensation system seemed necessary for the 2016/17 financial year, we should continue to enhance our compensation disclosure so that our shareholders may even better assess the close link between performance and pay. In this report we further improve transparency related to the short-term cash incentive award, outlining additional information on KPI weightings and the overall payout ratio awarded under Sonova's Variable Cash Compensation plan (VCC).

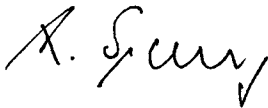
In addition, we plan to make changes to the EEAP for the 2017/18 financial year: we have decided to amend it for members of the Management Board, reflecting best practice principles and long-term trends in the market. The EEAP is currently based on a mix of performance options and restricted share units. As of next year the equity grant will consist of performance options and performance share units (PSUs). The PSUs will be measured against relative total shareholder return; the corresponding details will be disclosed in next year's report. This revision of the EEAP is currently being developed and designed in close cooperation with an external consultant: one of the leading international firms in the areas of compensation and value-based management. This external consultant is independent, was systematically evaluated, and holds no other mandate with Sonova.

In addition, the benchmark study for Board compensation was performed with the help of an independent specialist in this field. The Board of Directors also refined its processes for Board and CEO evaluations, all of which will be covered in more detail later in this report.

At the 2017 Annual General Shareholders' Meeting, you will have the opportunity to express your opinion on our compensation principles and system by way of a consultative vote on this compensation report. We will also ask for your approval of the maximum aggregate total compensation amounts to be awarded to the Board of Directors for the period from the 2017 Annual General Shareholders' Meeting until the 2018 Annual General Shareholders' Meeting and to the Management Board for the 2018/19 financial year.

On behalf of the Board of Directors, I would like to thank you for your continued support. We hope that you find this report informative and are confident that our compensation system rewards for performance in a balanced and sustainable manner, and aligns well with the shareholders' interest.

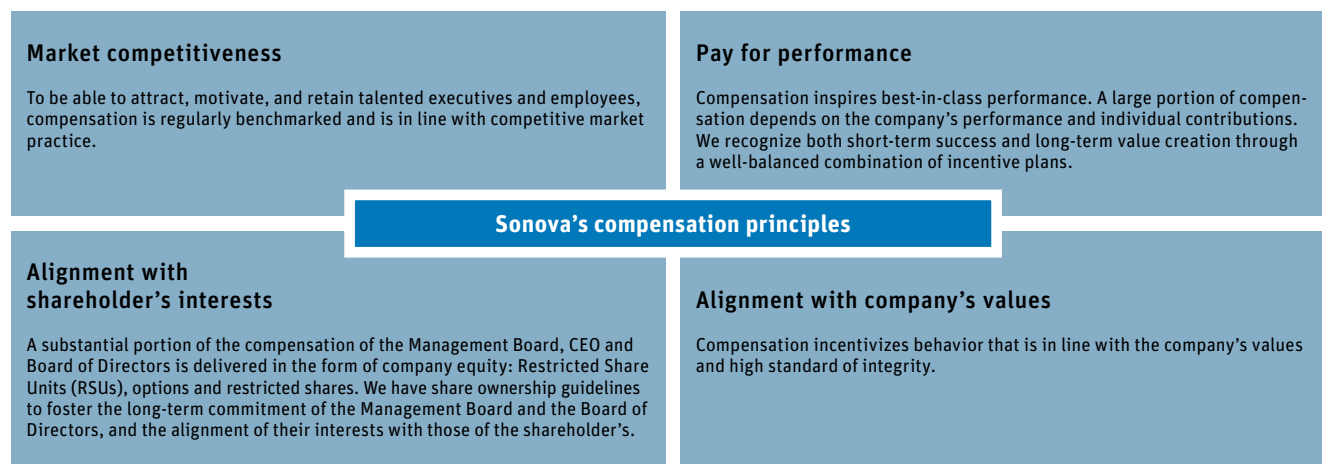
Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Spoerry', written in a cursive style.

Robert Spoerry  
Chairman of the Nomination and Compensation Committee

## 2. Compensation policy and principles

To assure Sonova's success and to maintain its position as leading manufacturer and provider of innovative hearing care, it is essential to attract, engage, develop, and retain the best talent available in the market. Sonova's compensation system is designed to support this fundamental objective and is based on the following principles:



The compensation of the Board of Directors consists of fixed compensation only, paid partly in cash and partly in the form of non-discounted restricted shares. The independence of the Board of Directors in its supervisory function is reinforced by the fact that no performance-related compensation is awarded.

The compensation of the Management Board consists of fixed and variable compensation components. The fixed base salary and benefits form the fixed components and are determined based on current market practice. Targets for the short-term and long-term incentives are defined at the beginning of each financial year and not changed during that period. Options granted under the EEAP are not re-priced after they have been granted, regardless of whether they are in or out of the money.

Variable compensation consists of a short-term cash incentive award and a long-term equity incentive award, which are both based on performance:

- The short-term cash incentive award is awarded under Sonova's Variable Cash Compensation plan (VCC), which is based on Sonova's key performance indicators (KPIs), such as sales, operating profit before acquisition-related amortization (EBITA), free cash flow (FCF), earnings per share (EPS), average sales price (ASP), and operating expenses (OPEX) at Group and /or business unit level. It additionally reflects the achievement of individual objectives as defined in the annual performance review process. Therefore, the VCC rewards both the company's success and individual performance over a one-year period.
- The long-term equity incentive award includes the grant of Restricted Share Units (RSUs) and options under Sonova's Executive Equity Award Plan (EEAP), for both of which the vesting is dependent on the return on capital employed (ROCE) performance. The vesting is time based over a period of 4 years and 4 months. The EEAP reinforces the alignment between compensation and the company's long-term performance. It also aligns the interests of the Management Board with those of shareholders, and fosters the long-term retention of the Management Board (see section 4.3 for more information related to the planned revision of the EEAP award for the 2017 / 18 financial year).



To avoid compensation for inappropriate risk taking or short-term profit maximization at the expense of the long-term health of the company, a cap applies on the VCC cash payout and on the number of equity awards that can vest under the EEAP. Finally, Sonova has mandatory share ownership guidelines in place for members of the Board of Directors and the Management Board. These guidelines require them to hold a minimum number of Sonova shares and thus reinforce the alignment between the interests of shareholders, the Board of Directors, and the Management Board.

### **3. Organization, competence, method of determining compensation, and shareholder involvement**

#### **3.1 Board of Directors composition, competence, evaluation, and independence**

##### **Board of Directors composition**

As determined in Art. 1 of the Organizational Regulations and in Art. 1 of the Rules on Board Operations and Procedures, the Board of Directors plans the succession of its members and defines the criteria for selecting candidates so that the composition is well-balanced in terms of size, professional skills, international experience, and diversity in general. Sonova ensures that newly elected members receive appropriate introduction and orientation and that the members of the Board of Directors get further training with respect to their responsibilities.

The current composition of the Board of Directors represents a good mix of competencies, age and diversity. The average age is 59 years and the average length of service is 7.1 years. As a general rule, the Board of Directors shall not nominate a candidate for the Board of Directors who has completed his or her 70<sup>th</sup> year of age, although in justified individual cases the Board of Directors can make an exception.

##### **Board of Directors competence**

The Board of Directors competence process evaluates each member of the Board of Directors against a set of pre-defined competencies and skills. The competencies relate to specific requirements which are relevant for Sonova and are compiled in the Board of Directors competence matrix.

##### **Yearly Board of Directors evaluation**

An annual self-assessment evaluates the work of the Board of Directors in order to:

- Assure and enhance the understanding of the business and the Company
- Evaluate the work of the Board of Directors, its committees, and the individual members
- Make the best use of the human capital represented in the Board of Directors
- Optimize efficiency, effectiveness of working methods, and cooperation among members of the Board of Directors and members of the Management Board

The Chairman of the Board of Directors initiates the annual Board of Directors self-assessment (including the assessment of the Chairman) by distributing an evaluation questionnaire, which has previously been approved by the Board of Directors. The Chairman of the Board of Directors is responsible for collecting the assessments and for communicating the summarized and consolidated results to the NCC and the Board of Directors for its review.

##### **Board of Directors independence**

According to Art. 14 the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, a member of the Board of Directors is considered independent if the member – personally or in association with related persons – has:

- Not been a member of the executive management over the last 3 years; and
- No or comparatively minor business relations with the Company

According to these rules all members of Sonova's Board of Directors are considered to be independent. Length of service is not deemed to be a relevant criterion for independence.

### 3.2 CEO evaluation process

The evaluation of the CEO is based on the input of each member of the Board of Directors and is reviewed yearly by the NCC and the full Board of Directors. The results are reviewed by the Chairman with the CEO.

### 3.3 Risk Management

Risk management and mitigation proposals are prepared by the Audit Committee and reviewed by the full Board of Directors. In addition, the Chairman of the Board of Directors is invited to the Audit Committee as a guest, and is thus kept fully informed. As a guest, the Chairman of the Board of Directors has no voting rights (see the corporate governance chapter for more information).

### 3.4 Compliance Management

The Group compliance program supports Sonova's core values of ethical behavior and unquestionable integrity. Regular compliance reports are provided to the Audit Committee and the full Board of Directors (see the corporate governance chapter for more information).

### 3.5 Corporate social responsibility

The Management Board proposes topics related to corporate social responsibility, which are subject to consultation and review on a yearly basis by the full Board of Directors (see the separate corporate social responsibility report for more information).

### 3.6 Diversity

A comprehensive diversity report is prepared by Corporate Human Resource Management to be reviewed yearly by the full Board of Directors (see the separate corporate social responsibility report for more information).

### 3.7 Nomination and Compensation Committee

As determined in the Articles of Association, the Organizational Regulations, and the Nomination and Compensation Committee Charter of Sonova Holding AG, the Nomination and Compensation Committee (NCC) supports the Board of Directors in the fulfillment of its duties and responsibilities in the area of compensation and personnel related matters. Its tasks and responsibilities include, among others:

- Periodical review of Sonova's compensation principles
- Regular benchmark reviews covering compensation of the members of the Board of Directors (including the Chairman of the Board of Directors), the Chief Executive Officer (CEO), and the other members of the Management Board
- A yearly review of the individual compensation of the CEO and of the other members of the Management Board, including variable cash compensation
- Review, amendment, and approval of the performance appraisal of the members of the Management Board (prepared by the CEO) and of the CEO (prepared by the Chairman of the Board of Directors)
- Preparation of the compensation report; and
- Selection and nomination of candidates for the membership of the Management Board as proposed by the CEO and pre-selection of suitable candidates to the Board of Directors

### Approval and authority levels on compensation matters:

Decision on	CEO	NCC	Board of Directors	AGM
Compensation principles and system for the Board of Directors and Management Board within the framework of the Articles of Association		proposes	approves	
Maximum aggregate amount of compensation for the Board of Directors and the Management Board to be submitted to shareholders' vote		proposes	reviews and proposes to AGM	binding vote
Individual compensation, including cash components and shares, to be granted to the members of the Board of Directors *		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the CEO *		proposes	approves	
Employment terms of the CEO *		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the Management Board (excluding CEO) *	recommends	proposes	approves	
Annual total aggregate amount of long-term equity incentives to be granted to all other eligible employees		proposes	approves	
Compensation report		proposes	approves	consultative vote

\* Within the framework of the Article of Association and / or maximum aggregate amount of compensation approved by the Annual General Shareholders' Meeting.

The NCC consists exclusively of independent and non-executive members of the Board of Directors, who are elected individually and annually by the Annual General Shareholders' Meeting. For the period under review, the NCC consisted of Robert F. Spoerry (Chairman of the Board of Directors), Stacy Enxing Seng, and Beat Hess.



The NCC meets as often as business requires but at least three times per year. In the 2016/17 financial year, it held five meetings covering, among others, the following pre-defined recurring agenda items:

Item	May Beginning of the financial year	August	November	February End of the financial year
Compensation policy & process		– Review of compensation policy and programs	– Preview salary review for the following financial year – Approval of EEAP grant size and plan regulations	– Reconfirmation of EEAP target group for the following financial year – Target compensation review for the following financial year
Management Board (MB) matters	– Approval of actual payout under VCC for CEO and MB for the previous financial year – Approval of EEAP performance hurdle – Approval of individual targets for CEO and MB – Special ad hoc items *	– Review on Benchmarks – Special ad hoc items *	– Review of talent management at Sonova (MB covered in the full BoD) – Regular Benchmark of MB compensation – Diversity at Sonova – Decision on Benchmarks – Special ad hoc items *	– Option valuation – EEAP grant review – Special ad hoc items *
Board of Directors (BoD) matters		– Review on Benchmarks	– Decision on Benchmarks	
Governance	– AGM preparation – Approval of the corporate governance, compensation report and the compensation part of the AGM invitation – Approval of the maximum aggregate amount of compensation of the MB and the BoD – Status of Share Ownership	– Review of feedback on compensation report – Self assessment of NCC		– Review draft compensation report – Agenda NCC for the following financial year

\*Special ad hoc items such as personnel changes at executive level, if applicable.

As a general rule, the Chairman of the Board of Directors, the CEO, and the Group Vice President Corporate Human Resource Management and Corporate Communications participate in the meetings of the NCC. However, they do not take part in the section of the meetings where their own performance and/or compensation are discussed.

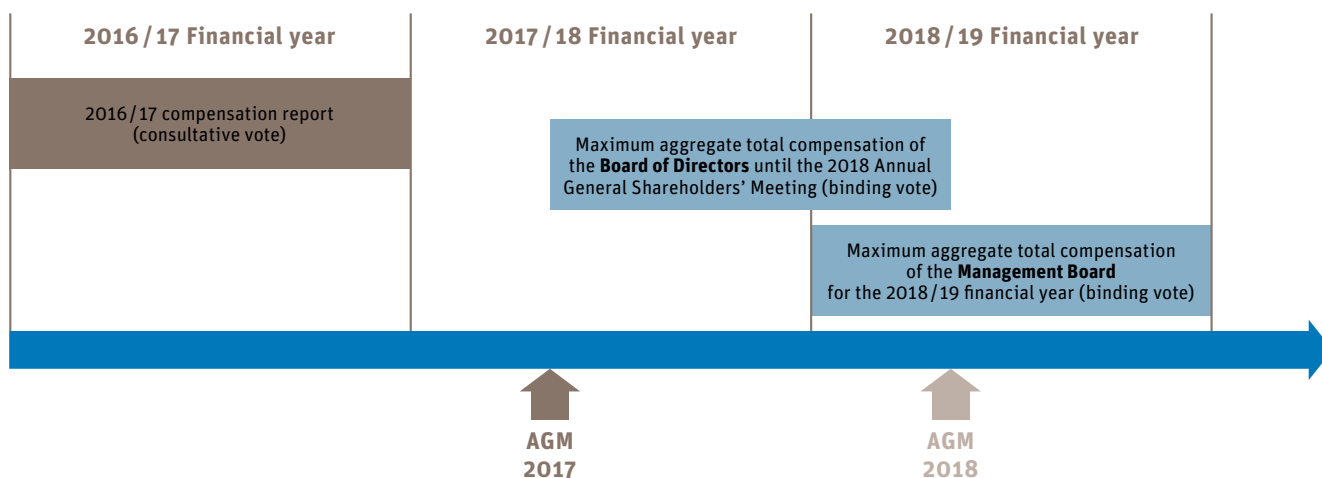
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors.

### 3.8 Governance and shareholders' involvement

Authority for decisions related to compensation is governed by the Articles of Association.

The prospective maximum aggregate total compensation amounts to be awarded to the Board of Directors and the Management Board is subject to a yearly binding shareholders' vote at the Annual General Shareholders' Meeting. The provisions of the Articles of Association foresee that shareholders will vote prospectively: on the maximum aggregate total compensation for the Board of Directors for the period until the next ordinary Annual General Shareholders' Meeting, and for the Management Board for the following financial year. In addition, Sonova intends to continue to submit the yearly compensation report to a consultative shareholders' vote at the Annual General Shareholders' Meeting, so that shareholders have an opportunity to express their opinion about the compensation of the previous financial year.

Over the past several years Sonova has engaged in ongoing dialog with shareholders and shareholders' representatives and has made significant efforts to continuously improve its compensation disclosure, both in terms of transparency and level of detail provided about its principles and system of compensation. The positive outcome of the consultative votes in recent years indicates that shareholders welcome this approach.



#### Matters to be voted on at the 2017 Annual General Shareholders' Meeting:

The maximum aggregate total compensation amount for the Board of Directors comprises the following components, all of which are fixed: a cash retainer, a committee fee (if applicable), a meeting attendance fee, as well as a travel allowance, based on the number of meetings attended. In addition, members of the Board of Directors receive non-discounted shares with a restriction period of 5 years and 4 months (Chairman of the Board of Directors) or 4 years and 4 months (all other members of the Board of Directors). There is no performance-related compensation for the Board of Directors and no eligibility to participate in the occupational pension plan.

The compensation of members of the Board of Directors is subject to regular social security contributions (AHV / ALV) (see section 4.2 for more information).

The maximum aggregate total compensation amount for the Management Board (including the CEO) comprises:

**Fixed compensation components:**

- Fixed base salary, value of benefits, employer's contributions into Sonova's pension plan, and estimated employer's social security contributions (AHV/ALV).

**Variable compensation components:**

- Short-term cash incentive award (VCC): maximum possible payout under the VCC should the achievement of all performance objectives reach the cap.
- Long-term equity incentive award (EEAP): maximum value of the equity awards at grant (options and RSUs), assuming that the achievement of the performance criterion reaches the cap.

Therefore, the maximum aggregate total compensation amount submitted to shareholders' vote is potentially much higher than the amount of total compensation that will be effectively paid out to the members of the Management Board based on the performance achieved. The amount effectively paid out will be disclosed in the compensation report of the respective financial year, which will be subject to a consultative shareholders' vote.

We are convinced that the binding prospective votes on aggregate total compensation amounts, combined with a consultative retrospective vote on the compensation report, provide our shareholders with a far-reaching "say on pay."

### Articles of Association

As required by the Ordinance, the Articles of Association were revised in 2014 and approved by the shareholders at the 2014 Annual General Shareholder' Meeting. The Articles of Association include the following provisions on compensation:

- Powers and duties (Art. 24)
- Approval of compensation by the General Shareholders' Meeting (Art. 26)
- Additional reserve amount for changes in the Management Board (Art. 27)
- General compensation principles (Art. 28)
- Maximum consideration for non-competition agreement (Art. 29 para.3)
- Prohibition on loans (Art. 31)

The Articles of Association are available in their entirety online:  
[www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)

### 3.9 Process of determining compensation

#### Benchmarks and external consultants

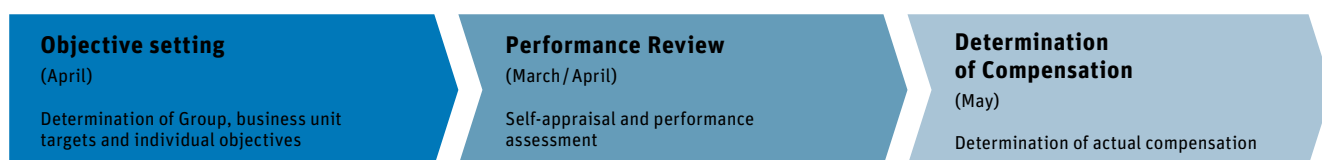
Sonova regularly reviews the total compensation of members of the Management Board, comparing data from executive surveys and published benchmarks from companies of similar size in terms of market capitalization, revenue, number of employees, geographic reach, etc., and /or which are operating in related industries. The level and mix of the different compensation components are determined on the basis of those benchmarks.

The last detailed review was conducted in 2015 in cooperation with an independent firm specializing in compensation surveys and analysis. For the purpose of the benchmarking analysis, two relevant peer groups were identified: ten companies in the international Medical Technology sector<sup>1</sup> and eight Swiss companies in the General Industry sector of comparable size<sup>2</sup>. The conclusion of this review was that the members of the Management Board are compensated consistently with the peer groups.

A similar benchmark process is regularly conducted to review and determine the total compensation of the Board of Directors, comparing Sonova with companies of a similar market capitalization (SMIM® companies). The last detailed review was performed in 2016 in cooperation with an independent firm specializing in compensation surveys and analysis. In addition, periodically available data and surveys are reviewed and taken into account.

#### Performance Management

The actual compensation effectively paid out to the members of the Management Board in a financial year depends on the performance of the Group and /or respective business unit, as well as on individual performance, which is assessed through the formal annual performance review process. Financial, business unit, and individual performance objectives are approved at the beginning of the financial year and achievements against those objectives are assessed at the end of the financial year, according to Sonova's performance appraisal process.



1 Cochlear Ltd., Dräger, Fresenius Medical Care AG & Co., Medtronic Inc., St. Jude Medical, Straumann Holding AG, Stryker, William Demant Holding A/S, Zimmer Holdings Inc., Smith & Nephew plc

2 Geberit AG, Georg Fischer AG, Logitech International SA, Lonza Group AG, Mettler-Toledo International Inc., Sika, Straumann Holding AG, Sulzer AG



## 4. Compensation system

### 4.1 Overview of compensation components

	Management Board		Board of Directors
	CEO	GVPs	BoD
<b>Fixed compensation components</b>			
Fixed base salary			
Benefits <sup>1)</sup>			
Expense allowance <sup>2)</sup>			
Car allowance <sup>3)</sup>			
Cash retainer (fixed fee)			
Restricted Shares			
Committee fee <sup>4)</sup>			
Meeting attendance fee			
Travel allowance			
Social security contributions (AHV/ALV)			
<b>Pension, social and other benefits</b>			
Pension Fund			
Social security contributions (AHV/ALV)			
<b>Variable compensation components (performance related)</b>			
<b>Short-term cash incentive award</b>			
Variable Cash Compensation (VCC)			
<b>Long-term equity incentive award</b>			
Executive Equity Award Plan (EEAP) <sup>5)</sup>			
<b>Social and other benefits</b>			
Social security contributions (AHV/ALV)			
Other benefits			

<sup>1)</sup> MB members under a foreign employment contract receive benefits in line with local practice.

<sup>2)</sup> Only for MB members with a Swiss employment contract.

<sup>3)</sup> Flat rate car allowance

<sup>4)</sup> If applicable

<sup>5)</sup> Options and Restricted Share Units

### 4.2 Board of Directors compensation system

The compensation of members of the Board of Directors is defined in a regulation adopted by the Board of Directors; it consists of a cash retainer (fixed fee), a committee fee (if applicable), a meeting attendance fee as well as a travel allowance. In addition, members of the Board of Directors receive non-discounted shares with a restriction period of 5 years and 4 months (Chairman of the Board of Directors) or 4 years and 4 months (all other members of the Board of Directors). There is no performance-related compensation for the Board of Directors and no eligibility to participate in the occupational pension plan.

The compensation of members of the Board of Directors is subject to regular social security contributions (AHV / ALV); the employer contributions are paid by Sonova.

Annual fees in Cash in CHF	Chairman	Board members excl. Chairman
Cash retainer	500,000	100,000
Vice-Chairman	n.a.	15,000
Chairman of Audit Committee	n.a.	25,000
Chairman of NCC	Included in cash retainer	15,000
Member of NCC / Audit Committee	n.a.	7,500
Meeting attendance fee <sup>1)</sup>	Included in cash retainer	500
Travel allowance <sup>1)</sup>	500	500

Restricted Shares in CHF	Chairman	Board members excl. Chairman
Fair value at grant <sup>2)</sup>	400,000	200,000

<sup>1)</sup> Multiplied by the number of meeting attended.

<sup>2)</sup> The tax value at grant differs from the value at grant by reduction of 6 % per year of restriction. In addition, for tax purposes the volume weighted average price on grant date was used whereas the fair value per share was calculated by taking the risk free rate into account on closing price at grant date.

Further information regarding the planned total compensation amounts of the Board of Directors for the period from the 2017 Annual General Shareholders' Meeting to the 2018 Annual General Shareholders' Meeting is provided in the invitation to the 2017 Annual General Shareholders' Meeting.

#### Sonova Share Ownership Guidelines

To further align the interests of the Board of Directors with those of Sonova's shareholders, the Sonova share ownership guidelines require them to hold a specified number of Sonova shares. Members of the Board of Directors must hold at least 2,000 Sonova shares. These holdings must be achieved within three years and 5 months after the individuals received their first grant as member of the Board of Directors; the NCC monitors the progress toward the requirements on an annual basis (see section 6.1 for more information).

#### 4.3 Management Board compensation system

The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- Fixed base salary
- Employee benefits such as pension benefits, flat rate car allowance, and expense allowance
- Short-term cash incentive award (Variable Cash Compensation VCC)
- Long-term equity incentive award (EEAP)

The fixed base salary and benefits form the fixed compensation component and are based on current market practice. The variable compensation component consists of a short-term cash incentive award, the VCC, and a long-term equity incentive award in the form of Options and RSUs under the EEAP. Both short and long-term components are performance-based.

	Fixed compensation components		Variable compensation components	
	Fixed base salary	Benefits	Short-term cash incentive award	Long-term equity incentive award
Purpose	Ensures predictable salary, depends upon the market value of the role and the profile of the incumbents	Establishes level of security in line with local market practice  Mandatory and voluntary benefits plans offered by the employer	Rewards performance against key indicators at Group and business unit level as well as the achievement of individual objectives	Rewards long-term value creation and reinforces alignment to shareholder interests
Performance / Vesting Period	n.a.	n.a.	1 financial year	1 year 4 months – 4 years 4 months
Performance measures	n.a.	n.a.	A – Group Sales, EBITA, FCF, EPS  B – Business Unit Sales, EBITA, ASP, OPEX  C – Individual objectives	ROCE
Delivery	Cash, regularly	Country specific	Cash	Equity (Options / RSUs)
<b>CEO</b> variable compensation as % of fixed base salary	n.a.	n.a.	Target of fixed base salary: <b>62.5 %</b>  Range of fixed base salary: <b>0 % – 125 %</b>	Target of fixed base salary: <b>131 %</b>  Range of fixed base salary: <b>0 % – 131 %</b>
<b>MB (excl. CEO)</b> variable compensation as % of fixed base salary	n.a.	n.a.	Target of fixed base salary: <b>50 %</b>  Range of fixed base salary: <b>0 % – 100 %</b>	Target of fixed base salary: <b>107 %</b>  Range of fixed base salary: <b>0 % – 107 %</b>

### Fixed base salary

The fixed base salary ensures a regular and predictable salary paid out in cash in regular installments. The salary level is based on the scope and complexity of the position, market norms and benchmarks, and the individual's profile in terms of experience and skills. Salary progression depends primarily on the individual's performance, as well as market developments and the economic environment.

### Short-term cash incentive award (Variable Cash Compensation – VCC)

Sonova's VCC aims to align a significant part of compensation to sustainable company performance in a given financial year.

The VCC is an integral component of the cash compensation for members of the Management Board, defined as a percentage of the annual fixed base salary. At target, it amounts to 62.5 % of fixed base salary for the CEO and up to 50 % for the other members of the Management Board.

The Board of Directors determines annually the target performance level for each financial objective for the following financial year, based on the recommendation of the NCC. The targets are generally set in such a way that on an adjusted base, substantial improvements from the previous financial year's achievement are required, in line with the company's ambitious mid- and long-term financial plans. Setting demanding and ambitious targets helps Sonova deliver best-in-class performance and stay ahead of the market. Lower and upper performance thresholds are also set, below which the payout percentage is zero, and above which it is capped at 200 %. Payout levels between the threshold, the target, and the maximum are calculated by linear interpolation.

The VCC for the Management Board is based on three categories of performance objectives: Group, business unit, and individual performance objectives. The performance objectives that must be met to achieve the target VCC are mutually agreed at the beginning of the financial year.

Group performance objectives are based on the budget; the specific metrics are sales, EBITA, FCF, and EPS. Business unit performance objectives include sales, EBITA, ASP, and OPEX of the respective business unit. These financial objectives have been chosen because they are the key drivers for the long-term success of Sonova; they link reward both to expanding the business and gaining market share (top-line contribution) and to increasing profitability through operating leverage (bottom-line contribution).

Group and business unit performance objectives together are weighted at between 60 % and 80 % of the overall VCC. The individual performance component is based on the achievement of individual objectives defined at the beginning of the financial year between the CEO and individual members of the Management Board – and, for the CEO, between the Board of Directors and the CEO. The three to five individual performance objectives for each member of the Management Board are weighted at between 20 % and 40 % of the total VCC and can be defined for each new performance cycle.

#### Ranges of performance objectives for members of the Management Board

Performance Objective	CEO/CFO	other members of the MB	Minimum payout (threshold)	Target payout (target)	Maximum payout (cap)
Group objectives					
Sales	20 %	10 % – 20 %	0 %	100 %	200 %
EBITA		10 % – 20 %			
FCF	10 % – 20 %	10 % – 20 %			
EPS	30 % – 40 %				
Business objectives *					
Sales		20 % – 30 %	0 %	100 %	200 %
EBITA		20 %			
OPEX		10 % – 20 %			
ASP		10 %			
Individual objectives					
Initiatives/Projects	20 % – 40 %	20 % – 40 %	0 %	100 %	200 %

\* Not all of the business objectives refer to all members of the Management Board.

In broad terms, the rationale for applying these particular Group and business unit performance indicators in determining the VCC is as follows: sales correlate with market success, while EBITA reflects profitability; ASP tracks value add and price discipline and OPEX represents operational efficiency. As for the external performance indicators, earnings per share is important to shareholders and for the determination of the share price, while the FCF is determined by capital efficiency.



### Long-term equity incentive award (Executive Equity Award Plan – EEAP)

The purpose of the EEAP is to ensure long-term value creation for the company, alignment of the interests between shareholders and the members of the Management Board, and the long-term retention of managerial talent at Sonova.

The EEAP is offered annually to the members of the Management Board. The Board of Directors determines the individual grant level to the Management Board based on the recommendation of the CEO, and to the CEO based on the recommendation of the Chairman of the Board of Directors. Generally the grant date is on February 1 each year. The grants are made in the form of options and RSUs that vest in four equal annual installments over a period of four years, with the first tranche vesting on June 1 of the year following the grant year (16 months after grant date). The exercise price of the options is the closing price of the Sonova share on the Swiss Stock Exchange (SIX Swiss Exchange) at the grant date. The term of the options granted amounts to seven years. The fair value of the options is calculated at the grant date using the “Enhanced American Pricing Model.” Additional information is available in Note 31 to the consolidated financial statements. Re-pricing of any out-of-the-money options granted under the EEAP is prohibited.

Under the EEAP, the CEO receives an equity compensation mix of 62.5 % in options and 37.5 % in RSUs and the other members of the Management Board are awarded 50 % in options and 50 % in RSUs.

From 2014, the grant made under the EEAP to members of the Management Board includes a performance criterion: the vesting of options and RSUs in a given year is subject to achievement of a pre-defined minimum ROCE target. ROCE measures the efficiency with which Sonova’s capital is employed. The Board of Directors determines a target level of performance for which the options and RSUs will vest in full and a minimum performance threshold below which there is no vesting at all. Both the threshold and the target are ambitious, representing a multiple of the weighted average cost of capital. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation. There is no provision for over-achievement in the EEAP; the proportion of options and RSUs that can vest ranges from 0 % to 100 %.

EEAP 2017		
Equity	Options	RSUs
Grant Date	February 1, 2017	February 1, 2017
Exercise/Strike Price	CHF 130.00 (Sonova share closing price at SIX on February 1, 2017)	n.a.
Vesting Date	25% vest on June 1, 2018 25% vest on June 1, 2019 25% vest on June 1, 2020 25% vest on June 1, 2021	25% vest on June 1, 2018 25% vest on June 1, 2019 25% vest on June 1, 2020 25% vest on June 1, 2021
Restriction Period on the resulting shares	n.a.	n.a.
Performance criterion	Number of options which vest depends on the achievement of the ROCE target	Number of RSUs which vest depends on the achievement of the ROCE target
Exercise Period	After vesting until expiry of the options	n.a.
Maturity	Total 7 years	Not limited
Expiry Date	January 31, 2024	n.a.

The average vesting duration amounts to 34 months and in practice, options have usually been exercised approximately one year after the vesting date (see section 5. for more information on the overall levels of the target achievements as well as other qualitative comments).

The fair value of the 2017 EEAP grant to the CEO was 131% of his fixed base salary and the fair value of the 2017 EEAP grant to the other members of the Management Board averaged 107 % of their fixed base salary.

In the event of termination of employment, vested options can be exercised within a 60-day period. Unvested options and RSUs are forfeited on termination, with the following exceptions:

- In case of death or disability, the unvested options and RSUs vest immediately. The vested options are exercisable within a period of 12 months commencing on the date of death or disability.
- In case of retirement, the unvested options and RSUs with a vesting date during the calendar year of the employee's retirement vest according the regular vesting schedule. The vested options are exercisable for a period of 12 months. Unvested options and RSUs with a vesting date after the calendar year of the employee's retirement are forfeited without any compensation.
- In the event of termination of employment by Sonova for cause all options, whether vested or not, and unvested RSUs become null and void immediately. "Cause" shall mean any act of fraud, embezzlement or dishonesty, unauthorized use or disclosure of confidential information or trade secrets of Sonova or any other misconduct by the employee.
- In the event of termination of employment by Sonova following a change of control ("double trigger"), unvested options and RSUs vest immediately on a pro rata basis at target level, considering the period from the grant date to the effective date of the change of control compared to the original vesting period. Vested options are exercisable for a period of 60 days commencing on an employee's date of termination. This rule does not apply in the event of voluntary resignation by the employee following a change of control. In such case, unvested options and RSUs are forfeited.

### Disclosure of targets

Internal individual and/or financial targets under the VCC and the EEAP plans are considered sensitive information. Disclosing such targets would allow confidential insight into the strategy of Sonova and therefore could create a competitive disadvantage to Sonova. Therefore, the decision was made to not disclose the specifics of the VCC and EEAP targets at the time of their setting but comment on overall target achievement, respective payout at the end of the financial year. As a general rule, on a comparable basis, substantial improvements against the previous year's achievements are required in order to meet the target level of performance, in line with the company's ambitious financial plan (see section 5.2 for more information related to the overall quantitative and qualitative regional and segmental achievements for the 2016 /17 financial year).

### Planned amendment to the EEAP 2018 for the members of the Management Board

A significant amendment is planned for Sonova's long-term Executive Equity Award Plan (EEAP) for the 2017 /18 financial year. In order to foster long-term alignment of interest between members of the Management Board and shareholders, we plan to:

- Increase the term of options from 7 to 10 years
- Replace RSUs with time-based vesting over 4 instalments with PSUs with 3 years' cliff vesting. PSU performance will be measured relative to Total Shareholder Return (rTSR) and further details will be provided in next year's compensation report.

These amendments reflect best practice principles as well as market trends. The adjusted long-term equity incentive award is currently developed and designed in cooperation with an external consultant, a leading independent international firm with expertise in the areas of compensation and value-based management. The option exercise behavior of members of the Management Board already demonstrates a long-term view; the planned amendments are intended to reinforce and encourage that behavior.

### Sonova Share Ownership Guidelines

To further align the interests of the Management Board with those of our shareholders, Sonova's share ownership guidelines require the members to hold a specified number of Sonova shares in order to be eligible to participate in the EEAP. The CEO must hold 8,000 shares and the Group Vice Presidents (GVPs) 3,000 shares each. These holdings must be achieved within three years and 5 months after the individuals received their first grant as member of the Management Board; the NCC monitors progress toward those requirements on an annual basis (see section 6.2 for more information).

### Benefits

Sonova maintains defined-contribution plans under the Swiss occupational pension regulations. Pension benefits are provided through the regular pension plan. Members of the Management Board who are under Swiss employment contract are eligible for the same benefits as all employees in Switzerland. Members of the Management Board who are under a foreign employment receive benefits in line with local current market practice.

Sonova also makes the mandatory employer social security contributions (AHV / ALV) on behalf of the Management Board members who are under Swiss employment.

The CEO and GVPs are entitled to a flat rate car allowance and an expense allowance in line with the expense regulations applicable to all members of management in Switzerland, which is approved by the Swiss tax authorities.

### Employment terms and conditions

As part of its commitment to good corporate governance, Sonova has a forfeiture provision in all employment agreements with the Management Board members, which operates in addition to the provisions of the Ordinance. It provides for repayment of any compensation paid or granted prior to approval by the Annual General Shareholders' Meeting and /or if the AGM does not approve the proposed total compensation of the members of the Management Board.

In addition, Sonova has introduced a claw-back provision allowing the company to reclaim any VCC payment, in part or in full, in the event of an accounting / financial restatement due to non-compliance with financial reporting requirements under the Swiss laws at the time of disclosure. This provision applies to all VCC payments for a period of three years following the financial year related to which the VCC payment has been made.

All members of the Management Board have permanent employment contracts with a notice period of a maximum of 6 months. The notice period for the CEO is 12 months.

Sonova does not grant severance payments to members of the Management Board or Board of Directors, nor does Sonova make advance payments or grant loans to them. No loans were granted by Sonova or any other Group company to present or former members of the Management Board or Board of Directors in the financial year, and no such loans were outstanding as of March 31, 2017. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board or Board of Directors.

### 5. Compensation for the financial year

#### 5.1 Board of Directors compensation

The tables in this section are audited by the external auditor according to article 17 of the Ordinance.

The following table shows the compensation for the individual members of the Board of Directors for the 2016 / 17 and 2015 / 16 financial years.

The total compensation in the 2016 / 17 financial year was CHF 2.9 million the same amount as in the previous year. Over the last five years, no increases have been made to the compensation of the Board of Directors, thus the structure and levels of total compensation for the Board of Directors have not changed during that period. The recent benchmark study for the compensation of the members of the Board of Directors confirmed that the current compensation is well in line with market norms. There are therefore no changes planned for the next year related to the system and total compensation for members of the Board of Directors.

No other compensation was paid for additional services beyond the total compensation disclosed in the tables below. No loans were granted by Sonova or any other Group company to present or former members of the Board of Directors in the 2016 / 17 financial year, and no such loans were outstanding as of March 31, 2017. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of Board of Directors.



in CHF

2016/17

	Cash retainer (fixed fee)	Meeting attendance fee / expenses <sup>1)</sup>	Employer's social insurance contribution (AHV / ALV) <sup>2)</sup>	Total cash compensation	Value of restricted shares <sup>3)</sup>	Total compensation
Robert F. Spoerry Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	54,199	556,699	289,699	846,398
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	9,500	16,801	148,801	153,135	301,936
Stacy Enxing Seng Member of the Nomination and Compensation Committee	105,979	9,000	18,416	133,395	153,135	286,530
Michael Jacobi Chairman of the Audit Committee	125,000	9,000	20,104	154,104	153,135	307,239
Anssi Vanjoki Member of the Audit Committee	107,500	9,000	18,922	135,422	153,135	288,557
Ronald van der Vis Member of the Audit Committee	107,500	8,500	18,889	134,889	153,135	288,024
Jinlong Wang	100,000	7,000	18,281	125,281	153,135	278,416
Lynn Dorsey Bleil <sup>4)</sup>	79,726	6,000	16,879	102,605	153,135	255,740
<b>Total (active members)</b>	<b>1,248,205</b>	<b>60,500</b>	<b>182,491</b>	<b>1,491,196</b>	<b>1,361,644</b>	<b>2,852,840</b>
John J. Zei <sup>5)</sup>	22,089	4,500	1,527	28,116		28,116
<b>Total (including former members)</b>	<b>1,270,294</b>	<b>65,000</b>	<b>184,018</b>	<b>1,519,312</b>	<b>1,361,644</b>	<b>2,880,956</b>

The compensation shown in the table above is gross and based on the accrual principle.

<sup>1)</sup> Attendance fees and expenses are based on the number of meetings attended by each member of the Board of Directors (no attendance fees for the Chairman).

<sup>2)</sup> Including social security contributions on the tax value of RSUs vested, options/SARs exercised and restricted shares granted during the financial year.

<sup>3)</sup> Calculation of the value of restricted shares: Tax discounted value per restricted share at grant date for the Chairman of the Board of Directors CHF 95.48, and for the other members of the Board of Directors CHF 101.21. The discount takes into account a reduction of 6% per year of restriction and reflects the fact that once the restricted shares have been granted, they are then blocked over a restriction period of 5 years and 4 month for the Chairman of the Board of Directors and 4 years and 4 month for the other members of the Board of Directors.

<sup>4)</sup> New member of the Board of Directors since June 2016.

<sup>5)</sup> John J. Zei retired from the Board of Directors at the Annual General Shareholders' Meeting from June 14, 2016. He has entered into an independent consulting service agreement with Sonova starting July 1, 2016. There are no other anticipated reasonable expenses on the part of consultant for which Sonova will provide reimbursement.

in CHF

2015/16

	Cash retainer (fixed fee)	Meeting attendance fee / expenses <sup>1)</sup>	Employer's social insurance contribution (AHV / ALV) <sup>2)</sup>	Total cash compensation	Value of restricted shares <sup>3)</sup>	Total compensation
<b>Robert F. Spoerry</b> Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	66,226	568,726	285,550	854,276
<b>Beat Hess</b> Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	7,500	16,043	146,043	151,277	297,320
<b>Stacy Enxing Seng</b>	100,000	5,000	17,602	122,602	151,277	273,879
<b>Michael Jacobi</b> Chairman of the Audit Committee	125,000	7,500	36,860	169,360	151,277	320,637
<b>Anssi Vanjoki</b> Member of the Audit Committee	107,500	7,500	20,904	135,904	151,277	287,181
<b>Ronald van der Vis</b> Member of the Audit Committee	107,500	7,500	34,836	149,836	151,277	301,113
<b>Jinlong Wang</b>	100,000	5,500	17,635	123,135	151,277	274,412
<b>John J. Zei</b> Member of the Nomination and Compensation Committee	107,500	7,500	29,400	144,400	151,277	295,677
<b>Total (active members)</b>	<b>1,270,000</b>	<b>50,500</b>	<b>239,506</b>	<b>1,560,006</b>	<b>1,344,489</b>	<b>2,904,495</b>
<b>Andy Rihs<sup>4)</sup></b>	21,096	2,500	6,237	29,833		29,833
<b>Total (including former members)</b>	<b>1,291,096</b>	<b>53,000</b>	<b>245,743</b>	<b>1,589,839</b>	<b>1,344,489</b>	<b>2,934,328</b>

The compensation shown in the table above is gross and based on the accrual principle.

- <sup>1)</sup> Attendance fees and expenses are based on the number of attended meetings of each member of the Board of Directors (no attendance fees for the Chairman).
- <sup>2)</sup> Including social security contributions on the tax value of RSUs vested, options / WARs / SARs exercised and restricted shares granted during the financial year.
- <sup>3)</sup> Calculation of the value of restricted shares: Tax discounted value per restricted share at grant date for the Chairman of the Board of Directors CHF 90.91, and for the other members of the Board of Directors CHF 96.35. The discount takes into account a reduction of 6 % per year of restriction and reflects the fact that once the restricted shares have been granted, they are then blocked over a restriction period of 5 years and 4 month for the Chairman of the Board of Directors and 4 years and 4 month for the other members of the Board of Directors.
- <sup>4)</sup> Andy Rihs retired from the Board of Directors at the Annual General Shareholders' Meeting from June 16, 2015.

### 5.1.1 Historical total compensation of the Board of Directors over the last five years

The total compensation of the Board of Directors has changed only marginally over the last five years. The current total compensation is in line with the respective market for members, the Vice Chairman, and the Chairman of the Board of Directors. The current structure of the total compensation of the Board of Directors shows a slightly higher cash retainer (fixed fee), but lower Committee and Meeting attendance fees compared to other companies. This reflects the current working practice according to the organizational rules and is determined and supported by benchmarks and publicly available surveys.

### 5.1.2 Approved versus expected total compensation for the members of the Board of Directors

For the period from the 2016 Annual General Shareholders' Meeting to the 2017 Annual General Shareholders' Meeting, the total compensation paid to the Board of Directors is expected to be CHF 2.9 million. This is within the limit of CHF 3.0 million as approved by the AGM 2016.

in CHF 1'000	Approved for AGM 2015 – AGM 2016	Effective for AGM 2015 – AGM 2016	Approved for AGM 2016 – AGM 2017	Estimate for AGM 2016 – AGM 2017
AGM approval year		<b>2015</b>		<b>2016</b>
Fixed fees including meeting attendance and expenses, and mandatory employer's social security contributions	1,648	1,577	1,648	1,492
Tax value of RSUs	1,352	1,345	1,352	1,362
<b>Total</b>	<b>3,000</b>	<b>2,922</b>	<b>3,000</b>	<b>2,854</b>
<b>Number of members of the Board of Directors</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

## 5.2 Management Board compensation

The tables in this section are audited by the external auditor according to article 17 of the Ordinance.

Overall, Sonova looks back on a good year where the Group and many parts of the business achieved new records. The financial targets set by the Board of Directors for the financial year were exceeded. This is reflected in the financial compensation of the members of the Management Board. For the assessment of the target achievement, the non-budgeted impact of the AudioNova acquisition has generally been excluded. However, several members of the Management Board had qualitative targets related to the transaction and subsequent integration.

The system of Variable Cash Compensation is outlined in more detail in section 4.3 of this report. The following key performance indicators are used to assess the performance of the management in addition to individual qualitative targets: at the Group level, sales, EBITA, EPS and FCF; and on business level in addition ASP and Opex. The overall payout ratio of the target Variable Cash Compensation was 116.3 %.

Group Sales were just below its target. Sales grew strongly in EMEA and the Americas (excluding USA), while the performance in the USA and Asia Pacific remained behind target. In hearing instruments, the Group achieved solid organic growth supported by new product launches. The cochlear implants segment grew strongly on the back of high systems sales.

EBITA achievement was substantially on target. The effects of the minimal gap in sales versus target were largely offset by excellent pricing discipline and strict Opex control. The Group has organically achieved an improvement in EBITA margin. EPS was in line with EBITA development.

FCF was significantly higher than target. This was the result of a strong focus on cash conversion and working capital management.

Individual qualitative targets of the management were over achieved on average. This also takes into account the very successful integration of the AudioNova acquisition post-closing.

The ROCE target, which is relevant for the vesting of the long-term equity award plan (EEAP), was exceeded. Compared to the prior year the KPI increased. Since there is no provision for over-achievement in the EEAP, the vesting is capped at target.

In summary the variable compensation for the members of the Management Board represents an overall payout ratio of the target Variable Cash Compensation of 116.3 % and a 100 % average target achievement for the EEAP.

The highest total compensation for a Management Board member in the financial year was paid to the CEO, Lukas Braunschweiler. His fixed base salary was CHF 800,000, unchanged from the previous financial year, and the target VCC was CHF 500,000, unchanged from the previous financial year. The effective VCC payout for performance in the 2016/17 financial year amounted to CHF 590,845, whereas the maximum potential variable cash payout would have been CHF 1,000,000. In addition, an equity grant (EEAP) with a 2017 fair value of CHF 1,050,000, fringe benefits of CHF 48,700, employer's pension contributions of CHF 127,306, and employer's social security contribution (AHV / ALV) of CHF 125,058 are included in Lukas Braunschweiler's total compensation of CHF 2,741,778 (CHF 2,376,908 in the 2015/16 financial year). The increase compared to the previous year is caused by a higher VCC due to performance achievement and an increase in the EEAP grant value.

The following table shows the compensation of the CEO (highest compensation) and of the other members of the Management Board for the 2016/17 financial year (10 members) and for the 2015/16 financial year (13 members). The average variable cash payout to Management Board members incl. CEO for performance in the 2016/17 financial year was 116.3 %, whereas the respective average overall payout ratio was 97.3 % in the previous year. The total compensation of CHF 14.1 million for the 2016/17 financial year is below CHF 14.7 million for the previous year. The total compensation of CHF 14.1 million is the result of the reduction in total number of members of the Management Board from 13 to an average of 11 in the 2016/17 financial year, along with a higher VCC payout due to better Group, business, and individual objective achievements, and a modest increase in the EEAP grant value. The fixed base salaries remained unchanged.

The structure of total compensation of the members of the Management Board has not changed compared to the previous financial year. For the 2017/18 financial year only modest increases to the current levels of compensation are foreseen. As a basic principle such changes, if applicable, will be kept small and selective and always aligned to data from executive compensation surveys and published benchmarks from companies of similar size. That said, with the replacement of RSUs with PSUs the system of total compensation for the 2017/18 financial year will see a significant planned amendment to Sonova's long-term Executive Equity Award Plan (EEAP) for the members of the Management Board (see section 4.3 for more information).

No other compensation was paid for additional services beyond the total compensation disclosed in the tables below. No loans were granted by Sonova or any other Group company to present or former members of the Management Board in the 2016/17 financial year, and no such loans were outstanding as of March 31, 2017. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board.



in CHF

2016/17

	Fixed base salary	Variable salary <sup>1)</sup>	Fringe benefits	Employer's pension contribution	Employer's social security contribution <sup>2)</sup>	Total cash compensation	Value of RSUs <sup>3)</sup>	Value of options <sup>4)</sup>	Total compensation
Lukas Braunschweiler, CEO	800,000	590,845	48,700	127,306	125,058	1,691,909	393,630	656,239	2,741,778
Other members of the MB <sup>5)</sup>	3,477,041	2,139,261	321,574	700,532	696,223	7,334,631	2,006,858	2,007,385	11,348,874
<b>Total</b>	<b>4,277,041</b>	<b>2,730,106</b>	<b>370,274</b>	<b>827,838</b>	<b>821,281</b>	<b>9,026,540</b>	<b>2,400,488</b>	<b>2,663,624</b>	<b>14,090,652</b>

The compensation shown in the table above is gross and based on the accrual principle.

<sup>1)</sup> The variable salary will be paid out after the end of the financial year.

<sup>2)</sup> Including social security contributions (AHV / ALV) on the tax value of RSUs vested and options / warrants exercised during the financial year.

<sup>3)</sup> Fair value per RSU at grant date CHF 125.68.

<sup>4)</sup> Fair value per option at grant date CHF 16.99.

<sup>5)</sup> Including Jan Metzdorff for the full 2016 / 17 financial year as member of the Management Board as well as in his new role as President HI Wholesale US.

in CHF

2015/16

	Fixed base salary	Variable salary <sup>1)</sup>	Fringe benefits	Employer's pension contribution	Employer's social security contribution <sup>2)</sup>	Total cash compensation	Value of RSUs <sup>3)</sup>	Value of options <sup>4)</sup>	Total compensation
Lukas Braunschweiler, CEO	800,000	464,865	24,891	127,306	109,956	1,527,018	318,658	531,232	2,376,908
Other members of the MB	4,124,266	2,208,612	370,683	721,139	780,788	8,205,488	2,068,024	2,068,611	12,342,123
<b>Total</b>	<b>4,924,266</b>	<b>2,673,477</b>	<b>395,574</b>	<b>848,445</b>	<b>890,744</b>	<b>9,732,506</b>	<b>2,386,682</b>	<b>2,599,843</b>	<b>14,719,031</b>

The compensation shown in the table above is gross and based on the accrual principle.

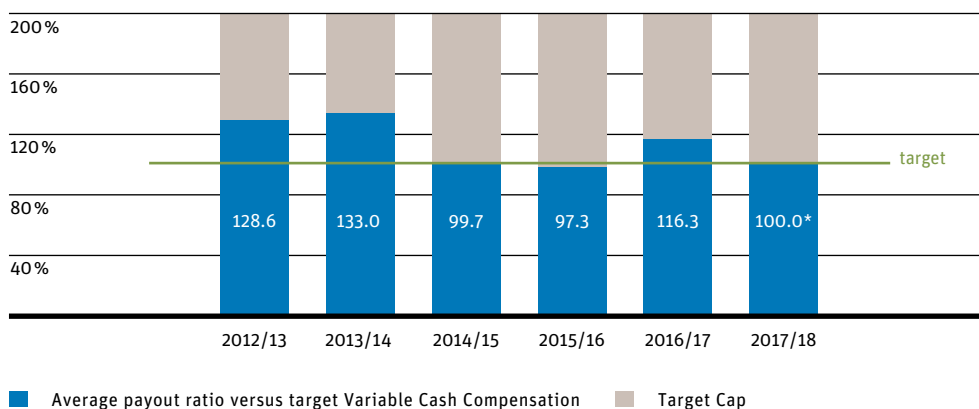
<sup>1)</sup> The variable salary will be paid out after the end of the financial year.

<sup>2)</sup> Including social security contributions on the tax value of RSUs vested and options / warrants exercised during the financial year.

<sup>3)</sup> Fair value per RSU at grant date CHF 120.43.

<sup>4)</sup> Fair value per option at grant date CHF 20.60.

### 5.2.1 Historical variable compensation for the members of the Management Board over the last five years



\* Payout ratio at 100% estimate for 2017/2018

The above chart illustrates that the design of the VCC is effective: in line with Sonova's ambitious target-setting, substantial progress needs to be made to reach the target (100 %).

### 5.2.2 Approved versus effective total compensation for the members of the Management Board

The approved total compensation budget for 2016 / 17 financial year was CHF 17.9 million and was planned for a Management Board of 13 members at that time. The effective amount was CHF 14.1 million in the 2016 / 17 financial year only. Due to the new management board organization, the number was reduced to an average of 11 members in the 2016 / 17 financial year.

in CHF 1'000	Approved for financial year 2016 / 17 <sup>1)</sup>	Effective for financial year 2016 / 17	Approved for financial year 2017 / 18 <sup>1)</sup>
AGM approval year	<b>2015</b>	<b>2017</b>	<b>2016</b>
Maximum amount of fixed salaries, including base salary, fringe benefits, employer's pension contributions and mandatory employer's social security contributions	7,400	6,447	6,542
Maximum amount of variable cash compensation	5,300	2,588	4,445
Maximum fair value at grant of options and RSU's to be granted under the EEAP	5,200	5,065	4,413
<b>Comparable total</b>	<b>17,900</b>	<b>14,100</b>	<b>15,400</b>
<b>Number of members of the Management Board (rounded), per end of financial year</b>	<b>13</b>	<b>10</b>	<b>10</b>

<sup>1)</sup> The shareholder approval for the compensation of the Management Board relates only to the maximum aggregate amount as shown in the "Comparable total" row. The subtotals shown for each compensation component are included for illustration purposes only.

## 6. Share ownership information

### 6.1 Shareholdings of members of the Board of Directors

The tables in this section are audited by the external auditor according to article 17 of the Ordinance.

The following tables show the shareholdings of the individual members of the Board of Directors and persons closely linked to them.

	31.03.2017			31.03.2016			
	Shares	Restricted Shares <sup>1) 2)</sup>	Options <sup>2)</sup>	Shares	Restricted Shares <sup>1) 2)</sup>	RSUs <sup>2)</sup>	Options <sup>2)</sup>
Robert F. Spoerry, Chairman	25,607	20,440		22,100	17,406		
Beat Hess, Vice-Chairman		8,130			6,617		
Stacy Enxing Seng, Member		4,692			3,179		
Michael Jacobi, Member	3,043	8,130	5,115	2,782	6,617	261	5,115
Anssi Vanjoki, Member	2,043	8,130	2,558	1,782	6,617	261	2,558
Ronald van der Vis, Member	522	8,130	5,115	2,261	6,617	261	5,115
Jinlong Wang, Member		6,297			4,784		
Lynn Dorsey Bleil, Member <sup>4)</sup>		1,513					
<b>Total (active members)</b>	<b>31,215</b>	<b>65,462</b>	<b>12,788</b>	<b>28,925</b>	<b>51,837</b>	<b>783</b>	<b>12,788</b>
John J. Zei, former member <sup>5)</sup>				1,282	6,617	261	1,279 <sup>3)</sup>
<b>Total (including former members)</b>	<b>31,215</b>	<b>65,462</b>	<b>12,788</b>	<b>30,207</b>	<b>58,454</b>	<b>1,044</b>	<b>14,067</b>

<sup>1)</sup> These shares are subject to a restriction period which varies from June 1, 2017 to June 1, 2022 depending on the grant date.

<sup>2)</sup> For further details see also Note 31 in the consolidated financial statements.

<sup>3)</sup> SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

<sup>4)</sup> New member of the Board of Directors since June 2016.

<sup>5)</sup> John J. Zei retired from the Board of Directors at the Annual General Shareholders' Meeting from June 14, 2016.

The holding requirements according to the share ownership guidelines of Sonova Holding AG are entirely fulfilled by all members of the Board of Directors.

The following table shows the detailed breakdown of the outstanding options of the members of the Board of Directors.

	31.3.2017	31.3.2016
	Options (incl. SARs) EEAP 12 <sup>1)</sup>	Options (incl. SARs) EEAP 12 <sup>1)</sup>
Michael Jacobi	5,115	5,115
Anssi Vanjoki	2,558	2,558
Ronald van der Vis	5,115	5,115
<b>Total (active members)</b>	<b>12,788</b>	<b>12,788</b>
John J. Zei <sup>3)</sup>		1,279 <sup>2)</sup>
<b>Total (including former member)</b>	<b>12,788</b>	<b>14,067</b>

EEAP 2017 and 2016, no options or warrants were granted – 100% restricted shares.

<sup>1)</sup> Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

<sup>2)</sup> SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

<sup>3)</sup> John J. Zei retired from the Board of Directors at the Annual General Shareholders' Meeting from June 14, 2016.

## 6.2 Shareholdings of members of the Management Board

The tables in this section are audited by the external auditor according to article 17 of the Ordinance.

The following tables show the shareholdings of individual members of the Management Board and persons closely linked to them.

	31.03.2017			31.3.2016		
	Shares <sup>1)</sup>	RSUs <sup>2)</sup>	Options <sup>2)</sup>	Shares <sup>1)</sup>	RSUs <sup>2)</sup>	Options <sup>2)</sup>
Lukas Braunschweiler	14,323	9,891	159,549	11,463	9,619	120,924
Claude Diversi	1,500	5,309	32,753	1,000	4,796	26,183
Hansjürg Emch	8,619	6,256	59,316	7,213	6,412	48,368
Hartwig Grevener	3,384	6,256	51,086	2,000	5,890	38,138
Martin Grieder	1,000	4,874	34,132		3,577	21,184
Sarah Kreienbühl	5,360	6,256	61,316	3,454	6,412	48,368
Hans Mehl	3,211	6,256	44,886	6,305	6,412	44,368
Franz Petermann	1,510	2,882	17,447	2,261	2,811	15,214
Andi Vonlanthen	13,336	6,256	60,037	11,495	6,347	47,089
Christophe Fond <sup>3)</sup>		1,790	13,243			
<b>Total (active members)</b>	<b>52,243</b>	<b>56,026</b>	<b>533,765</b>	<b>45,191</b>	<b>52,276</b>	<b>409,836</b>
Stefan Launer <sup>4)</sup>				3,117	3,013	22,892
Albert Chin-Hwee Lim <sup>4)</sup>				744	3,379	20,670
Paul Thompson <sup>4)</sup>				3,000	5,530	29,234
Jan Metzdorff <sup>5)</sup>				1,490	4,258	23,065
<b>Total (including former members)</b>	<b>52,243</b>	<b>56,026</b>	<b>533,765</b>	<b>53,542</b>	<b>68,456</b>	<b>505,697</b>

<sup>1)</sup> Shares are dividend entitled with full voting rights.

<sup>2)</sup> For further details see also Note 31 in the consolidated financial statements.

<sup>3)</sup> Member of the Management Board since January 23, 2017.

<sup>4)</sup> Member of the Management Board until March 31, 2016.

<sup>5)</sup> Member of the Management Board until August 31, 2016.

The holding requirements according to the share ownership guidelines of Sonova Holding AG are entirely fulfilled by all members of the Management Board.

The following table shows the holding requirements relative to the fixed base salary and the actual holdings.

	Base salary	Share requirements over 3 years	Actual shares <sup>1)</sup>	Fulfillment of share ownership guidelines	Share ownership ratio to base salary <sup>2)</sup>
	in CHF	in Units	in Units	in %	ratio
Lukas Braunschweiler, CEO	800,000	8,000	14,323	179	2.3
Other members of the MB <sup>3)</sup>	379,925	3,000	4,740	158	1.6

<sup>1)</sup> Excluding Christophe Fond (GVP Retail, joined the Management Board as of January 23, 2017).

<sup>2)</sup> Calculated with the EEAP 2017 grant price of CHF 130.00.

<sup>3)</sup> Average of other members of the Management Board excluding Christophe Fond (GVP Retail, joined the Management Board as of January 23, 2017).

The following table shows the detailed breakdown of the outstanding options of the members of the Management Board.

							31.03.2017
	Options EEAP 17 <sup>1)</sup>	Options EEAP 16 <sup>2)</sup>	Options EEAP 15 <sup>3)</sup>	Options EEAP 14 <sup>4)</sup>	Options EEAP 13 <sup>5)</sup>	Options EEAP 12 <sup>6)</sup>	Total options
Lukas Braunschweiler	38,625	25,788	27,173	21,719	20,669	25,575	159,549
Claude Diversi	12,507	10,315	5,754	3,066	1,111		32,753
Hansjürg Emch	12,948	10,315	10,869	8,687	8,267	8,230	59,316
Hartwig Grevenner	12,948	10,315	10,869	8,687	8,267		51,086
Martin Grieder	12,948	10,315	10,869				34,132
Sarah Kreienbühl	12,948	10,315	10,869	8,687	8,267	10,230	61,316
Hans Mehl	12,948	10,315	10,869	8,687	2,067		44,886
Franz Petermann	5,885	4,854	3,837	2,044	827		17,447
Andi Vonlanthen	12,948	10,315	10,869	8,687	8,267	8,951	60,037
Christophe Fond <sup>7)</sup>	13,243						13,243
<b>Total</b>	<b>147,948</b>	<b>102,847</b>	<b>101,978</b>	<b>70,264</b>	<b>57,742</b>	<b>52,986</b>	<b>533,765</b>

<sup>1)</sup> Exercise price CHF 130.00, vesting period 1.2.2017 – 1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018 – 31.1.2024.

<sup>2)</sup> Exercise price CHF 124.20, vesting period 1.2.2016 – 1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017 – 31.1.2023.

<sup>3)</sup> Exercise price CHF 121.10, vesting period 1.2.2015 – 1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016 – 31.1.2022.

<sup>4)</sup> Exercise price CHF 124.60, vesting period 1.2.2014 – 1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015 – 31.1.2021.

<sup>5)</sup> Exercise price CHF 109.10, vesting period 1.2.2013 – 1.6.2017 whereas one tranche being vested each year, exercise period 1.6.2014 – 31.1.2020.

<sup>6)</sup> Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

<sup>7)</sup> Member of the Management Board since January 23, 2017.



31.3.2016

	Options EEAP 16 <sup>1)</sup>	Options EEAP 15 <sup>2)</sup>	Options EEAP 14 <sup>3)</sup>	Options EEAP 13 <sup>4)</sup>	Options EEAP 12 <sup>5)</sup>	Total options
Lukas Braunschweiler	25,788	27,173	21,719	20,669	25,575	120,924
Claude Diversi	10,315	7,672	4,599	2,222	1,375	26,183
Hansjürg Emch	10,315	10,869	8,687	8,267	10,230	48,368
Hartwig Grevenner	10,315	10,869	8,687	8,267		38,138
Martin Grieder	10,315	10,869				21,184
Sarah Kreienbühl	10,315	10,869	8,687	8,267	10,230	48,368
Stefan Launer	4,854	5,115	4,088	3,720	5,115	22,892
Albert Chin-Hwee Lim	6,067	6,393	5,110	3,100		20,670
Hans Mehl	10,315	10,869	8,687	8,267	6,230	44,368
Jan Metzdorff	7,281	7,672	4,599	2,170	1,343	23,065
Franz Petermann	4,854	5,115	3,066	1,654	525	15,214
Paul Thompson	5,157	10,869	6,516	4,134	2,558	29,234
Andi Vonlanthen	10,315	10,869	8,687	8,267	8,951	47,089
<b>Total</b>	<b>126,206</b>	<b>135,223</b>	<b>93,132</b>	<b>79,004</b>	<b>72,132</b>	<b>505,697</b>

<sup>1)</sup> Exercise price CHF 124.20, vesting period 1.2.2016 – 1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017 – 31.1.2023.

<sup>2)</sup> Exercise price CHF 121.10, vesting period 1.2.2015 – 1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016 – 31.1.2022.

<sup>3)</sup> Exercise price CHF 124.60, vesting period 1.2.2014 – 1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015 – 31.1.2021.

<sup>4)</sup> Exercise price CHF 109.10, vesting period 1.2.2013 – 1.6.2017 whereas one tranche being vested each year, exercise period 1.6.2014 – 31.1.2020.

<sup>5)</sup> Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

## Glossary

<b>AGM</b>	Annual General Shareholders' Meeting
<b>AHV</b>	Old Age and Survivors' Insurance
<b>ALV</b>	Unemployment Insurance
<b>Articles of Association</b>	Articles of Association of Sonova Holding AG
<b>ASP</b>	Average sales price
<b>BoD</b>	Board of Directors
<b>CEO</b>	Chief Executive Officer
<b>CFO</b>	Chief Financial Officer
<b>CSR</b>	Corporate social responsibility
<b>EBITA</b>	Operating profit before acquisition-related amortization
<b>EEAP</b>	Employee Equity Award Plan
<b>EPS</b>	Earnings per share
<b>FCF</b>	Free cash flow
<b>GVP</b>	Group Vice President
<b>KPIs</b>	Key performance indicators'
<b>MB</b>	Management Board
<b>n.a.</b>	Not applicable
<b>NCC</b>	Nomination and Compensation Committee
<b>OPEX</b>	Operating expenses
<b>Ordinance</b>	Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies
<b>PSU</b>	Performance Share Unit
<b>ROCE</b>	Return on capital employed
<b>RSU</b>	Restricted Share Unit
<b>SLI</b>	Swiss Leaders Index
<b>rTSR</b>	relative Total Shareholder Return
<b>VCC</b>	Variable Cash Compensation

# Report of the statutory auditor on the compensation report



## **Report of the statutory auditor to the General Meeting of Sonova Holding AG**

### **Stäfa**

We have audited the remuneration report of Sonova Holding AG for the year ended 31 March 2017. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables on pages 65 to 75 excluding the following tables: 5.1.2, 5.2.1 and 5.2.2.

#### **Board of Directors' responsibility**

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Opinion**

In our opinion, the remuneration report of Sonova Holding AG for the year ended 31 March 2017 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'Sandra Boehm'.

Sandra Boehm  
Audit expert  
Auditor in charge  
Zurich, 9 May 2017

A handwritten signature in black ink, appearing to read 'Kai Mauden'.

Kai Mauden

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