



Strategy

Hearing care market and supply chain

Hearing – an underestimated topic

The importance of good hearing and the consequences of hearing loss continue to be underestimated, even though according to the World Health Organization (WHO), about 15% of the world's population is affected by hearing loss. The number of people with hearing loss continues to rise, due both to the aging of populations in developed countries and to growing noise pollution in our environment. In addition, according to the UN children's fund UNICEF, over 665,000 children are born with significant hearing loss each year.

People with untreated hearing loss are often faced with serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. Especially severe are the consequences for children with untreated hearing loss, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss also is often associated with academic underachievement, which can lead to lower job performance and fewer employment opportunities later in life.

In addition to the impact of hearing loss at an individual level, untreated hearing loss puts a heavy cost burden on society. Unaddressed hearing loss costs countries an estimated USD 750 billion annually in direct health costs and loss of productivity. Today's hearing technologies offer the opportunity to reduce this significantly.



[WHO global estimates](#)



[WHO disability and health factsheet](#)

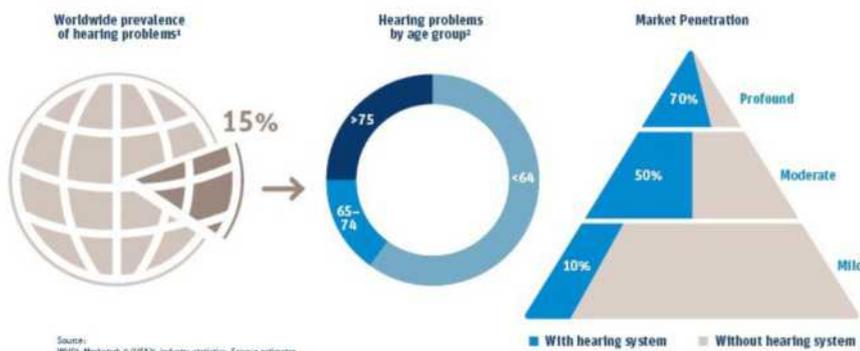


[WHO deafness and hearing loss fact sheet](#)

Market opportunities

The hearing aid market continues to grow, driven by long-term socioeconomic forces. The number of people on our planet will continue to increase. Although populations in developing countries are expected to grow the most, even developed countries with stable populations will face a growing proportion of elderly citizens, who are likely to experience hearing loss. These trends create commercial opportunities for Sonova through an increase in demand for hearing care.

Around 15% of adults have some degree of hearing impairment



over 15%

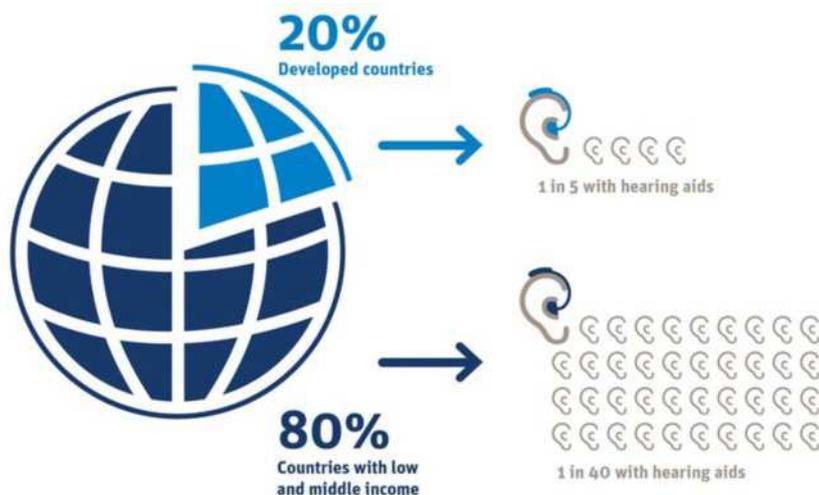
of the world's population is affected by hearing loss

The overall rate of penetration for hearing technologies in developed countries is around 20%. We estimate that, while in developed markets 70% of people with severe-to-profound hearing loss have hearing aids, only 10% of those with mild-to-moderate hearing loss currently use hearing instruments. However, younger and less-affected people are increasing their adoption of hearing aids as technology moves toward ever better sound quality and smaller, more discreet devices.

Around 80% of people with hearing loss live in developing countries with low to medium income. The hearing care market in developing countries remains relatively under-served: Only one in forty people with hearing loss wears a hearing aid. People in developing countries often have no access to audiological and medical care.



WHO global estimates



However, we expect the growth of the middle classes in emerging economies to boost consumption significantly and see the shift in spending power and lifestyle ambition as a substantial opportunity. Our strategy therefore calls for a strong focus on the potential of emerging markets to serve the demands of these newly-empowered consumers with suitable product formats.

The hearing care market is highly diverse, requiring a broad range of technologically-advanced solutions and extensive customer service channels. The core of Sonova's innovation strategy is to maintain full development pipelines for products and solutions. By extending our innovative base technologies across the different businesses and maintaining our rigorous technology platform approach to product and solution development, we accelerate time-to-market, consistently generating around two-thirds of our hearing instrument sales from products launched within the previous two years.

Market challenges

Even though we offer a product portfolio with a wide range of performance and pricing levels, affordable hearing care is still a challenge for people in emerging countries and for underprivileged social groups in developed regions.

Changes to governmental reimbursement and subsidy regimes affect the amount of funding available to end-users and thus the number of hearing aids sold. This has a significant impact: regions with high reimbursement levels clearly show higher market penetration; the lower end of the market penetration table mostly comprises emerging countries with no reimbursement regimes.

This challenge is aggravated by the fact that many countries lack trained health personnel, educational facilities, and necessary data to address the needs of those living with hearing problems. These factors, and the lack of hearing care professionals and infrastructure in certain markets, can impede efforts to raise the penetration rate. As an example, China faces the challenge of the rapidly-growing number of people with hearing loss potentially exceeding the number of qualified hearing care professionals to help them. To tackle these challenges, we have defined a wide range of initiatives, including dedicated products for China, co-operation with distribution partners and government, and education for hearing care professionals. Read more about our commitment in the section [“Access to hearing care”](#).

Two-thirds

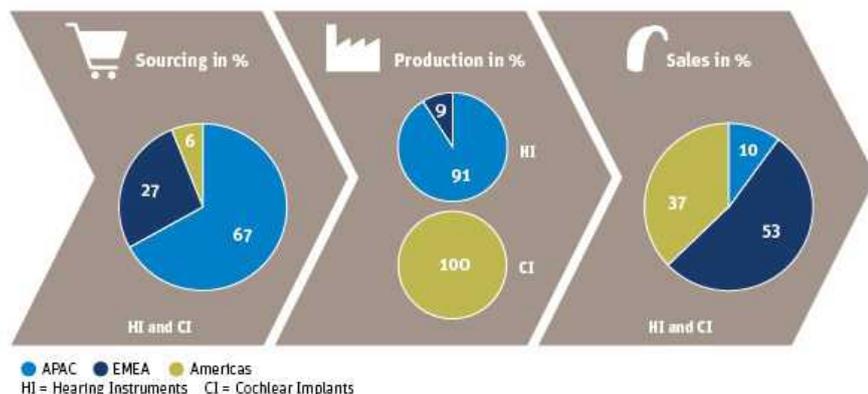
of our hearing aids sales are generated by products less than two years from launch

International supply chain

Sonova deals with around 430 suppliers to its hearing instruments segment, who deliver components for manufacturing and assembly, and around 120 direct material suppliers to the cochlear implant segment. In spending terms, 67.1% of Sonova’s purchase volume is located in the Asia/ Pacific region, 10.2% in Switzerland, 15.6% in Europe (excl. Switzerland), 6.3% in North America, and 0.8% in Africa.

Our suppliers are mainly high-tech design and component makers, or original equipment manufacturers with a high degree of automation. Sonova engages only a very small number of contractors and licensees. Sonova’s own manufacturing operations extend from fully-automated processes, such as hybrid circuit production, to highly-skilled manual work, such as assembly of hearing aids and cochlear implants.

[Continuous supplier management](#)





Strategy Sustainability program

Materiality analysis

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

Identification and prioritization

At Sonova, material issues are those business, social, and environmental topics that either create significant value, cause potential risks, or have negative impacts for our internal and external stakeholders. Last year, we have further refined the materiality matrix produced in 2014/15. The picture below summarizes the sustainability landscape that underlies our sustainability program and shows how we intend to create value. The sustainability program encompasses our vision, our values and our commitments. All topics with high or medium impact from the 2014/15 materiality matrix appear in the current sustainability landscape, either as part of the four core commitments Sonova makes towards its stakeholders, or as part of our governance, risk, and compliance management.



[Materiality Matrix 2014/15](#)

[GRI 102-44, GRI 102-46](#)

Sustainability landscape

Our vision – the “why”

Our company’s vision is the motivation for our actions and provides the basis for our sustainability program. Over 15% of the world’s adults experience some degree of hearing loss, but very few are treated for it. At Sonova, our vision is straightforward: We foster a world in which all people equally enjoy the delight of hearing and live a life without limitations.



[Sonova vision and mission](#)

Our values – the “how”

The values describe how we interact with each other and how we do business. We help people hear the world by providing the most innovative technology, by dedicating ourselves to service, and by accepting responsibility for all of our actions. Our governance, risk, and compliance management further substantiate and formalize our values.



[WHO global estimates](#)



[Sonova values](#)

Our commitments – the “what”

The four commitments explain what we do to transform our vision into reality: we are creating value for our stakeholders by providing customer-focused solutions and expanding access to hearing care, we are doing business in a responsible manner by investing in our employees and partners, as well as by maximizing our eco-efficiency. We live up to our commitments through specific, defined fields of activity. The sustainability report is structured in terms of the commitments and provides information on the progress we made in each of these defined activities.

GRI 102-47



Customer-focused solutions

We continuously push the limits of technology and innovation to offer the best solutions to our customers.

Fields of activity

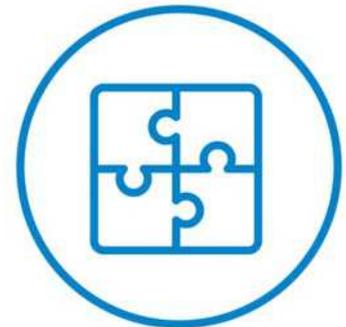
- New products
- eSolutions

Goal

We will continue to offer the broadest range of technologically advanced hearing solutions to our customers by substantially investing in R&D and by applying for a minimum of 40 patents each year.

Approach

- Investment in expertise and training: We continuously strengthen the expertise of hundreds of engineers working in our R&D centers around the world to drive innovation in hearing aids, cochlear implants, wireless communication systems, and professional hearing care solutions.
- Strong partnerships: We leverage the complementary strengths of all our business brands and foster know-how transfer through close collaboration with expert networks and universities around the globe.
- eSolutions: We strategically focus on the development of eSolutions to establish one-to-one, real-time relationships with our customers.



Performance

Read about our achievements and progress in 2017/18 in the corresponding section of this CSR Report “[Customer-focused solutions](#)”.

Access to hearing care

We provide access to hearing care and improve the quality of life for millions of people with hearing loss.

Fields of activity

- New markets
- Hear the World Foundation

Goal

We aim to provide access to hearing care and improve the quality of life. By 2020, we want to conduct 14,000 hours of volunteer work for our Hear the World Foundation with Sonova employees.

Approach

- Extensive product portfolio: At Sonova, we offer a wide range of performance and pricing levels, from standard to premium solutions.
- Hearing care infrastructure: By developing new service formats and distribution channels and by supporting the education of local specialists, we can provide hearing care services and treatment to groups who are currently underserved.
- Partnerships: By building productive partnerships and collaborations with local organizations, we can offer the fullest benefit of our skills and services to the people who need them.
- Foundation: Affordable hearing care is still a challenge for people in countries with low-to-middle income and for underprivileged social groups in countries with high income. We cater to these groups through our charitable Hear the World Foundation.

Performance

Read about our achievements and progress in 2017/18 in the corresponding section of this CSR Report “[Access to hearing care](#)”.



Investment in people

We offer our employees a flexible and inclusive work environment and an open culture.

Fields of activity

- Professional development
- Body & Mind initiative
- Diversity & Inclusion
- Human rights & labor practices

Goal

We will fill at least half of all vacant leadership positions per year from inside the company.

Approach

- Professional career development: We develop our employees to higher levels of success with a systematic talent management process including a strategic approach to training, succession, and career planning.
- Employee engagement: We foster employee engagement through the group-wide Body & Mind initiative and a holistic Diversity & Inclusion strategy.
- International labor standards: We conduct business and align our codes and principles according to internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic Cooperation and Development (OECD). All our employees, business partners, and suppliers are expected to comply with these standards.

Performance

Read about our achievements and progress in 2017/18 in the corresponding section of this CSR Report “Investment in people”.



Safeguarding the environment

We ensure eco-efficient practices across all our business activities.

Fields of activity

- Environmental program
- Smart Mobility

Goal

Sonova plans strong efforts to further improve our environmental performance with the following targets:

- a 10% reduction from 2013/14 levels of production-related carbon emissions intensity by 2018/19
- a 10% reduction from 2013/14 levels of air travel-related carbon emissions intensity by 2018/19
- ensuring that 100% of purchase volume comes from suppliers having environmental friendly practices in place by 2018/19



Approach

- Operational energy efficiency: We reduce our carbon footprint by fully utilizing capacity, renewing equipment, remodeling existing buildings, or moving to new buildings.
- Alternative energy: We generate power using renewable sources and purchase green power.
- Environmental management systems: We have established a ISO 14001-certified environmental management at all our key manufacturing and distribution centers and urge our suppliers to follow the same standard.

Performance

Read about our achievements and progress in 2017/18 in the corresponding section of this CSR Report “[Safeguarding the environment](#)”.

Validation

Our sustainability program aligns closely with our business strategy. The management board assesses the sustainability program for completeness and determines its significance to the organization’s economic, environmental, and social impact. Both the management board and the Board of Directors also regularly assesses the program in terms of effectiveness based on the yearly reporting.

Topic boundaries

The sustainability program is defined by its relevance to the whole Sonova Group and therefore all defined fields of activity are assumed to be material to all or nearly all of the entities covered by this report. Sonova assigns each field of activity to its appropriate stage or stages of the value-creation process, from raw material supply to after-sales refurbishing or recycling. Those aspects that are also or primarily material outside the organization relate to our supply chain (human rights and labor practices, environmental program) or to the utilization of our products and services (new products and markets, e-solutions, Hear the World Foundation).

[GRI 103-1](#)



Strategy

Stakeholder engagement

Open dialog

Sonova strives to engage in an open and transparent dialog with all its stakeholders. We actively initiate dialog through a broad range of channels as a way to promote participative and integrated decision-making. We understand how the involvement of stakeholders supports our long-term success by enhancing transparency, broadening knowledge, and generating innovative solutions.

[GRI 102-40](#), [GRI 102-42](#)

Based on the relevant aspects of our business and products, Sonova has defined six key stakeholder groups: customers, employees, shareholders, suppliers, academia, and opinion leaders. Further stakeholder groups important to Sonova are: the financial community, media, regulators, insurers, and competitors.

Sonova identifies and selects relevant stakeholders for further dialog and engagement based on our existing stakeholder-facing activities and on information gathered from internal staff interviews and management workshops. We regularly interact with our current stakeholders to define their specific interests in our activities and their influence over our decisions.

The key topics and concerns that have been raised through stakeholder engagement are product stewardship, customer satisfaction, and legal compliance. These topics and concerns are mainly raised by customers and regulators.

Customers

Our customers stand at the center of our business. Our business model is built on business-to-business (hearing care professionals, clinics, retailers) and business-to-consumer (end users, patients) customer relationships. Sonova establishes specific channels of engagement appropriate to the differing needs of each of these groups.

[GRI 102-43](#)

We ensure continuous dialog with our business-to-business customers through our sales representatives, brand tracker surveys, customer satisfaction surveys, advisory network, knowledge management and sharing, customer hotline and support, audiology conferences, online customer communities, and complaint management channels. We provide a broad range of professional training and courses that address the various specializations in the

STAKEHOLDER ENGAGEMENT

hearing care industry. We also organize e-learning seminars, road shows, face-to-face in-clinic training, and technical marketing material to help transfer our knowledge and train hearing care specialists.

We engage with end users and patients through satisfaction surveys and online consumer communities such as HearingLikeMe.com and Advanced Bionics' Bionic Ear Association (BEA™). HearingLikeMe.com brings together people whose lives have been touched by hearing loss. The website is visited by more than 30,000 people every month and provides those with hearing loss – as well as parents, spouses, and hearing care professionals – daily educational and inspirational news articles and videos. BEA™ aims to improve the quality of life of individuals with severe-to-profound hearing loss by providing valuable information, education, and awareness on cochlear implants. As a community of hearing health professionals and cochlear implant recipients, the BEA™ offers important support services to help recipients “Hear and Be Heard™”.

The Phonak Pediatric Advisory Board was founded in 1998 to help steer Phonak's pediatric product development and establish and recommend industry-best practices to support the needs of children with hearing loss and ensure optimal outcomes for them.



[HearingLikeMe.com](https://www.hearinglikeme.com)



[Pediatric Advisory Board](#)

Employees

Sonova's employees are key to its success. We foster a spirit of innovation, shared engagement, and personal responsibility. Through our vision, we want to ensure that our employees experience their work as genuinely meaningful.

Sonova actively engages with its employees through regular employee satisfaction surveys and through its annual appraisal process. The employee appraisal meeting is an essential process to assess satisfaction, provide feedback, and define expectations for behavior and performance. It supports each employee's personal and professional development and helps to build trusting relationships by providing a format for open dialog.

[GRI 102-43](#)

[Investment in people](#)

Shareholders

Sonova has 18,648 registered shareholders, who together own around 68% of the total shares. Shareholders' interests are represented by the Board of Directors, which sets and oversees the general direction of the company.

We publish an Annual Report for shareholders and other stakeholders, and hold an annual General Shareholders' Meeting, which provides a forum for discussion and debate as well as an opportunity to vote on compensation for management and the Board of Directors. Each share entered in the share register with a voting right entitles the holder to one vote in the General Shareholders' Meeting.



[Annual Report 2017/18](#)

Suppliers

Suppliers are an integral part of Sonova's value chain. Our relationship with our suppliers is governed by Sonova's Group Supplier Principles (SGSP), which are based on a range of international standards, customer requirements, and industry characteristics.

We assess all new suppliers on their management systems. We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections.

GRI 102-43



[Group Supplier Principles](#)

Academia and opinion leaders

Sonova's know-how and history of innovation is reflected in its strong partnerships with leading academic institutions and opinion leaders around the world.

We collaborate intensively with universities such as the Swiss Federal Institutes of Technology (ETH) in Zurich and Lausanne, the University of Zurich, the University of Manchester (UK), the University of Hannover (Germany), the University of Oldenburg (Germany), Vanderbilt University in Nashville (US), the University of Melbourne (Australia), the University of Queensland (Australia) and the University of Western Ontario in Waterloo (Canada). We foster a close collaboration with these partners by offering support toward diploma theses for Master's or PhD students. We do not just support studies financially, but, when appropriate, participate in the actual work by closely collaborating on research projects.

GRI 102-43

Financial community

As a publicly listed company, Sonova 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.

We actively interact with the financial community at road-shows and conferences. Sonova holds an Investor Day every year at its headquarters in Stäfa; last year's event attracted significant interest from the international investor community, with over 100 participants. We also hold regular exchanges with representatives from the social-responsibility investment segment and participate in assessments by sustainability index authorities.

GRI 102-43



[Sonova Investor Relations](#)

Media

Sonova drives and maintains a strong in-depth relationship with the media as part of its commitment to ensure transparency, dialog, and accountability for all of its activities.

The media relations team works globally with top-tier media, general media, trade media, financial media, and the major wire services to ensure a fair disclosure of information for all stakeholders, creating awareness for hearing loss and its implications and of informing on key aspects of Sonova's business activities.

GRI 102-43



[Sonova News Room](#)

Regulators

Sonova's products are regulated medical devices, which means that the company must meet statutory patient safety standards and functional performance claims with clinical evidence.

GRI 102-43

We recognize our responsibility to share our specialist knowledge in external working groups to help define, on behalf of our customers, the regulatory principles that will ensure the highest quality standards for hearing instruments and cochlear implants.

Insurers

Governments and social institutions such as the Veterans Administration in the United States and the National Health Service in the United Kingdom, as well as public and private insurance providers, all contribute to improve access to hearing care. Sonova regularly participates in tender processes and offers its products and services to help insurers receive the best hearing value for their money.

GRI 102-43

Competitors

Sonova's competitors aim to gain market share. This competition generates improved service for customers and drives Sonova to push yet further the limits of technology. We are committed to fair competition.

GRI 102-43