



# Letter to shareholders

## Dear shareholders,

We are pleased to report that the Sonova Group has achieved another solid financial performance in the 2017/18 financial year, posting record sales and profits. The Group also reached a number of important milestones on the road to fulfilling its growth strategy through the continued launch of advanced new products, further expanding market access, and connecting consumers to Sonova through powerful eSolutions.

The launch the unique SWORD™ (Sonova Wireless One Radio Digital) Made For All wireless chip sets a new industry benchmark: it provides direct connectivity to almost any cell phone, enabling hands-free calling, connection with televisions and other consumer electronic devices, and laying the foundation for a range of eSolutions.

We have made significant progress with integrating AudioNova, acquired in 2016, into Sonova's retail business, accelerating the implementation of our vertically integrated business model. Additional details about this and other developments are available in the "Strategy and businesses" section of this report.

In a different sort of milestone, we initiated a carefully planned transition at the CEO level, about which there are more details below and in the following letter from the Chairman.

As in past years, we would like to tell you how we operate in one of our key markets. This year the [feature story](#) will focus on Switzerland and Austria and offers further insight on local implementation of our global corporate strategies.

### Hearing instruments segment

Sonova's hearing instruments business continued on its upward growth path, with a total sales increase of 9.0% in local currencies, reflecting positive contributions from both our hearing instruments and retail businesses. We maintained our rapid pace of innovation, introducing breakthrough products that set new standards for the industry.

The innovation highlight of 2017/18 was the launch of our new wireless chip, SWORD. This allows direct connectivity to virtually all cell phones currently in use, as well as to a broad range of other consumer electronic devices. Initially introduced in the Phonak Audéo™ B-Direct and subsequently available on the Unitron Moxi™ All, SWORD gives hearing aid wearers true hands-free telephone conversations with no need for a body-worn streaming device. In the future, SWORD will also open new ways for consumers to connect with the support and expertise of hearing care professionals.

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After its transformation toward a vertically integrated business model, Sonova is well positioned for the next phase of growth.

Lukas Braunschweiler

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I am impressed by Sonova's culture of innovation and see its strong potential to further improve hearing care solutions for consumers.

Arnd Kaldowski

Unitron's Moxi All combines SWORD functionality with rechargeability, offering the two most consumer-requested features in one product. Phonak, with the launch of the lithium-ion rechargeable Naída™ B-R power and Phonak Sky™ B-PR pediatric hearing aids, now provides professionals the flexibility to offer rechargeability across the industry's most comprehensive suite of advanced hearing solutions.

The retail business forms a key element in Sonova's vertically integrated business model and provides us with direct access to the consumer, offering valuable insights that also help to drive our technological innovation. Operating 3,500 stores in 18 countries, this network of dedicated highly-trained hearing care professionals delivering advanced audiological services achieved significant progress in 2017/18, with sales growth accelerating over the course of the year.

The major focus of the year was the integration of AudioNova, acquired in September 2016. We made considerable progress in coordinating our global retail activities, harmonizing IT systems, consolidating headquarters, establishing a one-brand-per-country policy, and completing the transition of the product portfolio to Sonova technology. Ongoing restructuring in the Netherlands and further necessary IT harmonization have contributed to higher than planned integration costs, but many countries were delivering ahead of expectations, including France, Belgium, the UK, Canada, and New Zealand.

We have taken active steps to improve performance in challenging markets. In the US, we are consolidating our footprint in the demographically most promising areas of the so-called "Sun Belt" and rolling out a hub-and-spoke model with regional excellence centers. We are taking a similar approach in the Netherlands, adapting our business model to recent regulatory changes.

### Cochlear implants segment

Sonova's cochlear implants business saw profitable sales growth of 8.6% in local currencies in 2017/18, with solid growth in new system sales and double-digit growth in upgrade sales. The synergies between Advanced Bionics and Phonak were further demonstrated by the launch of the Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for recipients who have a cochlear implant in one ear and no hearing in the other. The collaboration between Advanced Bionics and Phonak means that Sonova is uniquely able to address the full range of severe to complete hearing loss in either ear or both, for children and adults alike. In the second half of the year Advanced Bionics successfully introduced the HiFocus™ SlimJ electrode, featuring a slim, straight design welcomed by professionals for its ability to preserve residual hearing. We have continued to build partnerships with hearing care retailers (including our own retail business) and cochlear implant clinics to provide seamless service to the growing population of those whose increasing hearing loss requires a move from hearing aids to an implant.

### Financial highlights

Consolidated sales for the year reached CHF 2,646 million, up 10.4% in Swiss francs and 9.0% in local currencies. The rise was driven both by organic growth and by acquisitions, particularly the effect of the AudioNova acquisition for five months of the year. Excluding one-time costs related to the acquisition of AudioNova, normalized operating profit before acquisition-related amortization (EBITA) was CHF 551.6 million, a rise of 12.3% in local currencies. Basic earnings per share reached CHF 6.13, up 14.6%. The Group achieved a solid cash flow. Net debt is down from the previous year's level to CHF 228 million. The balance sheet remains strong and the equity ratio stands at 57.5%.

### Use of cash

Against a background of positive earnings development and continued strong cash generation, the Board of Directors proposes a dividend of CHF 2.60 per share, an increase of 13% and representing a normalized payout ratio of 41%. Excess cash will be used to further reduce net debt.

### Corporate social responsibility

Sonova's sustainability initiatives are an integral part of our corporate strategy. We are committed to creating sustainable value for all our stakeholders and to conducting our business in a responsible manner.

The Hear the World Foundation has been one of the main pillars of the Sonova Group's CSR engagement for over ten years. It has supported over 90 separate projects with a focus on helping disadvantaged children with hearing loss in developing countries. Sonova covers all the Foundation's administrative costs and provides hearing solutions and professional support free of charge.

Thanks to Sonova's continuous improvement in sustainability, the company remains in the internationally recognized Dow Jones Sustainability and FTSE4Good Global indices. As part of our commitment to transparency, we report in accordance with the Global Reporting Initiative's Sustainability Reporting Standards. You will find more about our activities in our [CSR Report](#).

### Leadership succession

In September 2017, Sonova announced that CEO Lukas Braunschweiler has decided to retire for age reasons after more than six years with the company. The Board of Directors appointed Arnd Kaldowski as his successor, taking on the CEO role on April 1, 2018. A proven and successful leader with a strong track record in the healthcare industry, Arnd Kaldowski initially joined the Group as COO on October 1, 2017. Technology and innovation, digitalization, and proximity to the consumer have been key elements throughout his career – a close fit with Sonova's strategic priorities.

To further support long-term leadership continuity and to secure the benefits of Lukas Braunschweiler's extensive industry insight, the Board of Directors will propose him for election as a member of the Board of Directors at the Annual General Shareholders' Meeting in June 2018.

### Our thanks

Sonova's journey is powered by continuous, customer-focused innovation. We reach significant milestones every year because our employees keep the future constantly in mind: it is their knowledge, their passion, and their drive that set new benchmarks for our industry, time after time. Added to these qualities are the insights we gain from our close collaboration with hearing care professionals, and most of all from our consumers, whose right to fully enjoy the delight of hearing motivates us every day. As in every year, it is the support of our shareholders and the dedication of our employees that give us a solid base for future achievements. We thank you all.

### In memory of Andy Rihs – Pioneer and visionary

Very special thanks are due to Andy Rihs, our long-time CEO and Chairman of the Board of Directors, who passed away on April 18, 2018. In Andy, we lost not just a very good friend and a visionary with an extraordinarily creative spirit but also a versatile and passionate entrepreneur, who, more than anyone else, shaped Sonova. For almost fifty years, he contributed with great energy and conviction to developing the Group into a successful market leader.

Remembering his contributions brings many milestones immediately to mind – all closely linked with Andy himself: the company's humble beginnings, followed by numerous innovations in hearing solutions, such as Claro, the first fully digital hearing aid, and the establishment of Phonak Communications. The 1980s saw our first foreign sales subsidiaries and in 1994 the company became listed on the Swiss stock exchange, raising money for further investments. The 1990s witnessed our first step into the retail business with our own specialist audiology stores, and soon after 2000 we started setting up production facilities in Asia. And almost ten years ago, the Group entered the cochlear implants business.

Andy created a working culture based on trust, where every employee is equally appreciated. His slogan, "ohni Lüt gaht nüt" ("nothing happens without people"), remains a motto for Sonova. Thanks to him, our culture is still characterized by openness, simplicity, strong innovative thinking, high engagement, and teamwork. We are sure that his spirit lives on.

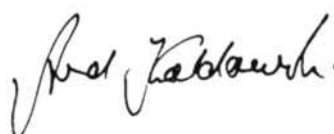
### Outlook 2018/19

The global hearing care market continues to grow and to demand ever more innovative and comprehensive solutions. Our vertically integrated business model means that we benefit both from the innovation power of each business and the unique advantages of their collaboration and shared market insight. Continuous customer-driven innovation, multiple channels to market, and a versatile eSolutions platform connecting Sonova directly to consumers provide the solid foundation for continued growth. We expect to increase consolidated sales in 2018/19 by 2%-4% in local currencies, while further expanding profitability.



**Robert Spoerry**  
Chairman of the  
Board of Directors

**Lukas Braunschweiler**  
Former CEO



**Arnd Kaldowski**  
New CEO

### Our thanks to Lukas Braunschweiler

On behalf of the Board of Directors, I would like to extend warm thanks to Lukas Braunschweiler, who is retiring as CEO after six and a half years' service. Under his leadership, the company has seen a substantial growth in sales and earnings, driven by a focused global growth strategy and sustained by a strong emphasis on innovative technology resulting in a broad portfolio of state-of-the-art solutions. Sonova has made great strides, not just in technology and vertical integration, but in the development of its global organization and leadership team; he leaves the Group in a strong position for future growth. Since Arnd Kaldowski joined the Group as COO, Lukas Braunschweiler has worked closely with him to ensure a smooth transition and to help him grow into his role as the new CEO.

I also want to thank Lukas Braunschweiler for his achievements, for his dedication to his task, and for the strong, consistent leadership that he has shown throughout his tenure. We wish him all the best for the future – and, if the Annual General Shareholders' Meeting elects him, we look forward to working with him in his new role as member of the Board of Directors. We know that we will benefit greatly from his deep knowledge both of the Sonova Group and of the hearing care industry.

A handwritten signature in black ink, appearing to read 'R. Spoerry', with a stylized, cursive script.

**Robert Spoerry**  
Chairman of the  
Board of Directors

# Our product and service offering

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

## Hearing Instruments Business

PHONAK

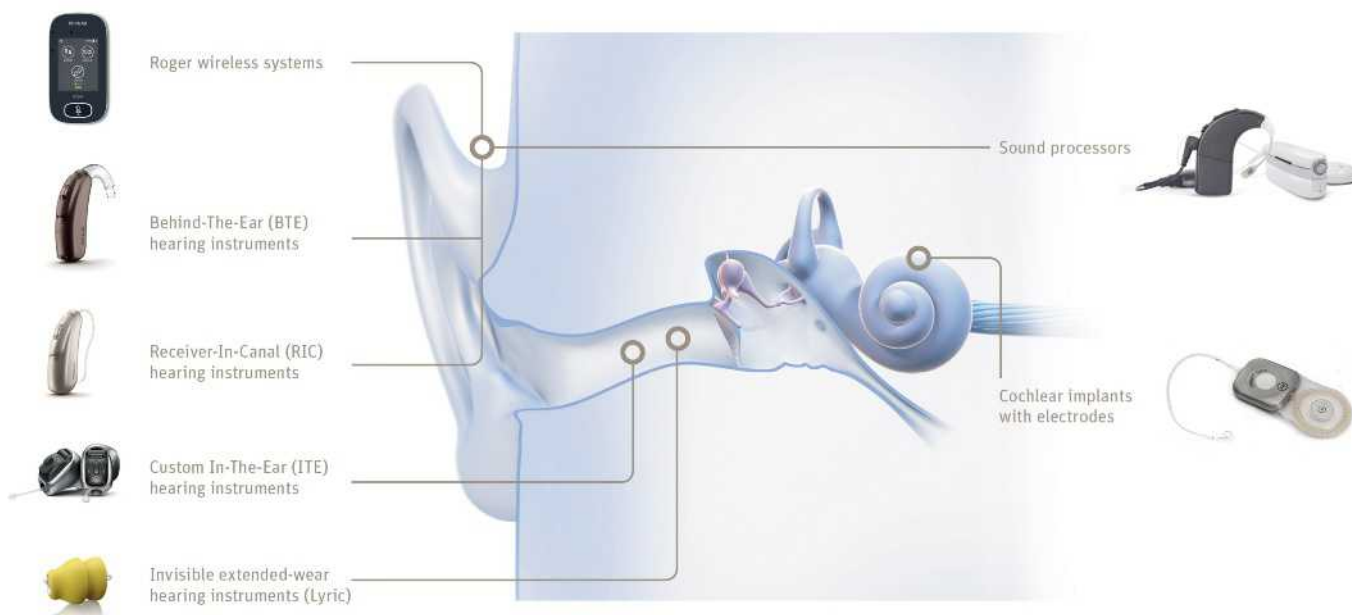
unitron

HANSATON

## Cochlear Implants Business



Advanced Bionics



## Retail business – Professional audiological services



## Phonak

### Audéo™ B-Direct

The Phonak Audéo B-Direct Receiver-In-Canal hearing aid offers direct connectivity to the vast majority of cell phones, which use the standard Bluetooth® classic protocol<sup>1</sup>. The first hearing aid to make use of Sonova's innovative SWORD™ chip and wireless radio technology, it delivers excellent sound quality thanks to AutoSense OS™, that adapts the hearing aid automatically to the listening situation. Audéo B-Direct simplifies the life of consumers by offering them the freedom of direct connectivity, truly hands-free calling, and excellent TV sound quality<sup>2</sup>.



- 1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions, Bluetooth® is a trademark owned by the Bluetooth SIG
- 2) Field Study News September 2017 at <http://www.phonakpro.com/evidence>

### Virto B-Titanium

The Virto B-Titanium is the smallest Phonak custom hearing aid. Combining the benefits of medical grade titanium with the latest 3D printing technology, results in a deep, comfortable fit and a super discreet, durable and light weight hearing aid.



## Unitron

### Moxi™ All

The Unitron Moxi™ All connects patients directly to conversations on virtually any mobile phone<sup>1</sup> without wearing a streamer, while also giving them the convenience of rechargeability. Driven by Tempus™, Moxi All has the binaural features that let patients actively participate in conversations, even in the most challenging environments. After powering up overnight, a rechargeable battery keeps them in the conversation all day, including on the phone or watching TV via the TV Connector. Furthermore, Moxi All offers the flexibility to swap to traditional batteries at any time.

- 1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions, Bluetooth® is a trademark owned by the Bluetooth SIG



## Hansaton

### sound SHD stream

The HANSATON sound SHD stream is a receiver-in-canal hearing system (RIC) with binaural features for a more natural hearing experience. Safe hands-free phone calls, for example in the car or while cooking, are possible for all operating systems, in short MFA ("Made For All"), for various manufacturers of Bluetooth® capable<sup>1</sup> telephones. The wearers are offered an all-rounder hearing system that ideally meets the needs and demands of the digital communication age.

1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions, Bluetooth® is a trademark owned by the Bluetooth SIG



## Advanced Bionics

### HiFocus™ SlimJ electrode

The HiFocus™ SlimJ electrode is the latest approved electrode technology, designed for ease of handling and insertion. It is offered as a straight electrode with a gentle curvature, designed to be easily and smoothly inserted by freehand technique or with forceps. The SlimJ electrode has been designed to have balanced stiffness and flexibility to offer smooth insertion and protect cochlear structures, allowing for the best possible hearing outcomes in patients.



### Naída CROS

If a person hear with a cochlear implant in one ear but does not have any hearing in the other ear, they can use a Phonak Naída™ Link CROS a small wireless audio transmitter that sends sounds from that side to their Naída CI so that they can enjoy hearing their best in quiet and noise from both sides without having to reposition themselves.







# Strategy and businesses

At Sonova, we envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Our vision is broad, because our market is broad. We want to enable *everyone* to enjoy the delight of hearing – so we provide a comprehensive range of solutions that addresses every form of hearing loss: hearing aids, cochlear implants, wireless communication products, and professional audiological care. We want to reach every consumer – so we operate through a full spectrum of sales channels: independent healthcare professionals, large retail chains, government agencies, clinics, and our own retail network. We want to continue to meet the needs of an evolving global consumer population – so we integrate our businesses, using the insights we gain from direct consumer contact to drive our continuous innovation cycle. We know that the experience of hearing loss is different for every individual – so we aim to combine the technological expertise and operational efficiency of a global group with the passion for good service of a local caregiver.

We have gained our leading industry position through customer-focused innovation, not just in our products and solutions, but in how we engage and support the people we serve, both hearing care professionals and consumers. We maintain a high level of investment in R&D and in evolving our business, because we have seen how rapid innovation drives financial performance.

The Sonova Group operates through three core businesses: hearing instruments, retail, and cochlear implants, each individually addressing its segment of the hearing care market while sharing research & development, technology, consumer access, operational processes, and ideas.

**Hearing instruments business:** We are the world's leading manufacturer and developer of hearing instruments, regularly introducing new capabilities and making them available across a broad range of product formats and sales channels. We operate under three distinct brands, each with its specific appeal to the market. Phonak is recognized as the industry's innovation leader, pioneering life-changing technology advances. Unitron supports hearing care professionals in building their businesses through excellent consumer experiences. Hansaton is a trusted brand in key European markets, with a clear focus on independent audiologists.

**Retail business:** The consumer stands at the center of everything we do. Operating in selected key markets worldwide through several established local brands, the retail business complements Sonova's innovative technology with world class audiological service and expertise in an accessible, welcoming environment. The aim is to ensure that every consumer has affordable access to the right individual solution at every stage of the hearing journey.

**Cochlear implants business:** Our Advanced Bionics brand enables people with significant or complete hearing loss to hear clear, lifelike sound through a cochlear implant. These sophisticated systems incorporate the latest developments in Phonak sound processing technology. Once primarily recommended for children born with severe to profound hearing loss, cochlear implant systems are now increasingly used for adults as a supplement or alternative when hearing aids are no longer sufficient to correct the recipient's hearing loss.

Each of our businesses contributes to the three key areas of activity that make up Sonova's growth strategy: creating market-expanding innovations in products and services; deepening our engagement with consumers and professional partners by opening new routes to market; and introducing powerful, easy-to-use eSolutions that take advantage of the digital universe to connect us ever more closely with our markets.

## Key areas of activity

### New products and services

Sonova anticipates consumer needs through a process of continuous innovation based on technology platforms: step-changes in basic functionality that enable a whole new range of features and possibilities. This year, the key new enabling technology is SWORD, a unique wireless chip that runs multiple communication protocols, allowing hearing instruments to connect directly to any cell phone<sup>1</sup> and to other consumer electronic devices, including televisions, as well as supporting ear-to-ear communication. The immediate benefit is that hearing aid wearers can enjoy phone conversations without needing an extra body-worn streaming device. But that is only the beginning: the universal plug and play connectivity offered by SWORD enables a whole range of new features across the spectrum of Sonova products and services: new ways to enjoy listening, new ways to control and enhance functionality, new ways to connect with the support and expertise of hearing care professionals – all made possible by a tiny chip.

In all our innovation we keep in mind our consumers' first, critical questions: does this make a real difference to my hearing experience? Does it look and feel good? And is it easy to use? Everything we bring to market is designed to meet each of these requirements.

1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions, Bluetooth® is a trademark owned by the Bluetooth SIG

## Market access

Sonova has grown through constantly expanding its engagement with consumers. We maintain the widest global distribution and partner network in the industry, supported by Sonova-owned wholesale companies, independent distributors, and our own retail network in selected markets. This broad and deep reach, covering over 100 countries around the world, gives us a unique opportunity to understand changing consumer needs in detail and to continue to grow as markets evolve.

We recognize and welcome the diversity of the hearing care market; we foster growth, not by restricting ourselves to one or two paths to market, but by optimizing all our channels to the consumer. We expand our existing customer base through continuous innovation, presented through our distinct brands.

We help our professional partners expand their businesses and further improve the service they offer. We work to ensure access to affordable hearing solutions for all who need them. And we continue to integrate our businesses, so that the consumer insights and expertise we gain in one area are quickly applied in all the others.

## eSolutions

We live in a digital age, where even grandparents are familiar with smartphones, tablets, blogs, forums, and social media feeds. The idea of remotely controlling devices, seeking support, and providing feedback is an emerging trend; some of the technology and models for providing these interactions already exist. The challenge now is to make certain that they really do what they promise: that they retain all the rich responsiveness of a face-to-face encounter while adding the convenience and precision that the latest technology makes possible.

At Sonova, we are constantly seeking ways to increase our engagement with consumers; the eSolutions platform is an efficient and versatile enabling toolbox to support and connect with the people we serve at every stage of their hearing journey, from initial awareness of hearing loss to getting the best performance from their current hearing solution.

Whether they are younger or older, use hearing aids or cochlear implants, are customers of our professional partners or of our own retail business – we want to provide a consumer experience that conveys the delight of hearing, while we gain new insights about how our people use our solutions.



# Scaling the heights of innovation

Sonova's track record of hearing innovation in Switzerland goes back more than 70 years, and the Group has also enjoyed decades of business success in Austria. We take a look at two countries that are world leaders in pioneering hearing care.

"If you want to be good, you've got to start young," says the legendary Swiss national hero in Schiller's famous play *Wilhelm Tell* – and the pursuit of progress and excellence expressed in this truism certainly has a long tradition in both Switzerland and Austria. These two alpine countries enjoy a close relationship and are among the global leaders in innovative hearing care. Customers in these markets value high standards of service and technological development – Sonova's strongest suits.

Both countries' hearing aid markets have seen steady expansion over the last five years, with Switzerland averaging double-digit growth and Austria's most recent figures pointing to single-digit growth.

Up to a million people in Switzerland have an acute or chronic hearing condition, but only a third of those affected by hearing loss wear a hearing aid. Some 70,000 hearing instruments are sold in Switzerland every year; while there are no official figures for Austria, it has been estimated that about 80,000 devices were purchased in 2017. In Austria, some 1.6 million people – about a fifth of the population – are classified as affected by hearing loss. Depending on the degree of the customer's hearing loss, hearing aid purchases are subsidized by health insurance providers, with a minimum entitlement of EUR 750 per ear. Customers in Switzerland are entitled to receive a contribution from their old-age, survivors or disability insurance, although any such claim must be assessed and authorized by an ear, nose and throat physician.

## Switzerland & Austria Facts & figures:

### Area:

Switzerland: 41,285 km<sup>2</sup>

Austria: 83,879 km<sup>2</sup>

### Population:

Switzerland: 8.48 million (2017)

Austria: 8.82 million (2018)

### GDP:

#### Switzerland:

CHF 659 billion (2016)

Growth: +1.0% (2017)

Per capita: CHF 78,700 (2016)

#### Austria:

EUR 369 billion (2017)

Growth: +2.9% (2017)

Per capita: EUR 37,826 (2017)



The number of senior citizens living in both countries has been rising constantly and the proportion of residents aged over 65 is set to increase by more than 30% by 2025; by 2035, it will have risen by more than 50%. This means there will be 400,000 more pensioners over the next ten years. In Austria, the number of over-65s is even expected to increase by more than 40% by 2030. About a third of this cohort is likely to be affected by hearing loss of some kind, so the need for hearing solutions will rise significantly in both countries. These demographic changes suggest a potential 15,000 new customers annually in Switzerland alone.

Given this backdrop – and the fact that many affected by hearing loss are still relatively uninformed about the whole topic of hearing aids – Sonova’s strategy focuses on raising awareness and encouraging people to seek professional support as soon as possible rather than waiting up to seven years (the current average). If a hearing instrument is fitted too late, a decline in cognitive capacity sets in and the hearing ability that is lost over this time has to be laboriously reacquired through training.

The supply infrastructure in both Austria and Switzerland is extremely well-developed, with some three quarters of the Austrian market covered by large audiology networks and the remainder being served by independent hearing care professionals. Switzerland has a similarly large proportion of service and retail networks supplying half the market. The remaining providers are individual stores run by independent audiologists, some of whom belong to buying groups. Sonova is committed to close partnerships with hearing care professionals in both countries. In addition, the Group is well represented in Austria through its own network of specialist audiology stores.

“We’ve tailored our global service, support and sales presence to local needs and circumstances; this has been an important factor in our success,” explains Arnd Kaldowski, who leads Sonova’s worldwide operations as CEO since April 1, 2018. “Our customers in Austria and Switzerland really appreciate how we are continuously refining our technologies and can provide the best possible solution for every kind of hearing loss thanks to our innovative range of products.” Sonova is thus extremely well positioned in both countries and leads the market with firmly established brands.

Sonova is headquartered in Switzerland. The company’s airy head office on the eastern shores of Lake Zurich is inspired by the campus model. Arnd Kaldowski explains the thinking behind the design: “Innovation flourishes where corporate culture makes room for creativity.” The architecture, with its broad expanses of glass and light, reflects this approach; an elegant stairwell shaped like a cochlea links the floors to form a single open-plan office, ensuring a dynamic atmosphere that leaves plenty of space for fresh ideas.





More than 1,000 employees work at the Stäfa site, and global research and development is managed from here. It is also the site of one of Sonova's manufacturing and technology centers, where strategically important core components for hearing solutions are produced and finished. The two other sites in Switzerland are the head offices of the Group's global retail business in Steinhausen and Phonak Communications AG for wireless communication systems in Murten. In Austria, Sonova has clustered its hearing solution expertise in two locations: Sonova Österreich GmbH, the local wholesale company, is based in Linz, while the headquarters of Sonova's retail business (along with its local brand, Hansaton) is in Wals, near Salzburg.

Both at its global headquarters, and in its Group companies, Sonova is successfully implementing its strategy of achieving synergies and cost efficiencies through close cooperation between its individual brands. These streamlining efforts range from purchasing, logistics, and IT collaborations to accounting, controlling, and HR projects.

Sonova has been a byword for exceptional innovation, research, and manufacturing in the field of hearing solutions since its foundation in Switzerland in 1947. The company unites highly qualified, talented individuals and strong brands and has one of the widest ranges of pioneering products and services in the sector.

2018 marked Joe Itin's 38th year at Sonova's headquarters in Stäfa, making him one of the company's longest-serving employees. Now 63, he has witnessed much of the rapid development the firm has undergone. Itin began his career in hearing aid development before becoming Director of the Corporate Quality Management department. "When I started, there were 80 employees in total and it still felt very informal – like a large family," he recalls. "Nowadays, you no longer know everyone, but the corporate culture is still unusually open." Itin has made enduring friendships within the company and enjoys spending his spare time with his colleagues – on a work outing to the annual "Phonak Velotag" cycling event, for example. Like many of his colleagues, he is extremely appreciative of the wide range of sports on offer at headquarters. Sonova has run a preventive healthcare program for many years. Sports and exercise, yoga and relaxation, a healthy, balanced diet and regular medical check-ups ensure a healthy work environment and high levels of staff satisfaction. "One thing has remained constant in all the years I've worked here: people at Sonova put their heart and soul into their work," says Joe Itin.

Numerous audiologists in Switzerland have also enjoyed close ties with Sonova and its Phonak brand over many years. One of these is Christoph Schwob from Basel, who has run his specialist audiology store *Hörberatung Basel* for more than 30 years. 54-year-old Schwob has been working with the Phonak brand for his entire professional career. “Phonak and I are a good fit,” he says. Schwob specialized early in pediatric audiology. Phonak has decades of experience in this field and offers countless pioneering and easy-to-use products that have been specially designed for the hearing needs of children.

Phonak’s hearing instruments are very popular on the Swiss and Austrian markets, where the company launched a range of innovative technologies and solutions in August 2017. The rechargeable Audéo™ B-R hearing aid, the Phonak Virto™ B-Titanium In-The-Ear with its titanium shell, and the Audéo™ B-Direct hearing instrument, which allows the wearer to connect directly to most Bluetooth-enabled cellphones without the need for an extra body-worn streaming device, have proved especially popular. The Phonak Audéo™ B-Direct hearing aid is the first device to feature the newly developed Made For All 2.4 GHz wireless chip, making truly hands-free calling possible. The new device also simplifies wearers’ lives with its superb TV sound quality. The TV connector, the new plug-and-play solution, easily connects and delivers TV audio streaming to multiple Audéo™ B-Direct wearers simultaneously. This essentially turns a person’s hearing aids into wireless TV headphones.

Future generations of hearing aids with an even greater range of wireless functions will also be able to make use of this revolutionary chip technology, which is known as SWORD™ (Sonova Wireless One Radio Digital). The market potential is considerable: “We’ve had a lot of positive feedback from our customers that suggests they really appreciate the direct connectivity offered by our solution,” says Luca Mastroberardino, Sonova’s Managing Director for Switzerland. “The Audéo B-Direct hearing aid is only the beginning.”

Sonova’s Unitron hearing aid brand is well positioned in both alpine countries, too. The flexibility and adaptability offered by its Flex:trial™ technology, a feature allowing audiologists to upload the software for the required technology level themselves, is in high demand and proving extremely popular; many customers are keen to test devices before purchase. Unitron’s excellent product design has also boosted sales in both markets. The Moxi Now™ hearing aid received the top prize for product design from the internationally esteemed Red Dot organization in April 2017.

Sonova’s Advanced Bionics brand likewise enjoys a strong market position and is well represented in leading cochlear implant clinics. “Advanced Bionics cooperates closely with a wide range of clinics, including the University Hospital Zurich and University Hospital Salzburg, on joint research studies,” explains Hansjürg Emch, Group Vice President Cochlear Implants. Zurich’s Prof. Dr. Alexander Huber, the head of the Cochlear Implant Center, and Dr. Dorothe Veraguth, the physician responsible for audiology, have taken a leading role in testing new approaches and methodologies in the field of cochlear implantation; the techniques they are researching include new acoustic pre-processing strategies and a method of measuring a patient’s usable residual hearing in real time during electrode insertion. These innovations are currently possible only with technologies developed by Advanced Bionics and Phonak.

Phonak’s Naída™ Link hearing aids and the Phonak Naída™ Link CROS, which was introduced in 2017, were specially developed for Advanced Bionics. They ensure that users who have a cochlear implant on one ear always have a suitable hearing solution for the other, as both of these Phonak devices can communicate directly with the Advanced Bionics sound processor. Even users who opted for an Advanced Bionics cochlear implant more than 15 years ago can now make unrestricted use of this advanced technology. Thanks to the partnership between Advanced Bionics and Hansaton<sup>1</sup>, Sonova’s local retail brand, customers in Austria can also seek advice about cochlear implants in the latter’s specialist audiology stores, ensuring that people with hearing loss receive comprehensive care.

Sonova aims to further expand its retail business, not least in Austria. This will be accomplished via Hansaton, its local brand and part of Sonova's international retail network, which has been thriving in Austria for more than five decades. As one of the leading suppliers of hearing solutions, Hansaton currently operates more than 95 specialist audiology stores across the country. Hansaton's business is supported by successful marketing campaigns designed to engage with new target demographics on the Austrian market. "We're determined to achieve further growth in Austria with Hansaton, and our strategy here will involve opening additional specialist stores and expanding the range of advice and services offered by our hearing care professionals – which is already one of the best in the country," explains Hansaton's Managing Director Ursula Rumplmayr. The key element here is hands-on training of employees; Hansaton has enjoyed consistent success over several years by recruiting people looking for a career change and training them as audiologists under the adult education system in Austria.



Jason Brügger's story movingly illustrates just how important Sonova's hearing solutions can be for people affected by hearing loss: suspended high in the air beneath the blue big top of the Swiss National Circus Knie, the young aerialist swoops like an angel with long white-feathered wings. The audience watches with bated breath – it is this act, in which Brügger recounts the ancient tale of Icarus, that won him the fourth season of the casting show "Switzerland's Got Talent" in 2016. The tour with Circus Knie came a year later, at the age of 24, fulfilling a life-long dream. As a young boy in Basel Brügger had appeared in a children's circus, and he travelled to Canada at the age of 18, straight after graduating from high school, to undergo further training at the acclaimed National Circus School in Montreal. But then came a severe infection of his right inner ear, accompanied by hearing loss, tinnitus, and bouts of vertigo; the same condition spread to his left ear soon after. "The doctors advised me against becoming a circus artist as I had real difficulties with my balance," he recalls.



The hearing aids from Sonova brand Phonak that he has been wearing since 2015 helped him to achieve his dream, however. “I’ll never forget the moment I first put on my hearing aids – a whole world opened up to me again, and I became part of it once more.” Way up high, close to the top of the circus tent, the laws of gravity seem not to apply to him. “I can hear the music and the crowd now.” The young artist goes on to explain that he had previously missed all of that and had felt like he was in a pot with the lid on.

Jason Brügger is proud of his acrobatic achievements: “I certainly hope that I can encourage other people to believe in themselves with my story. Even if you’ve been told something is beyond you for whatever reason, you should believe in yourself anyway, and fight for your dreams – there’s always a way to achieve what you want to do.”

- 1) Sonova operates its local retail business under several market-specific brands, including Hansaton in Austria, which joined the Group in 2001. It should not be confused with the hearing aid brand of the same name, headquartered in Germany, which has been part of Sonova since 2015.



Strategy and businesses

# Hearing instruments business

As the world's leading provider of hearing instruments, we offer customer-focused innovation that delivers ever better hearing to millions of people around the world.

Sonova's vision of a world in which everyone enjoys the delight of hearing is brought alive through the distinct and complementary strategies of each of our hearing instrument brands.

**Phonak** is the industry's technology innovation leader, delivering the broadest portfolio of life changing hearing solutions. It is a brand that breaks boundaries, consistently launching breakthrough technology and establishing new industry standards and benchmarks with pioneering hearing and wireless communication solutions.

**Unitron** works closely with hearing care professionals to delight all consumers by delivering the most individualized hearing experience in the market. Its Flex™ ecosystem of technologies, services, and programs is designed to make the process of buying and using a hearing aid easy, personal, and empowering.

**Hansaton** focuses on a selected group of independent audiologists, in particular in Germany and France. It builds trusted, collaborative relationships with its customers and offers bespoke and exclusive solutions that support optimal hearing for consumers.

Every consumer is individual, and the structure of the hearing care market reflects the diversity of consumers' needs and lifestyles. There is no single best path to reach them. Our three compelling and distinct brands give us the breadth to offer optimal solutions through multiple channels, from independent audiologists and large store networks, through government healthcare institutions, to Sonova's own retail business.

At the same time, we rapidly share technical innovation, operational best practice, and new ways of engaging consumers across our business. Whether in products, paths to market, or eSolutions, our goal is to offer consumers the innovation and efficiency of an industry leader, with the individuality and comforting experience of personal service.

## Key areas of activity

### New products and services

We believe that innovation should enrich and simplify consumers' lives, with each technological step-change opening up new possibilities through powerful and easy-to-use hearing solutions. In the past year, all three of our brands have introduced new standard-setting advances that reflect this philosophy.

With the launch of the Audéo™ B-Direct Receiver-In-Canal hearing aid, Phonak set a new benchmark: a hearing aid offering direct connectivity to the vast majority of cell phones, which use the standard Bluetooth® classic protocol<sup>1</sup>. Until now, direct cell phone connectivity was restricted to hearing aid users whose phones use the Apple® iOS™ operating system – less than 20% of today's smartphone market<sup>2</sup>, even though a vast majority of people today own Android™ smartphones or older feature phones. Now, thanks to Sonova's unique SWORD™ Made For All wireless technology, virtually all hearing aid users –irrespective of what type of phone they own – have the potential to enjoy true hands-free calling, as well direct TV streaming with excellent sound quality. The SWORD chip opens up the potential for new services and solutions: for radio, music, video calls, and audiobooks; for virtual assistants; for remote support and adjustment; for accessible, personalized service, available whenever needed. SWORD bridges the final few meters between the ear and the digital world.

Phonak has announced the extension of its latest-generation Belong platform with the Phonak Naída™ B power and Phonak Sky™ B pediatric hearing aids. The addition of the rechargeable Naída B-R, Sky B-PR, and CROS B-R (a solution for single-sided deafness) gives professionals the flexibility to offer the industry's most comprehensive rechargeable suite of hearing solutions, ensuring the best possible care.

Unitron continued to build on its very successful Tempus platform with the launch of Moxi™ All, the first and only rechargeable hearing aid with direct connectivity to any Bluetooth® phone. Reflecting Unitron's core philosophy of putting consumer needs first, Moxi All is the only hearing aid on the market to offer both of the most asked-for ease-of-use benefits in a hearing aid: the freedom from having to change batteries and the ability to enjoy phone conversations without a body-worn streamer.

This year, Hansaton launched its new SphereHD™ technology platform, including rechargeable options. Thanks to high speed detection, precise automatic program selection, and innovative speech and localization features, SphereHD helps wearers experience their acoustic environments as naturally as possible.

- 1) with Bluetooth® 4.2 wireless technology and most older Bluetooth phones.
- 2) Bamiduro, W., & van der Meulen, R. (2018, March 13). Gartner Says Worldwide Sales of Smartphones Recorded First Ever Decline During the Fourth Quarter of 2017 [Press Release]. Retrieved from <https://www.gartner.com/newsroom/id/3859963>

## Market access

Sonova's hearing instruments business holds a leading position in the world's key markets. We have broad geographic coverage: our own wholesale companies serve over 30 countries, representing over 90% of the global hearing care market, and our distributors bring the total to over 100 countries. Our multi-channel, multi-brand strategy covers the full spectrum of a diverse market, opening innovative paths to the consumer. The objective is to increase Sonova's market share by implementing the best targeted approach for each market.

Sonova enjoys a leading position in the independent audiologist market. We help independents to best serve consumers by offering the broadest range of solutions, including specialty solutions such as pediatric, severe to profound, and custom products. We also support independents to secure their market position by providing marketing support and value-added services.

Multinational chains have been outpacing market growth in recent years, representing the fastest-growing segment in the market. Sonova has built a solid partnership with key players like Costco and Amplifon through its own brands as well as through bespoke private-label solutions, such as Costco's recently launched Brio 3 product.

Large retail chains have a high degree of captivity, due to the expansion of manufacturers into the retail business. We have built selective relationships with large retail accounts, and aim to further expand our position in this segment by developing partnerships with new entrants, such as large optical chains. Furthermore, we protect and strengthen our market position in key countries by expanding our own retail business.

Globally, we hold a leading position in the government healthcare agency market. Sonova has reached around 40% market share in the key US Veterans Administration channel thanks to its exceptional service and product offering, such as rechargeable hearing aids. We have also established a solid standing with the UK's NHS, the world's largest buyer of hearing aids. Sonova continues to enhance its position in the government channel, especially in China, which promises the biggest potential in the Asian market.

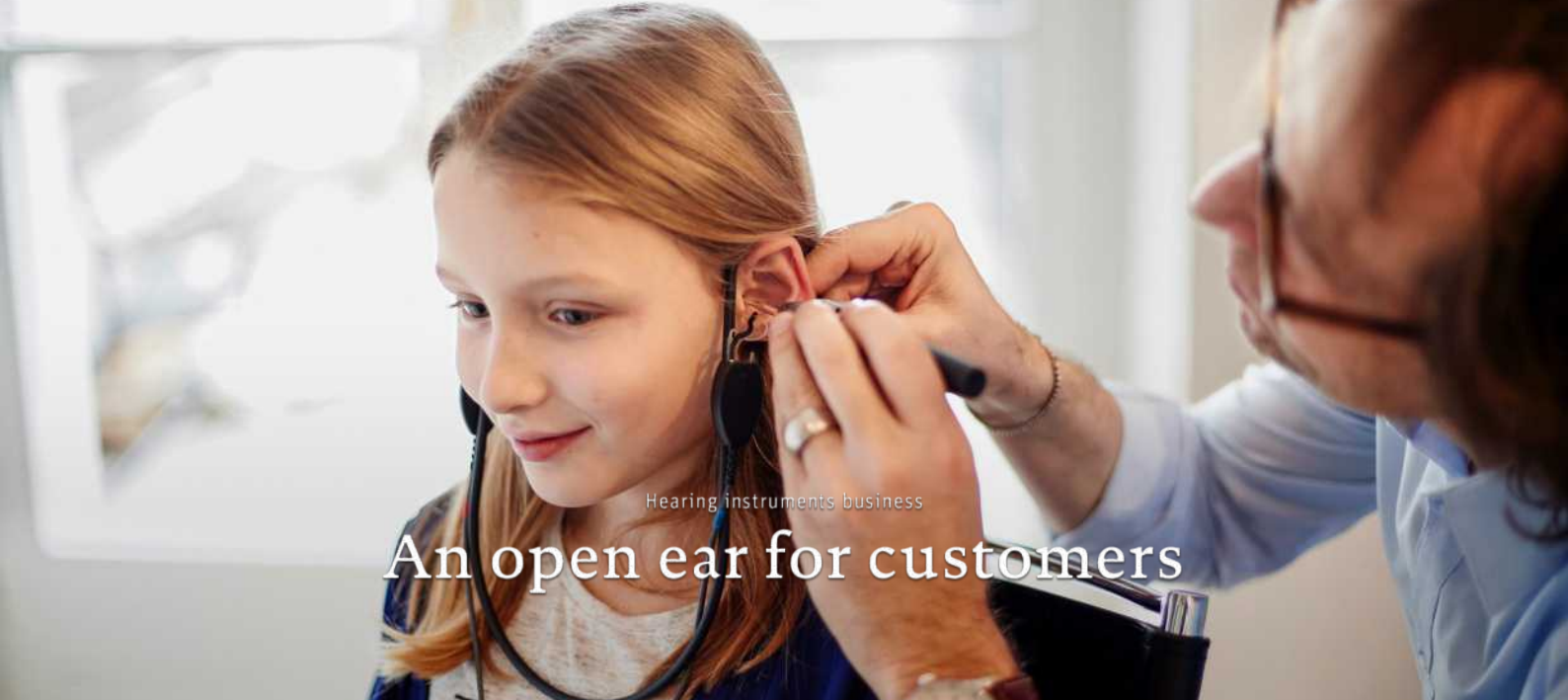
## eSolutions

Sonova's eSolutions platform will increasingly help hearing care professionals deliver enhanced screening, coaching, monitoring, adjusting, and aftercare solutions. It is part of a growing range of digital health technologies designed to fulfill emerging consumer needs and create opportunities for hearing care professionals and manufacturers alike. We believe that offering an exceptional and seamless end-to-end experience, as eSolutions do, is increasingly responsible for success.

During this year, Phonak has been conducting a pilot study on remote real time hearing aid adjustment with the US Department of Veterans Affairs. Veterans have a high incidence of hearing loss and are often also housebound, so this is a consumer base for whom remote consultation and adjustment is very important. The trial includes the new Audéo B-Direct, connecting directly to the Phonak eAssistance app, which then links via the internet with Phonak's Target fitting software at the audiologist's workplace, enhanced by video and chat functions. There has been strong interest in this solution

from retailers, and we plan to launch in the near future a full commercial version for independent hearing care professionals and for larger retail formats, including Sonova's own retail business.

Unitron's unique Flex ecosystem includes the powerful capability to analyze hearing situations remotely through its Log It All function, which it combines with real time consumer insights collected via the user-friendly app, My Ratings. The combination gives consumers a strong, clear voice, sharing how they feel about their hearing aid performance right at the moment they are feeling it. And it gives hearing care professionals a wonderful opportunity to deepen engagement with consumers by providing a clear view of their in-the-moment perceptions of their hearing experience, backed by detailed data about their listening environment. The goal is better, more personalized hearing aid performance and richer, more detailed insight into consumers' lifestyles and needs – insight which can help drive the next cycle of innovation.



Hearing instruments business

## An open ear for customers

Christoph Schwob has been running *Hörberatung Basel*, his specialist audiology store, for more than 30 years. In the meantime his two sons have also joined the family business. Sonova brand Phonak has been with them from the very beginning.

A large, red, plastic ear is mounted on the wall outside a store in Basel's Old Town. Attached to the ear is a set of headphones that passers-by can put on. To run a basic hearing test, all you have to do is press a little red button. "A lot of people don't even know our name," jokes Christoph Schwob. "To many of our customers, we're just the ones with the red ear on their door." Schwob is an audiologist and managing director of *Hörberatung Basel*.

He opened his specialist hearing aid store here in the Old Town more than 30 years ago. He loves his profession because it allows him to combine his passion for technology with the "people" work. "The nicest thing for me is when I can help customers who, because of their hearing loss, are able to engage with speech, music, and communication in only a limited way," he says. The real pleasure, he adds, is discovering precisely what is required for his customers to hear better again and thus regain their quality of life. "There's a story behind everyone," says Schwob, "and my job is to pinpoint where someone has problems with their hearing in their daily life."

Schwob is also passionate about the Sonova brand Phonak, which has been a part of his career since his training more than 30 years ago. Phonak has been developing hearing solutions for more than 70 years and has decades of experience in supplying and fitting devices for children.

Schwob specialized in supporting children with hearing loss at an early stage. Most of the little ones affected are born with hearing loss and Schwob's youngest customers are no more than two or three months old. "Fitting babies and infants with the right hearing aid is a real challenge and a responsibility – children like that can't stand up for themselves or tell us exactly what they need," he explains. As an audiologist, he will be there for them throughout their lives. "I always find it inspiring to see how the children learn to communicate and can go to school with the help of our hearing solutions."



Six-year-old Flurina is a case in point. She is affected by inverted hearing loss, that is to say, she hears “darker” sounds (like a “U”, for example) poorly, but can make out “brighter” sounds such as sibilants very well. This is rather unusual, according to Schwob; it was thus only possible to diagnose Flurina’s hearing loss when she was three years old. She has worn hearing aids ever since, and has to call into the store with the red plastic ear on the door for a check-up every six months. Flurina finds having to wear hearing aids at such an early age completely normal and patiently sits facing Schwob during the hearing test, lifting her right index finger whenever she hears a signal beep in her headphones.

Next, Schwob plays her a video with images of a kindergarten, transforming his practice into a nursery school with the aid of the loud soundscape of children playing and making noise that emanates from the speakers. “Is that OK for you?” he asks Flurina. “Yes, that’s fine,” she answers, incisively. And now there are cars and trucks driving across the monitor, like the five o’clock rush hour at an intersection.

Finally, Schwob checks Flurina’s Roger wireless receiver, which helps her hear her teachers better (they wear a discreet wireless microphone, which transmits their voices to the receiver in Flurina’s hearing aids). This allows Flurina to hear her teachers directly without any distracting background noise. This Roger technology is just one of the many pioneering and easy-to-use hearing solutions in Phonak’s portfolio that have been specially designed to meet children’s needs.

“Phonak and I are a good fit,” says Schwob. “I remember the brand from the days when their business in Switzerland was just a small family firm,” he explains. *Hörberatung Basel* can itself now look back on decades of tradition and the next generation is on board; his two sons Nicolas and Joshua have both worked for the family firm for years. The *pater familias* is of course delighted: “They both simply felt my passion. For me as a father, it’s obviously wonderful to see my sons taking an interest in what I’ve built up,” says Schwob.



*The Schwob family in Basel has been working with Phonak for decades*

Three Schwobs working together at close quarters is a winning combination. “As we all have our own customers to look after, we don’t see one another that often in the store,” explains Joshua Schwob. He is mostly concerned with the digital side of things, where hearing aids interface with smartphones and apps. His elder brother Nicolas is mainly in charge of their many house calls – a lot of Christoph Schwob’s customers have grown old with him over the more than 30 years he has been running *Hörberatung Basel*, so old in fact that the trip into Basel’s Old Town has become too much of a challenge for some. And what condition is the boss’ own hearing in? “Well, it’s slowly going downhill, especially when I’m in places where there are a lot of people talking at the same time,” he says with a grin. On such occasions, Christoph Schwob takes his Phonak hearing aids with him to compensate for his own hearing loss. “It always brings home to me just how helpful modern hearing aids are.”





## Retail business

With excellent technology, services, and expertise, we support consumers at every stage of their hearing journey.

The retail business is an integral part of Sonova's consumer focused strategy and vertically integrated business model. Operating through a range of well-established local brands, the business comprises a global retail platform of 3,500 stores in 18 countries, with over 6,000 employees. Retail complements the emphasis on innovation and quality of hearing experience in Sonova's other businesses with a passionate dedication to service: providing world class audiological care and expertise in an accessible, welcoming environment.

Regaining the delight of hearing is a uniquely personal journey, different for every person. Our deep commitment to operational excellence represents a promise to find the best way to support each individual at every stage of that journey. Our training, solutions, systems, procedures – even the design of our stores – are all focused on the consumer's practical and emotional needs.

After a period of rapid expansion and integration, the retail business is now firmly founded on three pillars: affordability, services, and expertise. Affordability means maximum access to hearing solutions for the maximum number of people: Sonova's unmatched breadth of hearing solutions and knowledge gives us the unique ability to serve every hearing need. Services allow us to offer a seamless, supportive experience, from first contact to after-sales care, tailored to the consumer's individual profile. Expertise ensures that the solutions and services we offer are relevant and appropriate – and that they sound good, look good, and are easy to use.

The global reach of the retail business and the vertical integration of our business model put Sonova in a uniquely advantageous position. Not only can we offer consumers in selected major markets the full spectrum of hearing solutions, efficiently and expertly, but we have the direct contact with consumer experience to help inform and direct each new innovation cycle. In every encounter, we are listening to our market and deepening our understanding.

## Key areas of activity

### New products and services

The past year has seen significant progress in our retail business. After Sonova completed the acquisition of AudioNova in September 2016, we began the transition of all product lines in the combined retail group to Sonova technology; this process has now largely been completed.

At the same time, consumers are benefiting from the integration and connectivity of Sonova solutions, including cochlear implants as well as hearing aids. Collaboration between our retail businesses and Advanced Bionics makes it possible to identify potential adult candidates for a cochlear implant through in-store audiological screening, followed by reference to an audiological Excellence Center for further testing and, when appropriate, an implantation clinic. Given the growing need for cochlear implants or combined implant and hearing aid solutions among adults with severe to profound hearing loss, it is an important advantage for those providing front-line audiological care to be able to offer information, screening, and support to potential implant candidates.

The Excellence Centers in our retail business in Austria are one example of a concept that we are extending across our markets, beginning in Germany and the Netherlands: expertise clusters. These are state-of-the-art centers where consumers with highly specific or complex needs (or who seek the most innovative solutions) can encounter the full range of Sonova solutions – hearing aids, cochlear implants, wireless communication products – supported by the most advanced equipment, testing, and expertise. Our Schoonenberg network in the Netherlands operates nine of these centers – and in 2017, we acquired ISMA GmbH & Co. KG in Germany, which offers a premium hearing aid fitting process including auditory training to help activate the processing of hearing signals in the brain. Such training helps to secure the greatest benefit from hearing technology, because while the ears may sense sounds, it is the brain that actually hears them.

A similar expertise cluster strategy stands behind our decision to rationalize our operations in the US, creating full-service “hubs” in key markets, where consumers have access to the complete range of Sonova solutions (including such specialized areas as pediatric solutions and Roger wireless communications). These regional hubs will be surrounded by smaller “satellite” offices providing day-to-day services and referrals to the hubs. This concentration of more advanced services should allow us to maintain growth in our US business with fewer physical locations.

### Market access

Close integration and operational excellence give us the freedom to pursue our growth strategy in selected markets, including new store openings and acquisitions, organic sales increases through increased footfall, closer relationships to medical clinics, partnerships with local communities of potential users, and fostering the careers of talented audiologists. In France, for example, where the number of stores increased by 15 over the last 12 months to reach more than 200 in total, we have developed ambitious growth plans, and we see further potential in Italy and Canada.

Over the past year, we have continued to implement the integration of previously acquired retail businesses to ensure uniform and efficient delivery of excellent consumer service. In each of our markets, we are integrating retail back office functions and harmonizing IT systems for all local brands. In Germany, for example, our local brand head offices will be combined in 2018/19 into one facility in Dortmund. Generally, we aim to reduce to one brand-name for each major market. We also consolidated the headquarters for our retail operations in Switzerland where we share key corporate functions with other businesses.

### eSolutions

The journey to better hearing depends on making connections: between the hearing care professional and the consumer, between the technology and its user – and between people, in conversation and in shared enjoyment of life. Across its businesses, Sonova actively seeks the greatest possible connectivity, opening paths to ever better innovation, ease of use, and natural hearing experience. In the retail business, one focus of connectivity is the eSolutions platform: an integrated suite of internet-based tools that streamline and enrich every stage of the consumer experience, from initial awareness of hearing loss through assessment, counseling, trialing technology, to long-term living with a hearing solution.

As these tools are perfected, we put them to use in selected markets to gain consumer feedback and experience. In New Zealand, we began this journey with hearing-test kiosks in pharmacies; at Boots in the UK, our eScreener app has conducted more than 90,000 screenings, with a 97% positive ease-of-use rating. Our eAssessment app, which conducts a pre-visit questionnaire, has an 80% rate of conversion<sup>1</sup>.

In the coming year, this drive for connectivity will be accelerated through the technologies made possible by the SWORD 2.4GHz wireless chip, with its “Made For All” Bluetooth® communications protocol. From screening, through adaptation, adjustment, assistance, and aftercare, our aim is to give consumers all the control, connection, and support they expect from meeting their hearing care professional – but at the time and place of their choice.

1) Source: Sonova user satisfaction surveys, 2015–2017



## A training with a future

A key factor in Hansaton's sustainable growth in Austria has been its hands-on training of employees for its own specialist audiology stores. The company focuses on people looking for a career change – a win-win for jobseekers, people with hearing loss, and Sonova.

Eva-Maria Gahr never ceases to be amazed every time she cleans a hearing aid: "It's so impressive how much technology they pack into these little devices." A petite 43-year-old with a short, black hair-do, she hails from Tamsweg, a town not far from Salzburg. Having begun her training as a hearing care professional with Hansaton in September 2017, she is still a newcomer to audiology. Gahr had previously spent more than ten years working in the insurance and banking industry. "I wanted to switch profession," she says. She was ultimately persuaded to retrain as an audiologist because she liked the prospect of learning a trade and providing a service, as well making a concrete improvement to her customers' quality of life. "After a one-week taster course at a Hansaton audiology store, I knew it was for me."

Gahr has never regretted her choice of new profession and already began working at the local Hansaton specialist audiology store in her home town during her training. "I really enjoy working with older people in particular," she enthuses. "You get so much back – gratitude, especially – when customers gain a new lease on life thanks to a hearing aid." 40-year-old Elisabeth Straganz, a qualified accountant from East Tyrol, has had very similar experiences. Once her four children had flown the nest, she was looking for a new challenge. "It's a pleasure to give people something that will improve their lives. The nicest thing for me is when a customer is happy because he or she can once again hear the birds singing, for example."



Eva-Maria Gahr while fitting a customer with a hearing aid

As in other countries, there is a serious lack of hearing care professionals in Austria, and people starting second careers, such as Eva-Maria Gahr and Elisabeth Straganz with their life experience and practical skills from other professions, are ideal candidates for Hansaton. “We need properly qualified audiologists who ideally could start tomorrow, as demand is very high,” explains Michael Mugrauer, Head of Human Resources at Hansaton. Gahr and Straganz – and their 27 fellow trainees – will have finished their course in 18 months.

For years now, Hansaton has favored adult education as a way of recruiting specialist staff. The practical component of the training takes place in Hansaton specialist audiological stores; this is complemented with in-house courses in Salzburg and theoretical teaching at external educational institutions in Vienna or Innsbruck, where the final examinations are also taken.

It is certainly a big plus that this adult education option provides Hansaton with access to qualified staff with life experience; a further advantage of the system for the company is that the cost is largely subsidized by the Austrian employment ministry’s labor market service, as employment prospects in audiology are excellent once the training has been completed.

Hansaton’s training program has been expanded over several years, and as of January 2018, there are 27 men and women training to become audiologists. These will be joined by cohorts of 20 trainees in spring and fall respectively of this year. “We want our successful growth to continue, and for that to happen, we’ll need these newly trained specialists. Our focus is squarely on the new employees’ life experience and hands-on training – these will provide a solid foundation for successful customer interaction,” says Ursula Rumplmayr, Hansaton’s Managing Director. The company currently operates more than 95 specialist audiology stores in Austria and this total is set to increase, thanks to the training program. Every trainee who passes the exam stands a very good chance of being taken on directly by Hansaton.

One such trainee is 33-year-old Ethem Kambureloglu, who completed the program in 2014 and now works as an audiologist in a Hansaton store in Salzburg. Having gained a degree in biology, he had previously worked as a lab assistant at Salzburg University. “But that didn’t have enough variety for me over the long term,” he says with a chuckle. “I missed day-to-day interaction with people. I was looking for a job where I could have direct human contact and where my biology skills would come in handy.” As an audiologist, he has a future-proof qualification: global demand for hearing care experts is growing constantly – due to demographics, and to the simple fact that people are living longer, and older people hear less well.

Eva-Maria Gahr, for one, is glad to have picked “a career with a future”. She is doing the practical part of her training at the Hansaton store in her home town of Tamsweg, near Salzburg, and will be able to stay on there as an audiologist after she has finished. “Then I’ll finally be back on home turf,” she says with a broad smile.





Strategy and businesses

## Cochlear implants business

Advanced Bionics combines the best in implantable technology and sound processing to bring the delight of hearing to people with the most severe hearing loss.

Advanced Bionics is a global leader in cochlear implant systems. Cochlear implants allow people with significant or complete hearing loss to hear the world around them; however, unlike hearing aids, which only amplify sound, cochlear implants stimulate the hearing nerve directly with electric signals, bypassing the damaged part of the ear.

Our business is represented in over 50 countries worldwide, where we work closely with surgical clinics, hearing care professionals, and research institutions. We significantly invest in research and development, not only to maintain our leading position in state-of-the-art technology and reliable products, but to build services to support recipients around the world on their journey to better hearing.

Advanced Bionics was acquired by Sonova in 2009; soon after, we began a close R&D collaboration with Phonak, linking the most innovative cochlear implant and hearing instrument technologies to offer our recipients unique product solutions. Our cochlear implants accurately transform an acoustic signal into precise electrical stimuli to the hearing nerve. Thanks to our collaboration, Advanced Bionics products also optimize the acoustic signal itself, helped by Phonak's deep expertise in software that analyzes the listening environment, recognizes challenging situations, isolates the voice or sound that is most important, and sends it to either or both ears – all to deliver a more natural hearing experience.

## Key areas of activity

### New products and services

Cochlear implants are seeing an accelerating rise in use globally. Once considered primarily as a pediatric solution for children born with significant or complete hearing loss, they are now being recommended for the growing number of adults whose hearing has deteriorated to the point where a hearing aid alone is no longer effective. These adult customers present the hearing care professional with a wide variety of hearing challenges, from significant hearing loss in one ear and complete loss in the other to complete hearing loss in both ears. Advanced Bionics is unique in being able to provide a complete spectrum of solutions for each of these scenarios.

In 2017, Advanced Bionics added the Naída™ CROS to its range of versatile, powerful sound processors based on Phonak's Binaural VoiceStream Technology™. The Naída CROS is a small wireless audio transmitter that picks up signals presented to the non-implanted ear and instantaneously sends them to the cochlear implant system on the implanted ear, giving recipients with a single cochlear implant the ability to enjoy hearing from both sides. For example, in the case of someone with complete hearing loss in both ears, the obvious solution might be two cochlear implants, but this is not always possible, either for medical reasons or because of insurance or government reimbursement rules. Advanced Bionics has therefore provided a solution where there were once no or few options for the consumer.

Advances in sound processors are being matched by improvements in electrodes, the part of the implant system that stimulates the hearing nerve. This year, Advanced Bionics introduced the HiFocus™ SlimJ Electrode, built on the proven HiFocus platform. Developed in cooperation with leading surgeons from around the world, the new HiFocus SlimJ electrode features a thin, straight design for easy insertion through the "round window" of the cochlea. Many cochlear implant recipients still retain some hearing, and the HiFocus SlimJ electrode is designed specifically to protect the delicate structures of the cochlea during insertion, thus preserving residual hearing. The response from the surgical community has been excellent, with praise for its ease of insertion and assuring correct positioning, as well as its ability to preserve cochlear structures.

### Market access

Advanced Bionics has built a strong market position among the thousands of clinics worldwide that perform cochlear implant surgery. We have achieved this through advanced implant technology and innovative sound processing, but also through building strong collaborations with the medical staff, researchers, and institutions who constantly move our frontiers forward. We have created a team of clinical specialists who can engage surgeons and audiologists, not in "sales talk," but in evidence-based dialog, demonstrating what our solutions can offer through hard data and peer-reviewed conclusions.

We are keenly aware of how our market is transforming, as the "baby boomer" generation approaches an age when hearing may deteriorate beyond the point that a hearing aid alone can correct. Many of these adults – around two million – already use a Naída or other Phonak high-power hearing aid. They are familiar with how the sophisticated programs in these advanced processors can help to deliver a natural hearing experience, how easy they are to use, and how they link wirelessly with other



technology such as telephones, televisions, and remote microphones. Advanced Bionics is therefore in a uniquely advantageous position: we can offer the full spectrum of solutions to these potential recipients, using the advanced sound processing technology with which they are already familiar. We have therefore established a Partner Program in several countries around the world that link hearing care retailers and cochlear implant clinics to manage the transition for potential consumers from their familiar hearing aids to the new experience of an implant.

Our partnership with hearing care providers extends to Sonova's own retail business, whose commitment to providing all consumers with accessible solutions for every type of hearing loss, backed by world-class services and expertise, makes it an ideal partner for referring potential recipients and supporting them at every state of their hearing journey. We have established collaborations with the Sonova retail businesses in Austria, Germany, and the US.

### eSolutions

Receiving a cochlear implant is a life-transforming moment. For many recipients, it is the first time they have ever heard. The experience can be overwhelming: a whole new world of sound to understand and navigate. This is why we have always put great emphasis on direct contact and support for recipients and their families, provided through such resources as RehAB, BabyBeats™, The Listening Room™, and HearingJourney™, our online community, now ten years old and 34,000 members strong.

We are constantly seeking new ways to engage and share with our recipients, to empower them to discover, judge, choose, and get the most from the hearing solutions we offer. We are expanding our suite of app-based listening training for recipients of every age, to help them to make sense of newly-heard speech and sounds. We are developing tools and services that will make use of Sonova's eSolutions platform, giving recipients more control over their devices and access to remote real-time expert support.

The universal wireless connectivity made possible by Sonova's SWORD chip technology will open up even more possibilities beyond its ability to link effortlessly with phones and other consumer electronics. For example, by simplifying and automating processes and providing critical market insights, it offers reliable communication and instant access to vital information, reduces overhead for our medical partners, raises awareness and sales of improved solutions, and reduces cost of services.



Cochlear implants business

## Partnerships for comprehensive hearing care

Thanks to the partnership between Sonova brands Advanced Bionics and Hansaton, customers can also seek advice about cochlear implants in Hansaton's specialist audiology stores. This offering ensures that Sonova can provide comprehensive care for people with hearing loss.

Franz Hoffmann has been using a cochlear implant in his left ear for about a year. "I feel like I've been reborn," says the sprightly 66-year-old in Hansaton's specialist audiology store in downtown Salzburg. Hoffmann lost his hearing almost completely as an infant, before he could learn to speak, and this naturally affected his speech development. He was only fitted with hearing aids at age 20. It was not until he started using the cochlear implant, however, that he began to make significant progress with his pronunciation. He received additional help with language training from a speech therapist. "He speaks much more clearly using the cochlear implant," confirms Bianca Permenschlager, a Hansaton audiologist.

Over time, Hoffmann's hearing in his left ear had deteriorated so badly that he had reached the technical limitations of hearing aids to compensate. At this point, Permenschlager suggested he consider a cochlear implant.

Advanced Bionics' cochlear implant technology helps people with profound hearing loss; unlike hearing aids, which amplify sounds, cochlear implants bridge the damaged portion of the inner ear and make use of electrical stimulation to enable the recipient to hear. With its highly developed system (consisting of an implant and a sound processor), the cochlear implant is the only technology capable of functionally restoring one of the five human senses. Hoffmann was fitted with the implant in a short surgical procedure.

Regular check-ups for his Naída™ CI sound processor will continue to be carried out as usual by Hansaton. In his right ear, Hoffmann wears a Phonak Naída hearing aid that has been specially developed for use with an Advanced Bionics cochlear implant system. As both devices use the same technological platform, they communicate optimally with one another.

To ensure the best possible care for cochlear implant users at Hansaton, the audiologists in the company's stores work closely with experts at Advanced Bionics. This allows customers to continue being served by a person they know and trust and who has been looking after them for years.

Advanced Bionics works in close cooperation with established ear, nose and throat physicians and leading cochlear implant clinics – so when a Hansaton audiologist decides that a hearing aid is no longer sufficient to compensate for hearing loss (as was the case for Franz Hoffmann), the customer is advised to consult an ENT specialist, who will decide whether a cochlear implant is the right course of action.

“Almost 10% of hearing aid users have profound hearing loss and could benefit from a cochlear implant. There is a real need to inform those affected,” explains Ingrid Hauer, Advanced Bionics’ Country Manager for Austria. To meet this need, Advanced Bionics and Hansaton have teamed up with clinics such as University Hospital Salzburg to organize information events at which potential candidates can find out about the pros and cons of a cochlear implant. Franz Hoffmann attends such events as a “mentor” to recount his experiences with a cochlear implant system. He too sought information from a cochlear implant recipient before his procedure. “It was very important for me at the time. That’s why I’m keen to pass on my personal experiences to other people in similar situations,” he says.

At just such an information event 57-year-old Josef Klaushofer finds himself asking Franz Hoffmann whether – and how – a cochlear implant might help him. The hearing loss in the retired banker’s left ear is now so severe that his hearing aid is due to be replaced with a cochlear implant. The final decision will be taken by Prof. Dr. Gerd Rasp, with whom Mr. Klaushofer has an appointment for a further consultation after the information event. He heads up the ENT department at University Hospital Salzburg and his duties include carrying out the cochlear implant surgery. Klaushofer’s situation seems clear-cut; he is going to need an implant. “It’s not a major procedure,” explains Professor Rasp. “Having your tonsils out is far more dangerous and has a greater impact on the body.” He goes on to describe how the procedure is nonetheless an “intensive process”, as it may take between six months and two years, depending on the patient, for the brain to adapt to a cochlear implant. “But getting used to a hearing aid takes a lot of time as well,” he continues. He is enthusiastic about working with Advanced Bionics and Hansaton: “This combination is opening up real opportunities for people with profound hearing loss.”



Business report

# 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 monitor the latest changes to the 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 2017/18 financial year, putting particular emphasis on integrating our acquired businesses into our compliance culture, designing new global compliance training, and updating our antibribery policy. 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, 2018. All relevant documents can be accessed at the corporate governance section of the Sonova website: [www.sonova.com/en/commitments/corporategovernance](http://www.sonova.com/en/commitments/corporategovernance). For clarity and transparency, the compensation report is presented as a separate chapter of the 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, 2018:

	2018	2017	2016
Market capitalization in CHF million	9,917	9,087	8,182
In % of equity	401%	426%	429%
Share price in CHF	151.80	138.90	122.80

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, 2018, can be found in [Note 34](#) to the consolidated financial statements

## Shareholders

### Registered shareholders

As of March 31, 2018, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2018	Registered shareholders 31.3.2017
1 – 100	7,387	6,361
101 – 1,000	9,729	9,918
1,001 – 10,000	1,277	1,369
10,001 – 100,000	214	218
100,001 – 1,000,000	35	29
> 1,000,000	6	7
<b>Total registered shareholders</b>	<b>18,648</b>	<b>17,902</b>

## Significant shareholders

The following overview shows the registered shareholdings of significant shareholders as of March 31, 2018. Nominees are registered without voting rights. Significant shareholders may also hold non-registered shares which are reported under "Not registered":

	2018	2018	2017	2017
	No. of shares	In %	No. of shares	In %
Beda Diethelm <sup>1)</sup>	6,657,509	10.19	6,656,009	10.17
Chase Nominees Ltd. <sup>2)</sup>	5,610,620	8.59	5,586,951	8.54
Hans-Ueli Rihs <sup>1)</sup>	3,733,000	5.71	3,819,000	5.84
Nortrust Nominees Ltd. <sup>2)</sup>	2,878,139	4.41	3,030,549	4.63
Andy Rihs <sup>1)</sup>	2,009,979	3.08	2,064,979	3.16
Registered shareholders with less than 3% of shares	23,475,488	35.93	23,170,979	35.42
Not registered	20,966,152	32.09	21,094,420	32.24
<b>Total shares</b>	<b>65,330,887</b>	<b>100.00</b>	<b>65,422,887</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 among 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 shareholdings below 3% in the financial year (FY) 2017/18, 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 2017/18 except for article 3: The share capital as stipulated by the previous version of article 3 was reduced according to the resolution of the 2017 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, 2018, the ordinary share capital of Sonova Holding AG was CHF 3,266,544.35 fully paid up and divided into 65,330,887 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, 2018, the company held 3,622 treasury shares (100,190 in the previous year).

More information on the conditional share capital can be found in Art. 3 of the Articles of Association available at <http://www.sonova.com/en/investors/articles-association>.

### 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.

The conditional capital amounts to a maximum of CHF 266,107 which equates to 8.13% of the existing share capital.

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 2017/18, a total of 389,358 options including performance options and Stock Option Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2016/17 and FY 2015/16, the number of options granted totaled 378,652 and 298,520 respectively. As of March 31, 2018, there were 1,299,812 options and SARs outstanding (compared with 1,226,072 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](#) and in [Note 30](#) to the consolidated financial statements.

### Convertible bonds

Sonova Holding AG has not issued any convertible bonds.

### Changes in capital

As of March 31, 2018, the capital of Sonova Holding AG comprised the following:

	2018	2017	2016
Ordinary capital (in CHF)	3,266,544	3,271,144	3,331,319
Total shares	65,330,887	65,422,887	66,626,387
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 was issued prior to FY 2017/18. 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 2017 approved a reduction of the share capital by CHF 4,600 through cancellation of 92,000 registered shares. This capital reduction was the result of the share buyback program as further outlined below, in which the Company repurchased 92,000 registered shares between April 1, 2015 to March 31, 2016.

### Share buyback program

On December 1, 2017, Sonova announced the conclusion of its share buyback program with a maximum overall value of CHF 500 million, which had been initiated on December 1, 2014.

During the buyback program, Sonova repurchased a total of 1,842,400 registered shares (equivalent to 2.74% of the share capital as per the beginning of the buyback program) for a total amount of CHF 241.0 million at an average purchase price of CHF 130.81 per share. The registered shares were repurchased on SIX Swiss Exchange on a second trading line. Sonova has cancelled all 1,842,400 registered shares repurchased on the second trading line.

The transactions conducted as part of the share buyback program are available at [https://www.sonova.com/sites/default/files/sonovatransaction\\_reporting\\_0.pdf](https://www.sonova.com/sites/default/files/sonovatransaction_reporting_0.pdf).

### 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.

More information on the limitations on transferability and registrations can be found in Art. 8 of the Articles of Association available at <http://www.sonova.com/en/investors/articles-association>.

#### 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 (Art. 15 para. 4 no. 3 of the Articles of Association, available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association)).



# 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). Its organization is reflected in the Organizational Rules (available at [www.sonova.com/en/investors/organizational-regulations](http://www.sonova.com/en/investors/organizational-regulations)) and the Board Committee Charters (available at <https://www.sonova.com/en/investors/committee-charters>).

## Board of Directors independence

All members of the Board of Directors are considered to be independent, according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally or in association with related persons have not been a member of the Management Board during the last three years, and have no or only comparatively minor business relations with the company. According to these rules all members of Sonova's Board of Directors are considered to be independent (for more details see section 3.1 of the Compensation Report).

## 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

In the 2017/18 financial year, there were 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).

## Board of Directors competence and evaluation

The Board of Directors evaluates current and prospective directors according to a skills and experience competency matrix to ensure that the Board has an appropriate mix of relevant skills and experience. The matrix includes criteria relating to executive management expertise, board experience, relevant industry know-how, strategic thinking (incl. M&A), international/regional experience, technology/product development experience (HW&SW), digital expertise, IT/SLC expertise, financial expertise, sales/marketing expertise, retail and service expertise, HR expertise, gender diversity, race diversity and expertise in legal, regulatory, compliance and corporate governance.

The Nomination and Compensation Committee/Board of Directors evaluates current and prospective members of the Board of Directors against the criteria matrix to ensure an appropriate mix of relevant skills and experience represented in the Board. The Nomination and Compensation Committee/Board of Directors uses this information, including when potential gaps are identified, to help inform profiles for new director searches.

Furthermore, an annual self-assessment evaluates the work of the Board of Directors in order to:

- Ensure and enhance the understanding of the business and the Company;
- Evaluate the work of the Board of Directors, its committees, the individual board members and the Chairman;
- 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 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 initiating the review of the consolidated results by the Nomination and Compensation Committee and subsequently the Board of Directors.

## Elections and terms of office

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

Art. 16 para. 1 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 may make an exemption. For further details please see Art. 16 of the Articles of Association, available at [www.sonova.com/en/investors/articles-association](http://www.sonova.com/en/investors/articles-association) and Art. 6 of the Organizational Regulations, available at <https://www.sonova.com/en/investors/organizational-regulations>.

### 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 General Shareholders' Meeting. As a consequence, each Board member will have to be re-elected annually at the General Shareholders' Meeting. All previous Board members were re-elected by the 2017 General Shareholders' Meeting (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. He also serves as Chairman of the Nomination and Compensation Committee.

Robert F. Spoerry is also the non-executive 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 as Chairman of the Board.

His long-standing experience in the technology sector, his deep knowledge of Sonova and his strong technical background with innovation-driven companies provides a substantial benefit to the Group and its shareholders. Robert F. Spoerry devotes a substantial amount of his time to his service as Chairman of the Board and Chairman of the Nomination and Compensation Committee.

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 and a non-executive member of the Board of Sonova Holding AG since June 19, 2012. He serves on the Nomination and Compensation Committee.

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. With his broad international and legal experience, including in the areas of compensation, corporate governance, compliance and risk management, Dr. Beat Hess adds substantial insight into these topics.

Beat Hess studied at the Universities of Geneva, Freiburg, and Miami, is an attorney-at-law and holds a doctorate 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) has been a non-executive member of the Board since 2016. She 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.

With her extensive experience in advising North American healthcare companies across the entire value chain, she brings very valuable strategic perspectives to the Group.

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 been a non-executive member of the Board since 2003 and serves as the Chairman of the Audit Committee. Michael Jacobi 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.

With his wide management and financial background and his expertise in accounting, Michael Jacobi is well qualified to serve as the Chairman of the Audit Committee as a financial expert.

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 earned 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 Trustees of Martin Hilti Family Trust

### Stacy Enxing Seng

(born 1964, US citizen) has been a non-executive member of the Board since 2014 and serves on the Nomination and Compensation Committee. She 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.

With her broad experience in the medical technology sector and her strong track record in growing startups and leading multinational companies, she brings important perspectives to the Group. Her expertise in working with regulatory agencies around the globe brings valuable insight to the Board.



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 Claret, Inc.
- Venture Partner, Lightstone Ventures

### Ronald van der Vis

(born 1967, Dutch citizen) has been a non-executive member of the Board since 2009 and serves on the Audit Committee. Ronald van der Vis 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.

With his extensive international experience in the retail sector, Ronald van der Vis is providing amongst others valuable input to the Group's vertically integrated business strategy.

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

### Other activities:

- Operating Partner, Co-Investor and Industry Advisor
- Member of the Board of Directors of Beter Bed Holding N.V.



### Anssi Vanjoki

(born 1956, Finnish citizen) has been a non-executive member of the Board since 2009 and serves on the Audit Committee. Anssi Vanjoki 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 has wide knowledge in the area of new technologies, including software, wireless communication and eSolutions. Together with his broad international management experience, he provides a valuable contribution to the Board.

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
- Vice-Chairman of the board of Elisa Corporation
- Anchor investor and Chairman of small technology companies



### Jinlong Wang

(born 1957, US citizen) has been a non-executive member of the Board since 2013. He currently serves as chairman and CEO at PizzaExpress Group Holdings Limited and as managing director/operating partner at Hony Capital. Previously, he 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.

With his broad business and legal background both in China and in the United States, he brings valuable insights to the Board. Thanks to his business development expertise he has made tangible contributions to the Group's strategy in Asia and in particular 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.



### 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, pursuant to Art. 16 para. 4 of the Articles of Association 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 Art. 13 para. a) 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.

### Working 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 2017/18	5	4	4
Robert F. Spoerry	5	4 <sup>4)</sup>	4
Beat Hess	5	–	4
Lynn Dorsey Bleil	5	–	–
Michael Jacobi	5	4	–
Stacy Enxing Seng	5	–	4
Anssi Vanjoki	5	4	–
Ronald van der Vis	5	4	–
Jinlong Wang	5	–	–
Average meeting length	8 h <sup>5)</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> Excluding telephone conferences

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 frequently met informally for other topics and discussions that required additional time. These included, for example, preparations for formal meetings, interviews and nomination of key individuals etc.

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 agenda items 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.

During the business year 2017/18, the five meetings of the Board of Directors were attended by the CEO and the CFO. Other members of the Management Board were present during four meetings of the Board of Directors to review amongst others performance against plan, key initiatives and strategic matters. If necessary, the Board of Directors also consults with other internal experts (such as the Group General Counsel) or external advisors although no external party was invited to nor attended a Board meeting in the last business year.

The four meetings of the Nomination and Compensation Committee were held in the presence of the Chairman, the CEO and the Group Vice President Corporate Human Resources. One meeting was attended by an external legal advisor.

All four meetings of the Audit Committee were attended by the Chairman, the CEO, the CFO and the Head of Internal Audit and Risk. External advisors attended the Audit Committee meeting three times.

### 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. 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. 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 compliance program supports Sonova's core values of ethical behavior and unquestionable integrity. The program is administered by the Head Group Compliance Program and ultimately overseen by the Group General Counsel. Amongst other things, the program administers the Ethics Hotline and ensures that reports are adequately addressed; 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. With respect to her Compliance responsibilities, the Group General Counsel has a dotted reporting line to the Chairman of the Audit Committee.

### 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 comprehensive [corporate social responsibility report](#)).

### Diversity

A comprehensive diversity report is prepared by Corporate Human Resource Management and reviewed annually by the full Board of Directors (see the relevant chapter in the [corporate social responsibility report](#) for more information).

## Management Board

The Management Board is responsible for the business and affairs of the company and 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.

The yearly evaluation of the CEO is based on the input of each member of the Board of Directors addressed to the Chairman. The consolidated input is reviewed first by the NCC and subsequently finalized by the full Board. Finally, the results are reviewed and discussed by the Chairman with the CEO.

### Lukas Braunschweiler

(born 1956, Swiss citizen) has been the CEO of the Sonova Group from November 2011 until March 31, 2018. During a transition period, he step-by-step transferred his position to Arnd Kaldowski who joined the Sonova Group in October 2017 as Chief Operating Officer. Before joining the company, Lukas Braunschweiler 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 and, as of April 2018, Chairman of the Board of Directors of Tecan Group AG and member of the Board of Directors of Sulzer Ltd.



### Arnd Kaldowski

(born 1967, German citizen) joined the Sonova Group in October 2017 as Chief Operating Officer and became CEO as of April 1, 2018. He joined Sonova from Danaher Corporation, where he served in various leadership capacities since 2008, most recently as Group Executive of the Diagnostics Platform and President Beckman Coulter Diagnostics. Arnd Kaldowski led significant sales growth, innovation and productivity initiatives. He also brings significant experience and a successful track record in M&A, commercial excellence and new product introduction which he gained in the course of his career at Danaher, as SVP Point-of-Care Solutions at Siemens Medical, following his previous assignments as Investment Director of Atila Ventures and as a Manager with the Boston Consulting Group.

Arnd Kaldowski holds a Master of Science in Physics from the Technical University Darmstadt, Germany, and an MBA from INSEAD in Fontainebleau, France.



### Hartwig Greverer

(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 Greverer 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 Greverer 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).



### Claudio Bartesaghi

(born in 1973, Swiss citizen) was appointed Group Vice President Corporate Human Resources Management (HRM) & Communications of Sonova in October 2017. He gained international experience in his long-time career at Sonova not least in his positions as Head of HRM & Organizational Development of Sonova North America, based in the US, and as Head of HRM Sonova APAC, based in Singapore. Before joining Sonova in 2010, Claudio Bartesaghi was Deputy Head of HRM at Jelvoli Holding AG in Zürich.

Claudio Bartesaghi holds a Bachelor of Science in Business Administration and Management from the Zurich University of Applied Sciences (ZHAW) and a Master of Advanced Studies in HRM from the University of Applied Sciences and Arts Northwestern Switzerland (FHNW).



### 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 a Bachelor's degree in business and economics from the University of Applied Science and Arts (FHNW) in Basel.



### 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.



### 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.



### 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. 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, shareholdings and loans

Details of Board and Management compensation are contained in the [compensation report](#).



## 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, available at <http://www.sonova.com/en/investors/articles-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.

The Articles of Association are available at <http://www.sonova.com/en/investors/articles-association>.

### Independent Proxy and electronic voting

Andreas G. Keller was elected as the Independent Proxy by the AGM 2017 for the period until completion of the AGM 2018.

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

According to Art. 15 of the Articles of Association, 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 (available at <http://www.sonova.com/en/investors/articles-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 (Art. 11 of the Articles of Association; <http://www.sonova.com/en/investors/articles-association>).

### Inclusion of items on the agenda

According to Art. 12 para. 3 of the Articles of Association (available at <http://www.sonova.com/en/investors/articles-association>) 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 2017, 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 2017/18 and 2016/17:

1,000 CHF	2017/18	2016/17
Audit services	1,974	1,762
Audit-related services	6	59
Tax services	59	336
Non-audit services	25	37
<b>Total</b>	<b>2,064</b>	<b>2,194</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 2017/18, 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.

A photograph of four business professionals (three men and one woman) sitting around a table in a modern office setting, engaged in a discussion. The woman in the center is smiling and holding a document. The text "Compensation report" is overlaid in a large, white, serif font across the middle of the image.

## Compensation report

Sonova is all about people: the value and success of our company strongly depends 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 describes Sonova's principles and system of compensation with its key components, as well as providing 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. Furthermore, it includes information on the Board of Directors' organization and regulation. More information on topics, such as Board composition and evaluation, risk and compliance management, diversity, and corporate social responsibility to the Board of Directors can be found in the corporate governance report. The compensation 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 2018 Annual General Shareholders' Meeting. The abbreviations are summarized in a glossary at the end of this 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 and system properly reward performance and stay closely aligned with the market and the interests of our shareholders.

Over the past years, we have developed and implemented an attractive, effective, and sustainable compensation system. For members of the Management Board we have introduced a new performance criterion in the Executive Equity Award Plan (EEAP) and have implemented claw-back and forfeiture provisions in the employment agreements. Building on many changes made over the past years, we have continued to optimize our compensation system. These continuous efforts are carefully led in order to ensure underlying understanding, acceptance, and trust; and we are convinced that this investment will ensure a sustainable long-term compensation system that is closely aligned with our principles and the market.

Through the 2017/18 financial year, we further reviewed our compensation system, taking into account our ongoing dialog with our shareholders and proxy advisors and reflecting market trends and best practice principles.

As part of this review, and as indicated in the 2016/17 compensation report, we implemented changes to the EEAP for the 2017/18 financial year. We amended the EEAP for members of the Management Board, reflecting best practice principles and long-term trends in the market. Up to this year the EEAP equity split has been based on a mix of performance options (options) and restricted share units (RSUs) with a performance target. As of this financial year the equity grant consists of options and performance share units (PSUs). The PSUs are measured on relative Total Shareholder Return (rTSR) against a recognized index. More details on the structure of PSUs is provided later in the report. The revision of the EEAP was 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 Sonova share ownership guidelines have been reviewed and are now based on holding a defined value of shares rather than a fixed number of shares.

In 2017/18 financial year, Sonova appointed a new Chief Operating Officer (COO) who will assume the position of the Chief Executive Officer (CEO) from the beginning of the new financial year. His total compensation has been aligned with his future role and duties as the new CEO. Additional compensation has been paid to replace, to a limited extent, awards for forfeited compensation entitlements with his former employer.

## COMPENSATION REPORT

In the 2017/18 financial year further efforts were made to increase levels of disclosure, including detail on the rationale for selected performance objectives under the Variable Cash Compensation Plan (VCC) and EEAP as well as more detailed description of target fulfillments.

Regarding compensation levels, there were:

- no changes for the Board of Directors
- minimal changes within the Management Board on base salary and EEAP

At the 2018 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 on the maximum aggregate total compensation amounts to be awarded to the Board of Directors for the period from the 2018 Annual General Shareholders' Meeting until the 2019 Annual General Shareholders' Meeting, and to the Management Board for the 2019/20 financial year.

Transparency remains high on our agenda, building further on prior year improvements, such as those relating to our short-term cash incentive award under Sonova's Variable Cash Compensation plan. This compensation report also includes clear disclosure on the revised EEAP and share ownership guidelines.

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 we are confident that our compensation system rewards for performance in a balanced and sustainable manner, and aligns well with the shareholders' interest.

Yours sincerely,

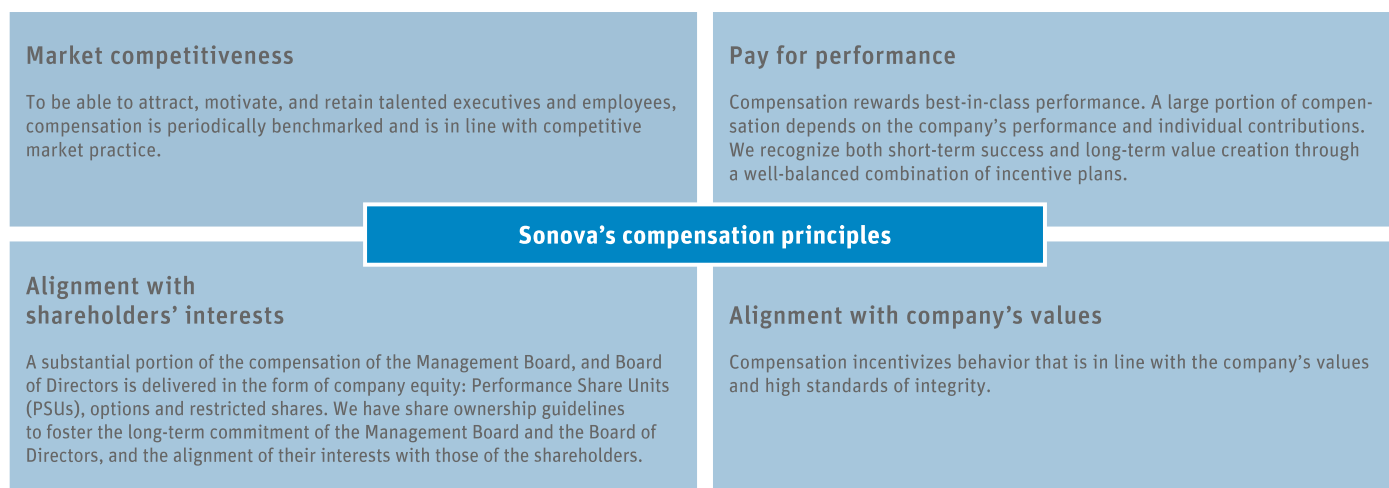


Robert Spoerry  
Chairman of the Nomination and  
Compensation Committee



## 2. Compensation policy and principles

To ensure Sonova's success and to maintain its position as a global leading manufacturer and provider of innovative hearing care solutions and services, 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 Sonova's compensation principles, summarized below:



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 practice that no performance-related compensation is awarded.

The compensation of the Management Board consists of fixed, and variable performance-based 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 are 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 contingent on performance:

- The short-term cash incentive award is awarded under Sonova's Variable Cash Compensation plan. Payout under the VCC is based on Sonova's growth targets related to key performance indicators (KPIs), such as sales, earnings before interest, taxes and amortization/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 that are 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 revised long-term equity incentive award under the EEAP includes the grant of options and PSUs. The vesting of the options is dependent on the return on capital employed (ROCE) performance and for the PSUs on relative Total Shareholder Return (rTSR). The EEAP reinforces the alignment between compensation and the company's long-term performance. Moreover, it aligns the interests of the Management Board with those of Sonova's shareholders, and fosters long-term retention of the Management Board (see section 4.3 for more information related to implementation of the revised EEAP 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 to the VCC cash payout and to the number of equity awards that can be granted and subsequently 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 members to invest defined amounts in Sonova shares and thus reinforce the alignment between the interests of the Board of Directors and the Management Board with those of shareholders.

### 3. Compensation governance

#### 3.1 Board of Directors composition, competence 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 receive 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 60 years and the average length of service is 7.9 years. As a general rule, the Board of Directors shall not nominate for re-election 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. More information on the Board of Directors' competences can be found in the corporate governance report.

##### Board of Directors independence

We consider all members of the Board of Directors as independent. Board of Directors fees are structured for consistency with principles of independence; members therefore only receive fixed fees paid in the form of a cash retainer and non-discounted shares with a blocking period of five years and four months (Chairman of the Board of Directors) or four years and four months (all other members of the Board of Directors). The allocation of shares strengthens alignment to shareholders' interests.

In addition, members of the Board of Directors receive committee retainers for their services on Sonova's committees. Independent members of the Board of Directors do not receive performance-related compensation, severance payments or benefits.

Length of service is not deemed to be a relevant criterion for independence. On the contrary, the Board of Directors considers that the choice of individual personality, freedom to express oneself in meetings and committees, as well as experience and diversity, are important for the optimal composition of the Board of Directors.

Moreover, all members of the Board of Directors are considered to be independent, according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally or in association with related persons have not been a member of the Management Board over the last 3 years, and have no or only comparatively minor business relations with the Company. According to these rules all members of Sonova's Board of Directors are considered to be independent.

## 3.2 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 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
- Periodical benchmark reviews covering compensation of the members of the Board of Directors (including the Chairman of the Board of Directors), the 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
- Succession planning; 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 <sup>1)</sup>		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the CEO <sup>1)</sup>		proposes	approves	
Employment terms of the CEO <sup>1)</sup>		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the Management Board (excluding CEO) <sup>1)</sup>	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

<sup>1)</sup> Within the framework of the Articles of Association and/or maximum aggregate amount of compensation approved by the AGM.

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 2017/18 financial year, it held four 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 vesting of EEAP and payout of VCC for CEO and MB for the previous financial year – Setting of VCC and EEAP performance hurdles for the new financial year – 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) – Periodical benchmark of MB compensation – Diversity at Sonova – Decision on compensation benchmarks – Special ad hoc items*	– Equity valuation (option and PSU) – EEAP grant review – Special ad hoc items*
Board of Directors (BoD) matters		– Review on benchmarks	– Decision on compensation 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.

Considerable time is invested e.g. to prepare meetings and conduct interviews.

As a general rule, the Chairman of the Board of Directors, the CEO, and the Group Vice President Corporate Human Resource Management 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.

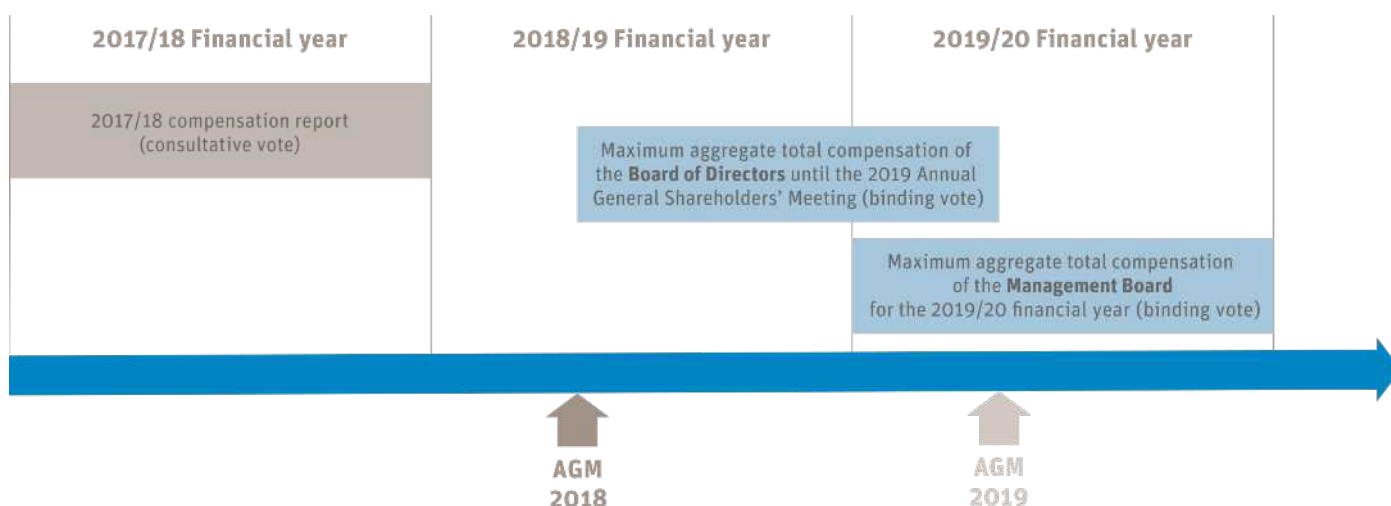
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors

### 3.3 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 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 submits 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 proxy advisors and has made significant efforts continuously to 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 2018 Annual General Shareholders' Meeting:

The maximum aggregate total compensation amount for the Board of Directors comprises fixed compensation components, including a cash retainer and restricted shares as well as committee fees and additional meeting attendance fees and travel allowance (as applicable).

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.

#### 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): fair value of the equity awards at grant (options and PSUs, as well as the last RSU grant for the CEO).

Therefore, the maximum aggregate total compensation amount submitted to shareholders' vote is potentially higher than the actual amount of total compensation for the members of the Management Board based on the performance achieved in the financial year. The total compensation amount for Management Board will be disclosed in the compensation report of the respective financial year, which will be subject to a consultative shareholders' vote at the Annual General Shareholder' Meeting.

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

Sonova pays mandatory employer's social security contributions (AHV/ALV) for both the Board of Directors and Management Board in accordance with applicable law. These contributions will not be included in the maximum aggregate total compensation amounts for the purposes of the applicable votes at the 2018 and future Annual General Shareholders Meetings. Such employer social security contributions cannot be forecasted accurately. However, the contributions paid are disclosed in the compensation report in compliance with Sonova's reporting obligations.

### Articles of Association

With regard to the compensation of the members of the Board of Directors and the Management Board, 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)

## 3.4 Process of determining compensation

### Benchmarks and external consultants

Sonova periodically reviews the total compensation of members of the Management Board, comparing data from executive compensation 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, along with other considerations, with reference to those benchmarks.

### Performance management

The actual compensation of 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.



## 4. Compensation components and system

### 4.1 Overview of compensation components

	Management Board <sup>1)</sup>	Board of Directors <sup>1)</sup>
	CEO/COO/CFO/GVPs	BoD
<b>Fixed compensation components</b>		
Fixed base salary		
Benefits <sup>2)</sup>		
Expense allowance <sup>3)</sup>		
Car allowance <sup>3)</sup> <sup>4)</sup>		
Cash retainer (fixed fee)		
Restricted shares		
Committee fee <sup>5)</sup>		
Meeting attendance fee		
Travel allowance		
<b>Pension and other benefits</b>		
Pension Fund		
<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)		
<b>Other benefits</b>		
Other benefits		

<sup>1)</sup> In addition, mandatory social security contributions (AHV/ALV) are paid by Sonova.

<sup>2)</sup> MB members under a foreign employment contract receive benefits in line with local practice.

<sup>3)</sup> Only for MB members with a Swiss employment contract.

<sup>4)</sup> Flat rate car allowance

<sup>5)</sup> If applicable



## 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 fixed compensation, namely a cash retainer and non-discounted shares with a restriction period of five years and four months (Chairman of the Board of Directors) or four years and four months (all other members of the Board of Directors). In addition, members of the Board of Directors receive a committee fee (if applicable), a meeting attendance fee as well as a travel allowance. There is no performance-related compensation for the Board of Directors and Board members are not eligible to participate in the occupational pension plan.

The compensation of members of the Board of Directors is subject to mandatory employer social security contributions (AHV/ALV). These contributions are paid by Sonova and are disclosed in the compensation report in compliance with Sonova's reporting obligations.

Annual fees in Cash in CHF	Chairman <sup>1)</sup>	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>2)</sup>	Included in cash retainer	500
Travel allowance <sup>2)</sup>	500	500

Restricted Shares in CHF	Chairman	Board members excl. Chairman
Fair value at grant <sup>3)</sup>	400,000	200,000

<sup>1)</sup> Including work and attendance in the Nomination and Compensation Committee and Audit Committee.

<sup>2)</sup> Multiplied by the number of meeting attended.

<sup>3)</sup> The tax value at grant differs from the value at grant by reduction of 6% per year of restriction and reflects that once the restricted shares have been granted, they are then blocked over a restriction period of five years and four months for the Chairman of the Board of Directors and four years and four months for the other members of the Board of Directors. The discount, which reflects the practice of the Swiss tax authorities considers further the circumstance that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period. In addition, for tax purposes the volume weighted average price on grant date was used whereas the fair value per share corresponds to the closing price at grant date.

Further information regarding the planned total compensation amounts of the Board of Directors for the period from the 2018 Annual General Shareholders' Meeting to the 2019 Annual General Shareholders' Meeting is provided in the invitation to the 2018 Annual General Shareholders' Meeting.

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 (see section 6.1 for more information).

Sonova does not grant contractual severance payments to members of the 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 Board of Directors in the financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of Board of Directors.

## 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:

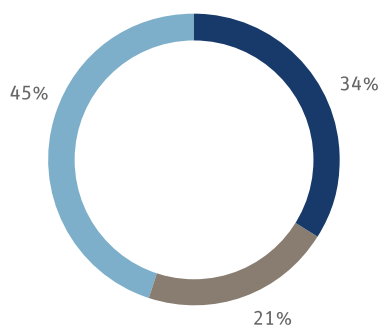
- Fixed base salary
- Employee benefits, such as pension benefits, flat rate car allowance, expense allowance, and relocation benefits for certain affected members
- Short-term cash incentive award (VCC)
- Long-term equity incentive award (EEAP)

The compensation of members of the Management Board who are under Swiss employment is subject to mandatory employer social security contributions (AHV/ALV). These contributions are paid by Sonova and are disclosed in the compensation report in compliance with Sonova's reporting obligations.

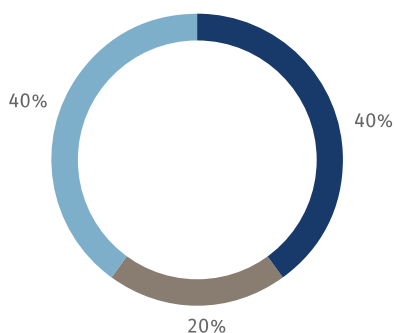
The entire section describes the compensation system for the CEO and the Management Board. Compensation of the COO is excluded and is further described in detail in section 5.2.

The chart below illustrates the compensation mix excluding employee benefits at target for the CEO, Lukas Braunschweiler and the Management Board in 2017/18 financial year. Due to special reasons as described in detail in section 5.2 Management Board Compensation, the highest paid member of the Management Board was the COO, Arnd Kaldowski; his compensation is not displayed in the compensation mix below.

**Compensation mix of the CEO, Lukas Braunschweiler**



**Compensation mix of the other members of the Management Board**



■ Base salary ■ VCC ■ EEAP

■ Base salary ■ VCC ■ 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 PSUs awarded under the revised EEAP. Both short and long-term components are performance-based and payout or vest only if multiple challenging performance targets are achieved.

	Fixed compensation components		Variable compensation components		
	Fixed base salary	Benefits	Short-term cash incentive award	Long-term equity incentive award	
<b>Purpose</b>	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 KPIs 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	
<b>Vesting Period</b>	n.a.	n.a.	financial year	Options 16–52 months	PSUs 40 months
<b>KPIs</b>	n.a.	n.a.	<b>A – Group</b> Sales, EBITA, FCF, EPS  <b>B – Business Unit</b> Sales, EBITA, ASP, OPEX  <b>C – Individual objectives</b>	ROCE	rTSR
<b>Delivery</b>	Cash, regularly	Country specific	Cash	Options	PSUs
<b>CEO</b> Ratio in % 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 and COO)</b> Ratio in % 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>105%</b>  Range of fixed base salary: <b>0%–105%</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)

Sonova's Variable Cash Compensation (VCC) aims to align a significant part of compensation to budget achievements 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, excluding the COO.

The Board of Directors determines annually the target performance level for each KPI 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 strive to 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.

## COMPENSATION REPORT

The VCC for the Management Board is based on three categories of performance objectives: Group, and/or 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 KPIs are sales, EBITA, FCF, and EPS. Business unit performance objectives include sales, EBITA, ASP, and OPEX of the respective business unit. These KPIs 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 and to further increasing profitability through operating leverage.

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, EBITA reflects profitability, ASP tracks value add and price discipline, OPEX and FCF represent operational and capital efficiency respectively. As for the performance indicators referenced to the external market, earnings per share is important to shareholders and for the determination of the share price.

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.

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

Performance Objective	CEO/COO/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 apply to all members of the Management Board.

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

The purpose of the Executive Equity Award Plan (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 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 NCC. Generally, the grant date is on February 1st each year.

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

### Options

Options granted under the EEAP continue to vest in four equal annual installments over a period of 16–52 months depending on ROCE achievement. The first tranche vests 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 life of the options has been increased from 7 to 10 years to further incentivize participants to extended time to exercise.

The fair value of the options is calculated at the grant date using the “Enhanced American Pricing Model.” Additional information is available in [Note 30](#) to the consolidated financial statements. Re-pricing of any out-of-the-money options granted under the EEAP is prohibited.

For reference, the average vesting duration for options amounts to 34 months. In practice, options have been usually exercised approximately one year after the vesting date. In this regard, options align management with shareholder interest, as value creation is only realized in the event of increasing share price (see section 5 for more information on the overall levels of the target achievements as well as other qualitative comments).

Vesting of option grants made under the EEAP to members of the Management Board includes ROCE as performance criterion. Based on the EEAP review and feedback of shareholders, we concluded that ROCE continues to be a very appropriate KPI to incentivize long-term value creation as it combines multiple KPIs namely both the profitability of the company and the efficiency with which Sonova’s capital is being employed. The Board of Directors determines the target level of performance at which the options will vest in full and a minimum performance threshold below which there is no vesting. The target is 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 that can vest ranges from 0% to 100%.

### Performance Share Units

The review of the compensation system, which took into account the feedback of shareholders and proxy advisors as well as market practice, resulted in a revision of the EEAP. From February 2018, the EEAP comprises of options and PSUs, which will generally replace RSUs. PSUs will vest based on rTSR achievement. The change to a rTSR basis further aligns the interests of Management Board with those of Sonova’s shareholders. Adding an external criterion to the EEAP assures a more balanced view of performance assessment and provides a comparison to other relevant companies to incentivize the members of the Management Board to achieve a strong rTSR performance.

PSUs granted under the EEAP will cliff vest after three years and four months, depending on the rTSR achievement. Sonova’s TSR is measured against those of the SLI<sup>®1)</sup> constituents that remain in the index during a performance period of three years and two months from grant. The slightly shorter performance period provides sufficient time to test for performance and receive approval of the calculation prior to vesting. The SLI was selected in order to compare Sonova’s performance to companies with a comparable geographic footprint, providing a relevant and challenging benchmark for Sonova’s value creation.

Depending on the rTSR performance ranking, the cliff vesting of PSUs is as follows:

- 20<sup>th</sup> percentile or below: no cliff vesting occurs and granted PSUs are forfeited
- 50<sup>th</sup> percentile: 100% of granted PSUs cliff vest
- 80<sup>th</sup> percentile or above: 200% of granted PSUs cliff vest (cap)

The number of shares allocated for each vested PSU between the 20<sup>th</sup> and 80<sup>th</sup> percentile is calculated by linear interpolation. Furthermore, in the event that Sonova's (absolute) Total Shareholder Return is negative over the performance period, the cliff vesting is capped at 100%.

The calculation of rTSR target achievement will be conducted using the average closing price for 90 trading days prior to grant and end of performance period respectively. The fair value of the PSUs is calculated at the grant date by using the "Monte Carlo Pricing Model." Additional information is available in [Note 30](#) to the consolidated financial statements.

- 1) The Swiss Leader Index (SLI) includes the 30 largest and most liquid securities in the Swiss equity market

#### Transition arrangement under the previous EEAP

As approved by the Annual General Shareholders' Meeting in 2017, a one-time RSU transition grant will be awarded to members of the Management Board in February 2019. The purpose of such a transition grant is to compensate affected members of the Management Board for the reduction in total target earning opportunity that will occur in 2019 and 2020 as a result of the longer vesting periods by changing from RSUs to PSUs.

#### Summary of the EEAP instruments

EEAP 2018			
Equity	Options	PSUs <sup>1)</sup>	RSUs <sup>2)</sup>
Grant Date	February 1, 2018	February 1, 2018	February 1, 2018
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation	Based on Monte-Carlo valuation	Sonova share closing price at SIX on February 1, 2018 adjusted by the expected dividends and interest rate
Exercise/Strike Price	CHF 147.85 (Sonova share closing price at SIX on February 1, 2018)	n.a.	n.a.
Vesting Date	25% vest on June 1, 2019 25% vest on June 1, 2020 25% vest on June 1, 2021 25% vest on June 1, 2022	3 years + 4 months cliff vesting  100% vest on June 1, 2021	25% vest on June 1, 2019 25% vest on June 1, 2020 25% vest on June 1, 2021 25% vest on June 1, 2022
Vesting multiple	0%–100% of grant (ROCE)	0%–200% of grant (capped at 100% if the absolute TSR is negative)  Floor: 20 <sup>th</sup> tile TSR (multiple = 0) Target: 50 <sup>th</sup> tile TSR (multiple = 1.0) Cap: 80 <sup>th</sup> tile TSR (multiple = 2.0) linear interpolation in between	0%–100% of grant (ROCE)
Performance criterion	Number of options which vest depends on the achievement level of the ROCE target	Number of PSUs which vest depends on the achievement level of the rTSR target (against the SLI constituents)	Number of RSUs which vest depends on the achievement level of the ROCE target
Exercise Period	After vesting until expiry of the options	n.a.	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2028)	No restriction after vesting	No restriction after vesting

<sup>1)</sup> PSUs applicable to all members of the Management Board excluding the CEO

<sup>2)</sup> RSU's applicable only to the CEO

### Termination of employment under the long-term equity incentive award (Executive Equity Award Plan)

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

- In case of death or disability, the unvested awards 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 awards 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 equity grants 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 other unvested awards become null and void immediately. "Cause" means 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 equity grants vest immediately on a pro rata basis considering the period from the grant date to the effective date of the change of control compared to the original period at target level, for options, and for PSUs based on actual achievement of the PSU performance conditions as of the date of occurrence of the change of control. 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, equity grants are forfeited.

### Disclosure of targets

Internal individual and/or financial targets under the VCC and the EEAP plans are generally considered sensitive information with the exception of information relating to rTSR for PSUs under the revised EEAP. Disclosing internal targets would allow confidential insight into the strategy of Sonova and therefore could create a competitive disadvantage to Sonova. Therefore, the decision was made not to disclose the specifics of the VCC and EEAP internal financial targets at the time of their setting but to comment on overall target achievement and respective payout at the end of the financial year, including the external target achievement of rTSR, which will be disclosed.

As a general rule, on a comparable basis, substantial improvements against the previous year's achievements are required in order to meet the growth targets, 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 2017/18 financial year).

The amendments to the EEAP reflect best practice principles as well as market trends. The revised long-term equity incentive award has been 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 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 Sonova's 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 (see section 6.1 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 a 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 contract receive benefits in line with local current market practice.

The CEO and selected members of the Management Board are entitled to a flat rate car cash allowance as well as 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. 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 six months. The notice period for the CEO is 12 months.

Sonova does not grant contractual severance payments to members of the Management Board, 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 in the financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board.

## 5. Compensation for the financial year

### 5.1 Board of Directors compensation

The tables in this section are audited by the external auditor.

The following table shows the compensation for the individual members of the Board of Directors for the 2017/18 and 2016/17 financial years.

The total compensation in the 2017/18 financial year was CHF 2.9 million, nearly the same amount as in the previous year. After the reduction of the total compensation in 2011, no changes have been made over the last six years, and in consequence the structure and individual levels of total compensation for the Board of Directors have not changed during that entire period. The current total compensation is in line with the respective benchmark and publicly available surveys 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 fixed compensation (cash retainer and restricted shares) than the market norm, but substantially lower committee fees. This reflects current working practice according to the organizational rules.

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 2017/18 financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of Board of Directors.

Sonova has revised its Board compensation reporting to align with the approach used in the vote by the Annual General Shareholders' Meeting on the maximum aggregate total compensation amount. In order to provide for appropriate predictability of the amount put forward for the prospective voting, as of the 2018 Annual General Shareholders' Meeting Sonova will not include employer social security contributions in the vote on the maximum aggregate total compensation amount of the Board of Directors. Sonova will continue to report employer social security contributions paid in the respective compensation tables. This updated reporting approach will ensure full alignment between compensation reporting and voting approaches.

Note that the Board of Director amounts reported in the tables do not necessarily correspond to the amounts voted as the reporting period follows the Sonova financial year, whereas the voting follows the period between Annual General Shareholders' Meetings. For transparency, we include also a reconciliation table for approved versus actual total compensation for the members of the Board of Directors for the period between Annual General Shareholders' Meetings in section 5.1.2.

in CHF

2017/18

	Cash retainer (fixed fee)	Meeting attendance fee/ expenses <sup>1)</sup>	Total cash compensation	Value of restricted shares <sup>2)</sup>	Total compensation	Employer's social insurance contribution (AHV/ALV) <sup>3)</sup>
<b>Robert F. Spoerry<sup>4)</sup></b> Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	502,500	295,212	797,712	54,572
<b>Beat Hess</b> Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	8,000	130,500	156,406	286,906	16,912
<b>Stacy Enxing Seng</b> Member of the Nomination and Compensation Committee	107,500	8,000	115,500	156,406	271,906	19,076
<b>Michael Jacobi</b> Chairman of the Audit Committee	125,000	8,000	133,000	156,406	289,406	42,408
<b>Anssi Vanjoki</b> Member of the Audit Committee	107,500	8,000	115,500	156,406	271,906	19,076
<b>Ronald van der Vis</b> Member of the Audit Committee	107,500	7,500	115,000	156,406	271,406	39,245
<b>Jinlong Wang</b>	100,000	6,000	106,000	156,406	262,406	18,434
<b>Lynn Dorsey Bleil</b>	100,000	5,500	105,500	156,406	261,906	18,434
<b>Total (active members)</b>	<b>1,270,000</b>	<b>53,500</b>	<b>1,323,500</b>	<b>1,390,054</b>	<b>2,713,554</b>	<b>228,157</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> The tax value at grant differs from the value at grant by reduction of 6% per year of restriction and reflects that once the restricted shares have been granted, they are then blocked over a restriction period of five years and four months for the Chairman of the Board of Directors and four years and four months for the other members of the Board of Directors. The discount, which reflects the practice of the Swiss tax authorities, also takes account of the fact that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period. In addition, for tax purposes the volume-weighted average price on grant date was used whereas the fair value per share corresponds to the closing price at grant date. Calculation of the value of restricted shares: Tax discounted value per restricted share at grant date for the Chairman of the Board of Directors was CHF 109.14, and for the other members of the Board of Directors CHF 115.68.
- <sup>3)</sup> Employer social security contributions on the cash retainer and the tax value of options exercised and restricted shares granted during the financial year. The total compensation including the employer social security contributions in the financial year, amounts to CHF 2,941,711 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).
- <sup>4)</sup> Including work and attendance in the Nomination and Compensation Committee and Audit Committee.

in CHF	2016/17					
	Cash retainer (fixed fee)	Meeting attendance fee/ expenses <sup>1)</sup>	Total cash compensation	Value of restricted shares <sup>2)</sup>	Total compensation	Employer's social insurance contribution (AHV/ALV) <sup>3)</sup>
<b>Robert F. Spoerry</b> Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	502,500	289,699	792,199	54,199
<b>Beat Hess</b> Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	9,500	132,000	153,135	285,135	16,801
<b>Stacy Enxing Seng</b> Member of the Nomination and Compensation Committee	105,979	9,000	114,979	153,135	268,114	18,416
<b>Michael Jacobi</b> Chairman of the Audit Committee	125,000	9,000	134,000	153,135	287,135	20,104
<b>Anssi Vanjoki</b> Member of the Audit Committee	107,500	9,000	116,500	153,135	269,635	18,922
<b>Ronald van der Vis</b> Member of the Audit Committee	107,500	8,500	116,000	153,135	269,135	18,889
<b>Jinlong Wang</b>	100,000	7,000	107,000	153,135	260,135	18,281
<b>Lynn Dorsey Bleil<sup>4)</sup></b>	79,726	6,000	85,726	153,135	238,861	16,879
<b>Total (active members)</b>	<b>1,248,205</b>	<b>60,500</b>	<b>1,308,705</b>	<b>1,361,644</b>	<b>2,670,349</b>	<b>182,491</b>
<b>John J. Zei<sup>5)</sup></b>	22,089	4,500	26,589		26,589	1,527
<b>Total (including former members)</b>	<b>1,270,294</b>	<b>65,000</b>	<b>1,335,294</b>	<b>1,361,644</b>	<b>2,696,938</b>	<b>184,018</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> 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 five years and four months for the Chairman of the Board of Directors and four years and four months for the other members of the Board of Directors.
- <sup>3)</sup> Employer social security contributions on the tax value of RSUs vested, options/SARs exercised and restricted shares granted during the financial year.
- <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.

### 5.1.1 Historical compensation for the members of the Board of Directors

After the reduction of the total compensation in 2011, no changes have been made over the last six years, and in consequence the structure and individual levels of total compensation for the Board of Directors have not changed during that entire period. The current total compensation is in line with the respective benchmark and publicly available surveys 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 fixed compensation (cash retainer and restricted shares) than the market norm, but substantially lower committee fees. This reflects 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 2017 Annual General Shareholders' Meeting to the 2018 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 2017.

in CHF 1,000	Approved for AGM 2016 – AGM 2017	Effective for AGM 2016 – AGM 2017	Approved for AGM 2017 – AGM 2018	Estimate for AGM 2017 – AGM 2018
AGM approval year		<b>2016</b>		<b>2017</b>
<b>Total compensation<sup>1)</sup></b>	<b>3,000</b>	<b>2,899</b>	<b>3,000</b>	<b>2,934</b>
Breakdown total compensation:				
Fixed fees including meeting attendance and expenses	1,463	1,328	1,453	1,326
Mandatory employer's social security contributions	185	209	185	217
Tax value of restricted shares	1,352	1,362	1,362	1,391
<b>Number of members of the Board of Directors</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>

<sup>1)</sup> Includes mandatory employer social security contributions in line with the respective AGM compensation approvals. For the 2018 and future AGMs, these contributions will not be included in the votes on the maximum aggregate total compensation amount of the Board of Directors. Sonova will continue to report employer social security contributions in the respective compensation tables.

## 5.2 Management Board compensation

The tables in this section are audited by the external auditor.

Overall, Sonova achieved solid results with many parts of the Group achieving new records. Overall, the financial targets set by the Board of Directors for the financial year were slightly exceeded. This is reflected in the financial compensation of the members of the Management Board. For the assessment of the target achievement, the one-time costs related to the AudioNova acquisition were excluded.

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 119.3%, above previous year with 116.3%.

Group sales were just below its target. While the hearing instruments business exceeded its growth target, the retail and cochlear implants business was held back by a weak performance in the US and selected other markets.

EBITA achievement in the hearing instruments segment exceeded the target, driven by excellent pricing discipline and a general high focus on Opex control. The cochlear implants business did not fully meet its target despite strict cost containment measures, due to an adverse sales mix. However, the results were significant above the previous year.

EPS was in line with EBITA development. The Group overall slightly exceeded its target both in EBITA and EPS.

FCF was overachieved also due to a higher achievement in EBITA.

Individual qualitative targets of the management were over achieved on average.

The ROCE target, which is relevant for the vesting of the long-term equity award plan (EEAP), was exceeded. Since there is no provision for over-achievement in the EEAP, the vesting is capped at target, namely at 100%. The EEAP target achievement was therefore 100%.

The highest total compensation for a member of the Management Board in the 2017/18 financial year was paid to Arnd Kaldowski. He was appointed on October 1, 2017 in the role of COO and will take up the role of CEO as of April 1, 2018. As discussed below, the COO's compensation has been already set at the level of his future compensation as CEO. This compensation further includes a one-time replacement award for forfeited deferred compensation entitlements granted by his former employer. This award takes the form of an extraordinary, non-recurring performance option grant of CHF 1,000,000. Depending on the EPS CAGR per year, the cliff vesting of the options after a five-year period is as follows:

- EPS CAGR per year is below 8%:  
no cliff vesting occurs and granted performance options are forfeited
- EPS CAGR per year at 8%:  
50% of granted performance options vest
- EPS CAGR per year is at or above 12%:  
100% of granted performance options vest

The number of performance options allocated between 8 – 12% EPS CAGR per year is calculated by linear interpolation.

For the period from October 1, 2017 until March 31, 2018, Arnd Kaldowski's fixed base salary was CHF 450,000 (CHF 900,000 annualized), and the target VCC was CHF 400,000 (CHF 800,000 annualized). The actual VCC payout for performance in the 2017/18 financial year amounted to CHF 499,488, whereas the maximum potential variable cash payout would have been CHF 800,000 (annualized).

In addition, a regular equity grant (EEAP) with an equity compensation mix of 62.5% in options and 37.5% in PSUs was granted to Arnd Kaldowski with a 2018 fair value of CHF 1,300,000 (full year). His compensation also includes an employer's social security contribution (AHV/ALV) of CHF 62,511, employer's pension contributions of CHF 56,363, and other fringe benefits such as expenses and housing.

The reported total compensation for the COO, Arnd Kaldowski, is higher than that of the CEO, Lukas Braunschweiler. This is due to a combination of factors including:

1. A one-time, non-recurring performance option grant, to replace, to a limited extent, awards for forfeited compensation entitlements with his former employer.
2. Compensation benchmarks taking into account the significantly increased size of Sonova.
3. In parallel, during the transition period (October 1, 2017 until March 31, 2018), Lukas Braunschweiler has seen his responsibilities reduce to a 50% full-time equivalent, with a corresponding decrease in base salary and VCC target.

The following table shows the compensation of the CEO and of the other members of the Management Board for the 2017/18 financial year (10 members) and for the 2016/17 financial year (13 members). The CEO's compensation for the 2017/18 financial year is separately disclosed, even though he was not the highest paid member of the Management Board. The CEO's reduced total compensation is reflective of his reduced responsibilities during the transition period following the appointment of Arnd Kaldowski. In the 2017/18 financial year, the average variable cash payout for performance to Management Board members, including the highest paid member of the Management Board, was 119.3%, whereas the respective average overall payout ratio was 116.3% in the previous year. The total compensation of CHF 16.9 million for the 2017/18 financial year is above the total of CHF 14.1 million for the previous year. The total compensation of CHF 16.9 million is the result of the reduction in total number of members of the Management Board in the 2017/18 financial year, along with a higher VCC payout due to better Group, business, and individual objective achievements, and an increase in the EEAP grant value due in part to transitional

EEAP arrangements. Furthermore, it includes the total compensation of the COO, including a one-time grant of performance options for forfeited deferred compensation entitlements granted by his former employer. The fixed base salaries remained almost unchanged.

The structure of total compensation of the members of the Management Board has not changed compared to the previous financial year, aside from the replacement of RSUs with PSUs under the EEAP (see section 4.3 for more information). For the 2018/19 financial year, only modest increases to the current levels of compensation are foreseen. As a basic principle, such changes as are applicable will be kept small and selective, and always aligned to data from executive compensation surveys and published benchmarks from companies of similar size.

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 2017/18 financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board.

Sonova has adopted a revised Management Board compensation reporting to align with the approach used in the vote by the Annual General Shareholders' Meeting on the maximum aggregate total compensation. In order to provide for appropriate predictability in prospective voting, as of the 2018 Annual General Shareholders' Meeting Sonova will not include employer social security contributions in the vote on the maximum aggregate total compensation amount of the Management Board. Sonova will continue to report employer social security contributions in the respective compensation tables. This updated reporting approach will ensure full alignment between compensation reporting and voting approaches.

in CHF									2017/18
	Fixed base salary	Variable salary <sup>1)</sup>	Fringe benefits	Employer's pension contribution	Total cash compensation	Value of PSUs (RSUs) <sup>2)</sup>	Value of options <sup>3)</sup>	Total compensation	Employer's social security contribution <sup>4)</sup>
Lukas Braunschweiler, CEO	600,000	472,293	60,630	123,712	1,256,635	393,736	656,236	2,306,607	109,159
Arnd Kaldowski, COO <sup>5)</sup>	447,092	499,488	61,886	56,363	1,064,829	487,451	1,812,475	3,364,755	62,511
Other members of the MB <sup>6)</sup>	3,486,080	2,137,192	397,152	703,281	6,723,705	1,648,008	1,648,390	10,020,103	975,336
<b>Total</b>	<b>4,533,172</b>	<b>3,108,973</b>	<b>519,668</b>	<b>883,356</b>	<b>9,045,169</b>	<b>2,529,195</b>	<b>4,117,101</b>	<b>15,691,465</b>	<b>1,147,006</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 only when the Group's audited financial statements for the fiscal year have been publicly disclosed by Sonova Group HQ and publicly disclosed by the Group in its consolidated financial statements.
- <sup>2)</sup> Fair value per PSU at grant date CHF 118.63. Fair Value on PSUs is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. RSUs granted only to Lukas Braunschweiler. Fair value per RSU at grant date CHF 140.62.
- <sup>3)</sup> Fair value per option at grant date CHF 20.77. For Arnd Kaldowski this also includes the one-time, non-recurring performance option grant with a value of CHF 21.09.
- <sup>4)</sup> Employer social security contributions including the tax value of options exercised and RSU's vested during the financial year. The total compensation including the employer social security contributions in the financial year amounts to CHF 16,838,471 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).
- <sup>5)</sup> Member of the Management Board since October 1, 2017 in the role of COO and to transition to the role of CEO as of April 1, 2018. Total compensation for the period from October 1, 2017 until March 31, 2018.
- <sup>6)</sup> Including Sarah Kreienbühl and Franz Petermann for the full 2017/18 until contractual end date.



## COMPENSATION REPORT

in CHF									2016/17
	Fixed base salary	Variable salary <sup>1)</sup>	Fringe benefits	Employer's pension contribution	Total cash compensation	Value of RSUs <sup>2)</sup>	Value of options <sup>3)</sup>	Total compensation	Employer's social security contribution <sup>4)</sup>
Lukas Braunschweiler, CEO	800,000	590,845	48,700	127,306	1,566,851	393,630	656,239	2,616,720	125,058
Other members of the MB <sup>5)</sup>	3,477,041	2,139,261	321,574	700,532	6,638,408	2,006,858	2,007,385	10,652,651	696,223
<b>Total</b>	<b>4,277,041</b>	<b>2,730,106</b>	<b>370,274</b>	<b>827,838</b>	<b>8,205,259</b>	<b>2,400,488</b>	<b>2,663,624</b>	<b>13,269,371</b>	<b>821,281</b>

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

The total compensation of CHF 14,090,652 reported in the 2016/17 compensation report corresponds to the sum of total compensation plus employer's social insurance contribution (ALV/ALV).

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

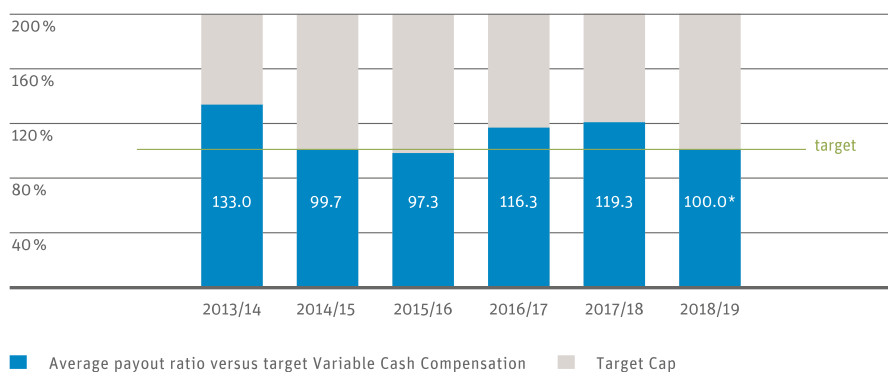
2) Fair value per RSU at grant date CHF 125.68.

3) Fair value per option at grant date CHF 16.99.

4) Employer social security contributions (AHV/ALV) on the tax value of RSUs vested and options exercised during the financial year.

5) Including Jan Metzendorff 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.

### 5.2.1 Historical variable cash 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 actual total compensation for the members of the Management Board

The approved maximum aggregate total compensation amount of the Management Board of CHF 15.4 million for the 2017/18 financial year was planned for a Management Board of 10 members at that time. With the new appointment of Arnd Kaldowski, (COO) on October 1, 2017, the total approved compensation amount payable was increased to CHF 20.02 million (including the one-time, non-recurring performance option grant) in accordance with Art. 27 of the Articles of Association.

The actual total compensation for the Management Board for 2017/18 financial year was CHF 16.9 million, which is, less than the allowable CHF 20.02 million.

In the past, the maximum aggregate total compensation amount available for the members of the Management Board included mandatory employer's social security contributions in line with the respective AGM compensation approvals. For the 2018 AGM and future AGMs, these

contributions will not be included in the votes on the maximum aggregate total compensation amount of the Management Board. Sonova will continue to report employer's social security contributions in the respective compensation tables.

The EEAP calculation applies fair value at grant, taking account of the possibility of either over- or under-achievement. Fair Value on PSUs is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The actual number of shares allocated for each PSU will depend on the achievement of pre-determined performance conditions, and ranges from 0 to 2 shares per PSU. Actual achievement will be disclosed following vesting in each respective financial year.

## 6. Share ownership information

### 6.1 Share ownership guidelines

To further align the interests of the members of the Board of Directors and the Management Board with those of Sonova's shareholders, the share ownership guidelines of Sonova Holding AG (share ownership guidelines) require the members to hold a fixed value of shares in order to be eligible to participate in the in the EEAP equity based compensation program.

The revised guideline approach, effective as of February 1, 2018, based on holding a fixed value rather than a fixed number of shares, ensures that a minimal level of investment is retained regardless of share price fluctuation, and is in line with market practice and assures eligibility to participate in the equity based compensation programs.

The CEO and COO must hold shares in a value of CHF 1,000,000. A mandatory shareholding to the value of CHF 200,000 applies to the other members of the Management Board, reflecting the lower pay levels. The CHF 200,000 value also applies to the members of the Board of Directors. These shareholdings must be generally achieved within three years and five months, with the exception of the CEO and COO. The NCC monitors the progress toward the requirements on an annual basis.

Only shares, i.e. Restricted Shares, fully vested shares or shares which have been purchased by the individual outside of the EEAP, are counted.

## 6.2 Shareholdings of members of the Board of Directors

The tables in this section are audited by the external auditor.

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

	31.03.2018			31.03.2017		
	Shares	Restricted Shares <sup>1)</sup>	Options	Shares	Restricted Shares <sup>1)</sup>	Options
Robert F. Spoerry, Chairman	29,780	18,972		25,607	20,440	
Beat Hess, Vice-Chairman	1,833	7,649			8,130	
Stacy Enxing Seng, Member		6,044			4,692	
Michael Jacobi, Member	4,876	7,649		3,043	8,130	5,115
Anssi Vanjoki, Member	3,876	7,649	2,558	2,043	8,130	2,558
Ronald van der Vis, Member	2,355	7,649		522	8,130	5,115
Jinlong Wang, Member		7,649			6,297	
Lynn Dorsey Bleil, Member <sup>2)</sup>		2,865			1,513	
<b>Total (active members)</b>	<b>42,720</b>	<b>66,126</b>	<b>2,558</b>	<b>31,215</b>	<b>65,462</b>	<b>12,788</b>

<sup>1)</sup> These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.

<sup>2)</sup> New member of the Board of Directors since June 2016.

For further details see also Note 30 in the consolidated financial statements.

The shareholding requirements according to the share ownership guidelines are entirely met 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.

	31.3.2018	31.3.2017
	Options EEAP 12 <sup>1)</sup>	Options EEAP 12 <sup>1)</sup>
Michael Jacobi		5,115
Anssi Vanjoki	2,558	2,558
Ronald van der Vis		5,115
<b>Total (active members)</b>	<b>2,558</b>	<b>12,788</b>

EEAP 2017 and 2018, 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.

## 6.3 Shareholdings of members of the Management Board

The tables in this section are audited by the external auditor.

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

	31.03.2018				31.03.2017		
	Shares <sup>1)</sup>	PSUs	RSUs	Options	Shares <sup>1)</sup>	RSUs	Options
Lukas Braunschweiler	17,061		9,953	191,152	14,323	9,891	159,549
Arnd Kaldowski <sup>2)</sup>	6,599	4,109		86,543			
Claude Diversi	2,250	1,854	3,971	36,207	1,500	5,309	32,753
Hansjürg Emch	8,544	1,854	4,431	62,710	8,619	6,256	59,316
Hartwig Grevenner	5,209	1,854	4,431	61,680	3,384	6,256	51,086
Martin Grieder	2,000	1,854	3,980	36,714	1,000	4,874	34,132
Claudio Bartesaghi <sup>3)</sup>	1,032	872	718	8,661 <sup>7)</sup>			
Hans Mehl	5,036	1,854	4,431	39,464	3,211	6,256	44,886
Andi Vonlanthen	15,161	1,854	4,431	66,231	13,336	6,256	60,037
Christophe Fond <sup>4)</sup>		1,896	1,790	24,078		1,790	13,243
<b>Total (active members)</b>	<b>62,892</b>	<b>18,001</b>	<b>38,136</b>	<b>613,440</b>	<b>45,373</b>	<b>46,888</b>	<b>455,002</b>
Sarah Kreienbühl <sup>5)</sup>					5,360	6,256	61,316
Franz Petermann <sup>6)</sup>					1,510	2,882	17,447
<b>Total (including former members)</b>	<b>62,892</b>	<b>18,001</b>	<b>38,136</b>	<b>613,440</b>	<b>52,243</b>	<b>56,026</b>	<b>533,765</b>

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

<sup>2)</sup> Member of the Management Board since October 1, 2017.

<sup>3)</sup> Member of the Management Board since October 1, 2017.

<sup>4)</sup> Member of the Management Board since January 23, 2017.

<sup>5)</sup> Member of the Management Board until September 30, 2017.

<sup>6)</sup> Member of the Management Board until July 31, 2017.

<sup>7)</sup> includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).  
For further details see also Note 30 in the consolidated financial statements.

The shareholding requirements according to the share ownership are entirely met by all members of the Management Board.

## COMPENSATION REPORT

The following table shows the shareholding requirements relative to the fixed base salary and the indicative actual shareholdings.

	Base salary	Share requirements <sup>1)</sup>	Actual shares <sup>2)</sup>	Fulfillment of share ownership guidelines	Share ownership ratio to base salary
	in CHF	in CHF	in CHF	in %	ratio
Lukas Braunschweiler, CEO	600,000	1,000,000	2,589,860	259	4.3
Arnd Kaldowski, COO	900,000	1,000,000	1,001,728	100	1.1
Other members of the MB <sup>3)</sup>	411,994	200,000	724,303	362	1.8

<sup>1)</sup> Share requirements to be achieved after 17 months for the CEO and COO and for other members of the MB after 41 months.

<sup>2)</sup> Calculated with Sonova closing share price of March 29, 2018 (CHF 151.80).

<sup>3)</sup> Average of other members of the Management Board with shareholding requirements.

The calculation to the fulfillment and the ratio to base salary of the share ownership shown above are included for illustration purposes only.

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

31.03.2018								
	Options EEAP 18 <sup>1)</sup>	Options EEAP 17 <sup>2)</sup>	Options EEAP 16 <sup>3)</sup>	Options EEAP 15 <sup>4)</sup>	Options EEAP 14 <sup>5)</sup>	Options EEAP 13 <sup>6)</sup>	Options EEAP 12 <sup>7)</sup>	Total options
Lukas Braunschweiler	31,603	38,625	25,788	27,173	21,719	20,669	25,575	191,152
Arnd Kaldowski	86,543 <sup>9)</sup>							86,543
Claude Diversi	10,594	12,507	7,737	3,836	1,533			36,207
Hansjürg Emch	10,594	12,948	10,315	10,869	8,687	8,267	1,030	62,710
Hartwig Grevenner	10,594	12,948	10,315	10,869	8,687	8,267		61,680
Martin Grieder	10,594	12,948	7,737	5,435				36,714
Claudio Bartesaghi <sup>8)</sup>	4,984	2,148 <sup>10)</sup>	1,529					8,661
Hans Mehl	10,594	12,948	8,315	5,435	2,172			39,464
Andi Vonlanthen	10,594	12,948	10,315	10,869	8,687	8,267	4,551	66,231
Christophe Fond	10,835	13,243						24,078
<b>Total</b>	<b>110,986</b>	<b>129,115</b>	<b>82,051</b>	<b>74,486</b>	<b>51,485</b>	<b>45,470</b>	<b>31,156</b>	<b>613,440</b>

<sup>1)</sup> Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.

<sup>2)</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>3)</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>4)</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>5)</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>6)</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>7)</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>8)</sup> Member of the Management Board since October 1, 2017.

<sup>9)</sup> Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.

<sup>10)</sup> SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

31.3.2017

	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 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.

## Glossary

**AGM** Annual General Shareholders' Meeting

**AHV** Old Age and Survivors' Insurance

**ALV** Unemployment Insurance

**Articles of Association** Articles of Association of Sonova Holding AG

**ASP** Average Sales Price

**BoD** Board of Directors

**CAGR** Compound Annual Growth Rate

**CEO** Chief Executive Officer

**CFO** Chief Financial Officer

**CHF** Swiss Francs

**COO** Chief Operating Officer

**EBITA** Earnings Before Interest, Taxes and Amortization/Operating profit before acquisition-related amortization

**EEAP** Employee Equity Award Plan

**EPS** Earnings Per Share

**FCF** Free Cash Flow

**GVP** Group Vice President

**KPIs** Key Performance Indicators

**MB** Management Board

**n.a.** Not applicable

**NCC** Nomination and Compensation Committee

**OPEX** Operating Expenses

**PSU** Performance Share Unit

**ROCE** Return on capital employed

**RSU** Restricted Share Unit

**rTSR** relative Total Shareholder Return

**SLI** Swiss Leaders Index

**VCC** 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 Staeфа***

We have audited the accompanying remuneration report of Sonova Holding AG for the year ended 31 March 2018. 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 of sections 5.1, 5.2, 6.2 and 6.3 excluding tables: 5.1.2 and 5.2.1.

#### ***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.

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**Opinion**

In our opinion, the remuneration report of Sonova Holding AG for the year ended 31 March 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

A handwritten signature in black ink, appearing to read 'S. Böhm', written over a horizontal line.

Sandra Böhm  
Audit expert  
Auditor in charge

A handwritten signature in black ink, appearing to read 'C. Berchtold', written over a horizontal line.

Claudio Berchtold  
Audit expert

Zürich, 16 May 2018

Enclosure:

- Remuneration report