

# 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:

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## 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.

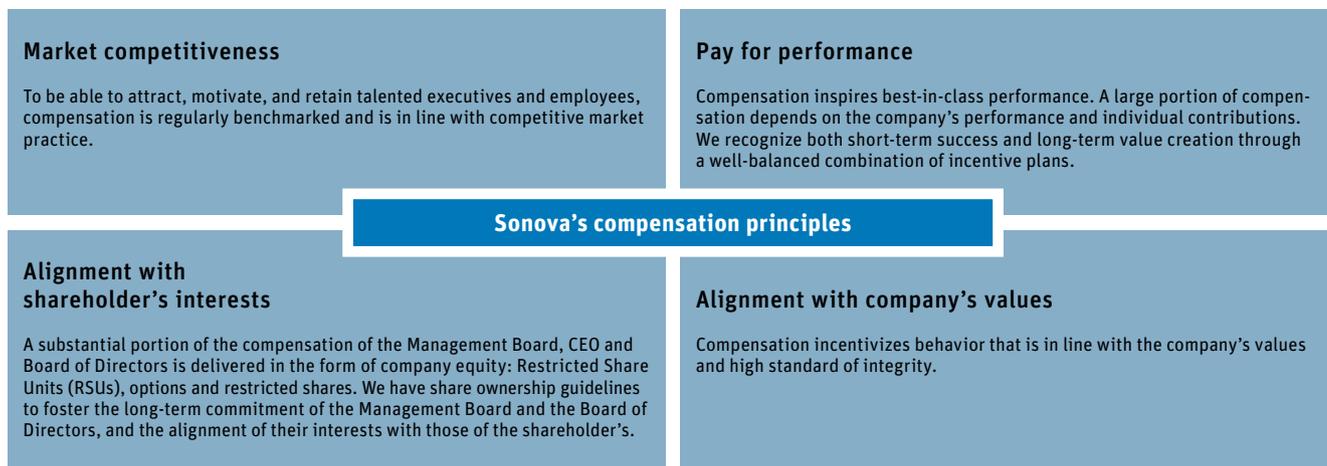
Yours sincerely,

A handwritten signature in black ink, appearing to read "R. Spoerry". The signature is written in a cursive, flowing 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
<b>Compensation policy &amp; process</b>		– 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
<b>Management Board (MB) matters</b>	– 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 *
<b>Board of Directors (BoD) matters</b>		– Review on Benchmarks	– Decision on Benchmarks	
<b>Governance</b>	– 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.

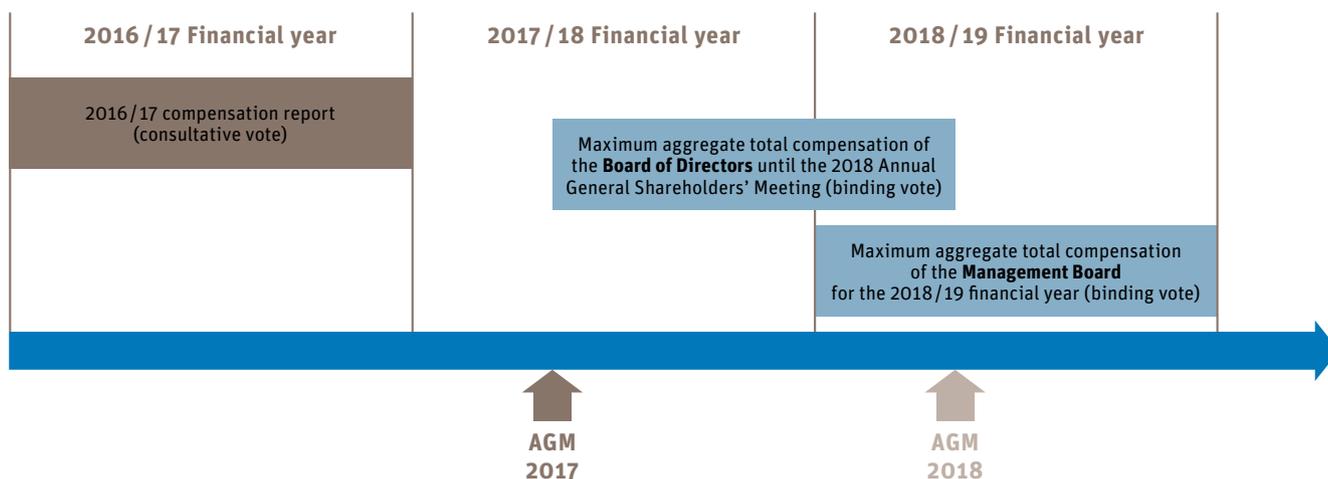
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors.

### 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)
<b>Group objectives</b>					
Sales	20 %	10 % – 20 %	0 %	100 %	200 %
EBITA		10 % – 20 %			
FCF	10 % – 20 %	10 % – 20 %			
EPS	30 % – 40 %				
<b>Business objectives*</b>					
Sales		20 % – 30 %	0 %	100 %	200 %
EBITA		20 %			
OPEX		10 % – 20 %			
ASP		10 %			
<b>Individual objectives</b>					
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 to 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
<b>Robert F. Spoerry</b> 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
<b>Beat Hess</b> 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
<b>Stacy Enxing Seng</b> Member of the Nomination and Compensation Committee	105,979	9,000	18,416	133,395	153,135	286,530
<b>Michael Jacobi</b> Chairman of the Audit Committee	125,000	9,000	20,104	154,104	153,135	307,239
<b>Anssi Vanjoki</b> Member of the Audit Committee	107,500	9,000	18,922	135,422	153,135	288,557
<b>Ronald van der Vis</b> Member of the Audit Committee	107,500	8,500	18,889	134,889	153,135	288,024
<b>Jinlong Wang</b>	100,000	7,000	18,281	125,281	153,135	278,416
<b>Lynn Dorsey Bleil<sup>4)</sup></b>	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>
<b>John J. Zei<sup>5)</sup></b>	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.

## COMPENSATION REPORT

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>
Andy Rihs <sup>4)</sup>	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.

## COMPENSATION REPORT

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.

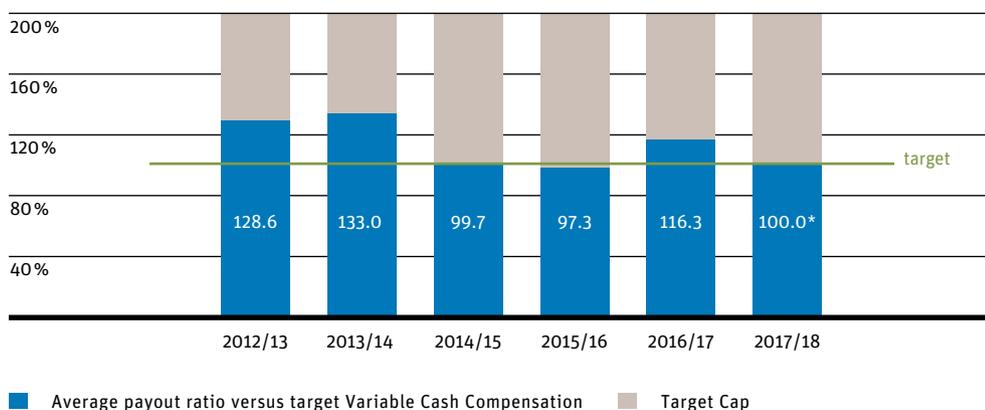
<sup>1)</sup> The variable salary will be paid out after the end of the financial year.

<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>1) 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.

	<b>31.03.2017</b>						
	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 Grevener	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', written over a light blue horizontal line.

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

A handwritten signature in black ink, appearing to read 'Kai Mauden', written over a light blue horizontal line.

Kai Mauden

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