



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	Registered shareholders
	31.3.2018	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.



## CORPORATE GOVERNANCE

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 Grevener

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

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



### 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 Jelmoli 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.

## CORPORATE GOVERNANCE

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.