FINANCIAL REPORT

Annual Report 2016/17

We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Highlights 2016/17

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

Sonova Group: 15.3 % sales growth in local currencies

Consolidated sales for the Sonova Group were CHF 2,396 million, an increase of 15.3 % in local currencies and of 15.6 % in Swiss francs. This includes AudioNova for seven months of the year. Organic growth stood at 4.3 %.

Hearing instruments segment: 15.9 % sales growth in local currencies

Sales in the hearing instruments segment reached CHF 2,190.3 million, an increase of 15.9 % in local currencies and 16.2 % in Swiss francs. Excluding one-time costs [2], EBITA increased by 10.3 % in local currencies.

Cochlear implants segment: 9.6 % sales growth in local currencies

Sales in the cochlear implants segment reached CHF 205.4 million, up 9.6 % in local currencies. This resulted in an EBITA of CHF 8.0 million, up from a break-even result in the prior year.

Normalized Group EBITA of CHF 481.4 million

Excluding one-time costs [2], Group EBITA increased by 12.1 % in local currencies and 11.8 % in Swiss francs to CHF 481.4 million. As reported, Group EBITA reached CHF 463.0 million, up 7.5 % over the prior year.

Sound cash flow, healthy balance sheet

Supported by continued strong cash generation, operating free cash flow reached CHF 424.8 million, resulting in a healthy balance sheet.

Dividend increase of 9.5 % proposed

The Board of Directors proposes to the 2017 Annual General Shareholders' Meeting a dividend of CHF 2.30, representing a normalized [2] payout ratio of 41 %.

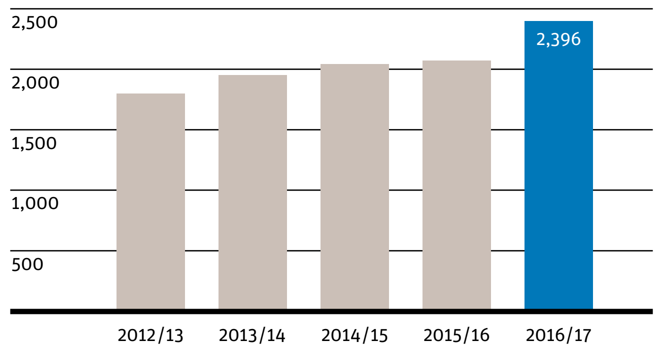
Sonova Group key figures

in CHF m unless otherwise specified	2016/17	2015/16	Change in Swiss francs	Change in local currencies
Sales	2,395.7	2,071.9	15.6 %	15.3 %
EBITA	463.0	430.6	7.5 %	7.9 %
EPS (CHF)	5.35	5.11	4.7 %	
Operating free cash flow	424.8	344.2	23.4 %	
ROCE[1]	20.4 %	26.0 %		
EBITA (normalized)[2]	481.4	430.6	11.8 %	12.1 %
EBITA margin (normalized)[2]	20.1 %	20.8 %		
EPS (CHF) (normalized)[2]	5.58	5.11	9.2 %	

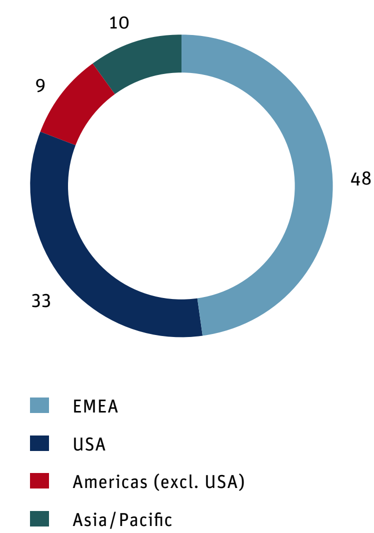
[1] For detailed definitions, please refer to "Key figures".
[2] 2016/17 excluding one-time costs of CHF 18.4 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Key figures 2016/17

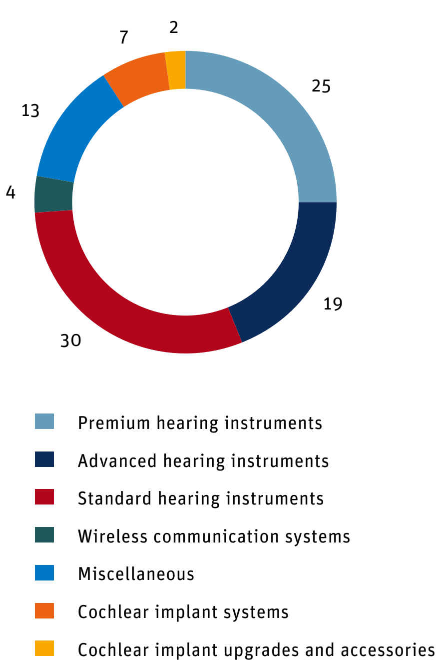
Sales development in CHF m



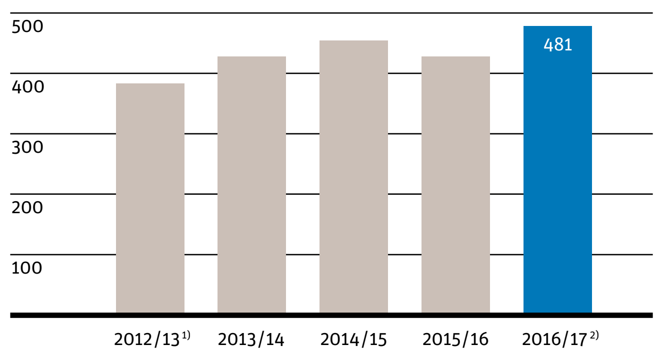
Sales by regions in 2016/17 in %



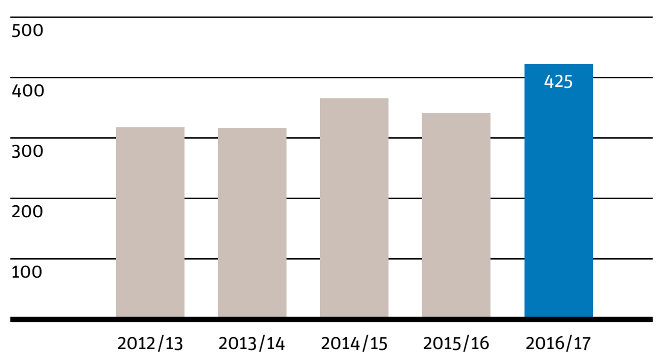
Sales by product groups in 2016/17 in %



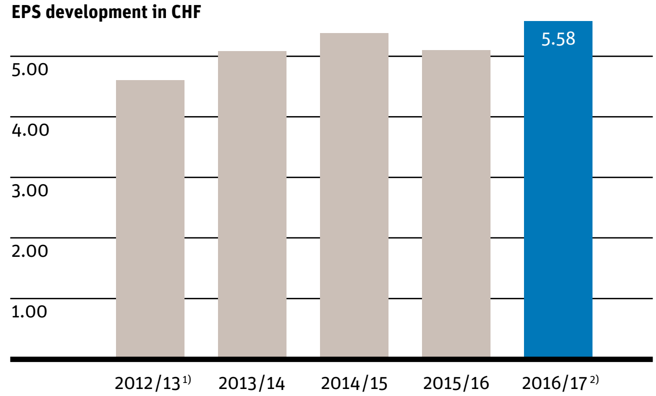
EBITA development in CHF m



Operating Free Cash Flow development in CHF m



EPS development in CHF



1) Restated following the implementation of IAS 19 (revised). Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business.

2) Excluding one-time costs of CHF 18.4 million, consisting of transaction costs and integration related restructuring costs in connection with the acquisition of AudioNova.

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Letter to shareholders

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

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

Dear shareholders,

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

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

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

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

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

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

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

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

Robert F. Spoerry

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

Lukas Braunschweiler

Hearing instruments segment

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

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

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

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

Cochlear implants segment

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

Financial highlights

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

Use of cash

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

Corporate social responsibility

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

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

Our thanks

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

Outlook 2017 / 18

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

Robert Spoerry
Chairman of the Board
of Directors

Lukas Braunschweiler
CEO


sonova
HEAR THE WORLD
PHONAK
unitron
HANSATON
Advanced Bionics
AudioNova

The Sonova Group

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

sonova
HEAR THE WORLD

Hearing instruments segment

- Hearing instruments business
  - PHONAK
  - unitron
  - HANSATON
- Retail business
  - AudioNova
  - operating under several market-specific local brands

Cochlear implants segment

- Cochlear implants business
  - Advanced Bionics

Hearing instruments business

(54.7 % of Group sales)

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

Retail business

(36.7 % of Group sales)

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

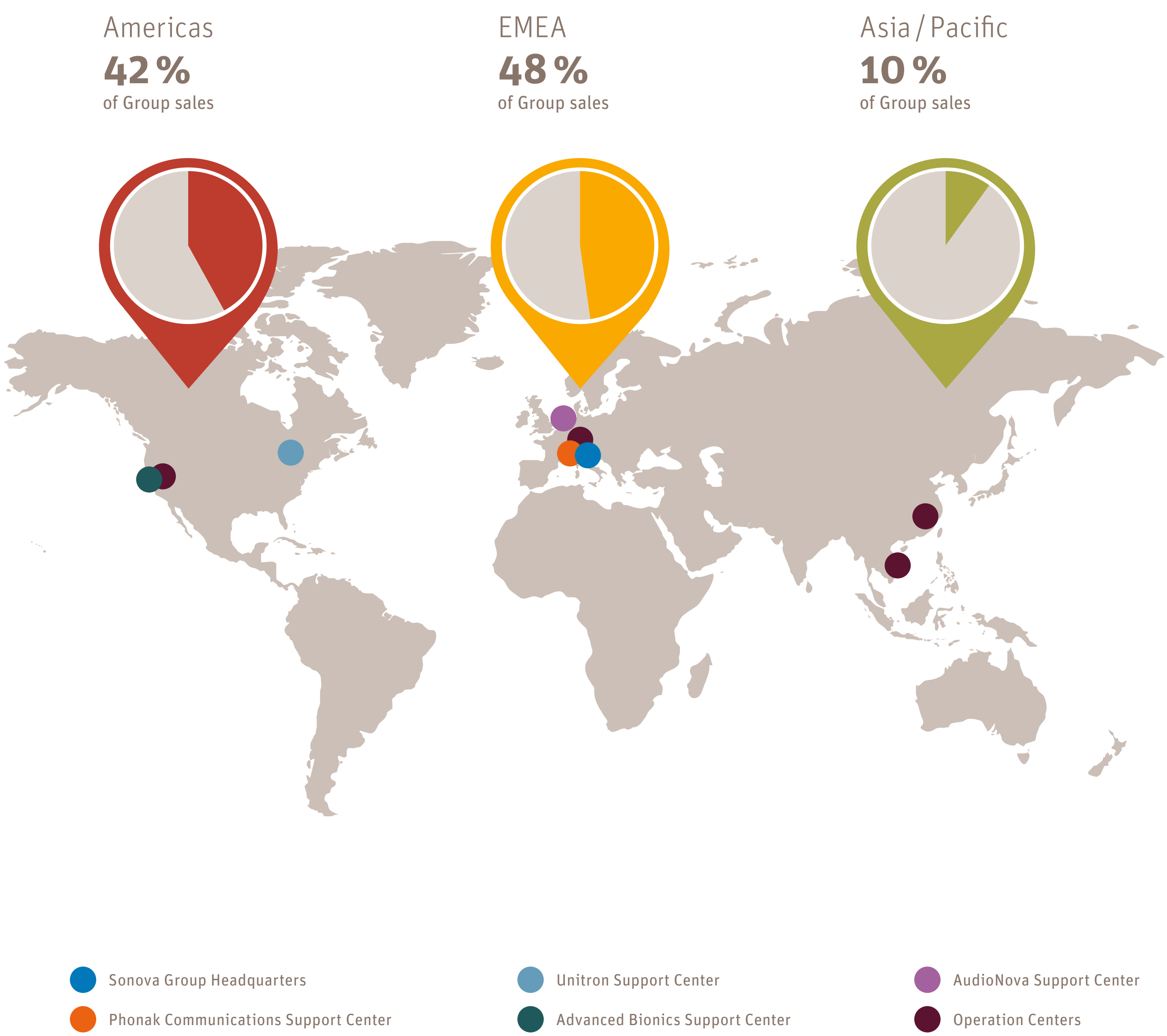
Cochlear implants business

(8.6 % of Group sales)

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

Our global presence

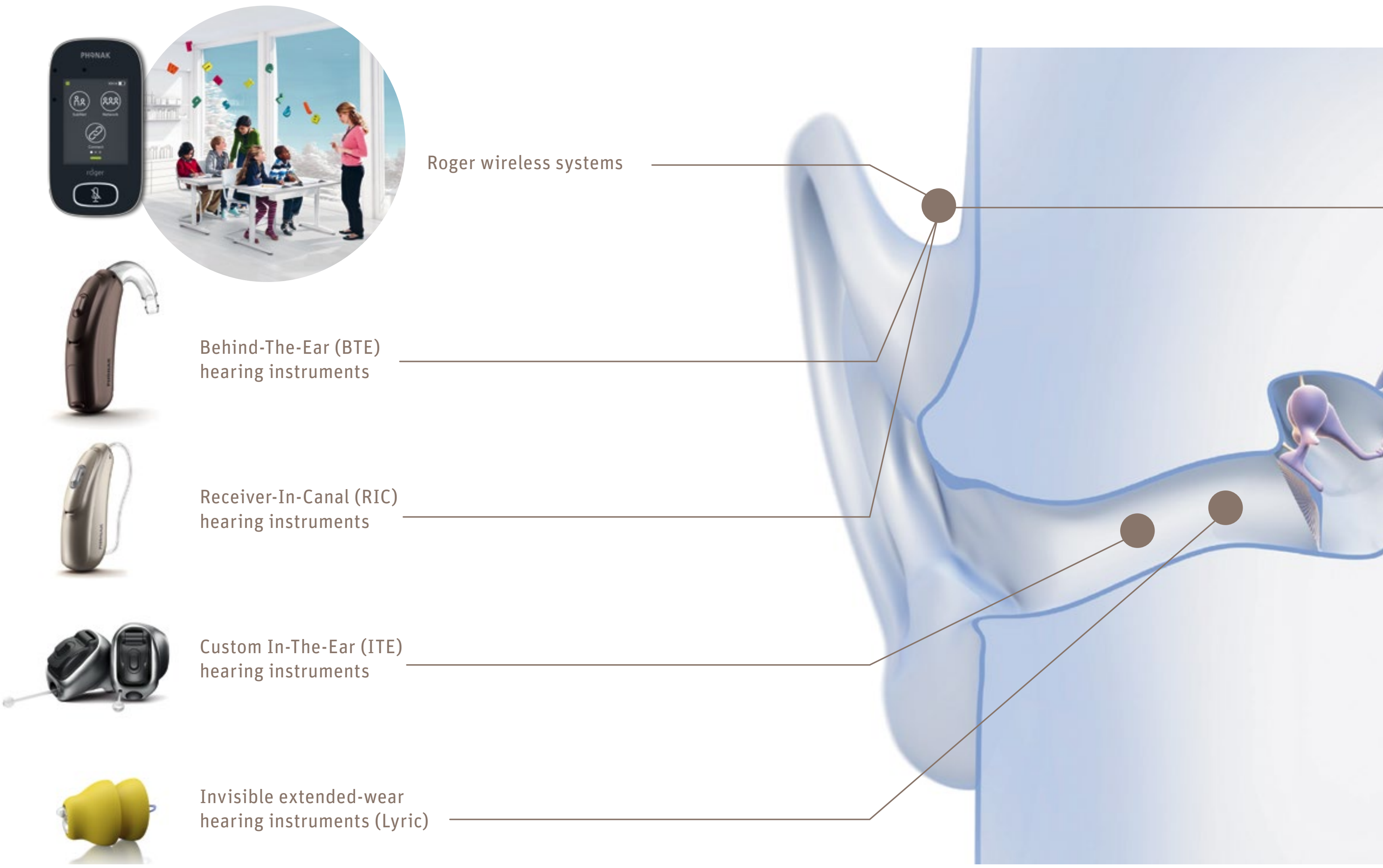
Sonova's market is worldwide. We sustain our brands with six innovation centers and four operations sites on three continents. Our sales and support presence is the widest in the industry: over 50 wholesale companies and more than 100 independent distributors. Our audiological service network has more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



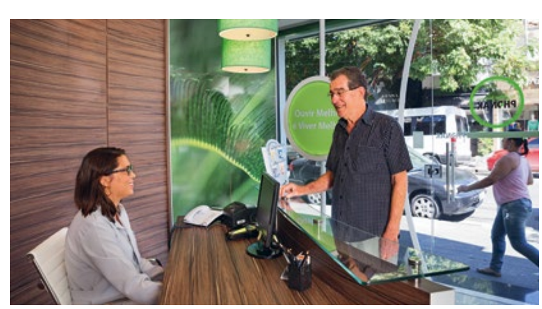
Our product and service offering

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

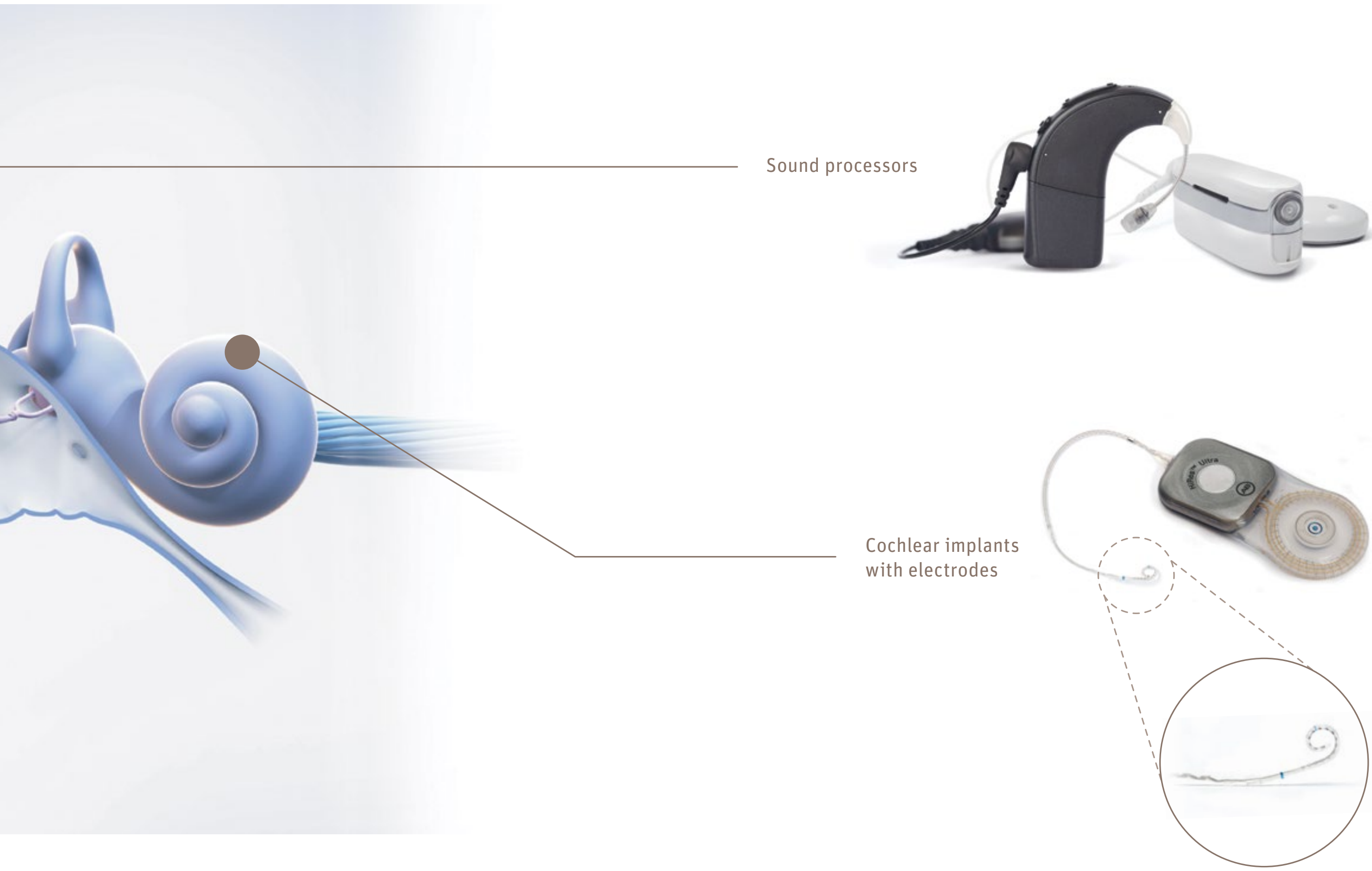
Hearing instruments business



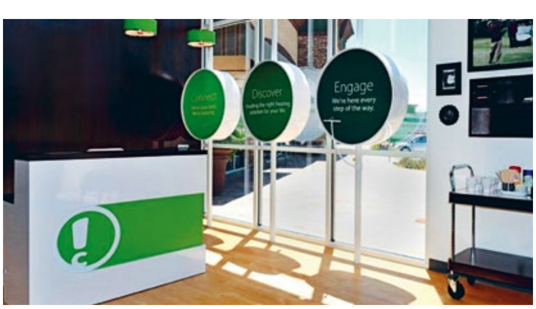
Retail business – Professional audiological services

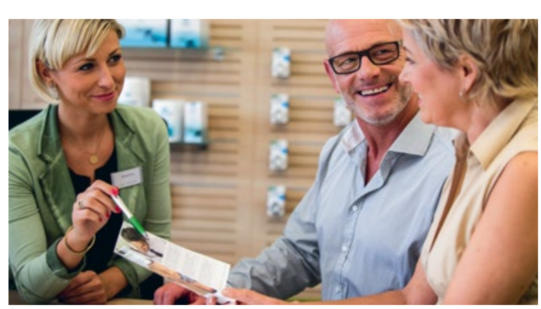


Cochlear implants business



Advanced Bionics





Strategy and businesses

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

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

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

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

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

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

Cochlear implants business: Our Advanced Bionics brand offers cochlear implant recipients – children and adults with severe-to-profound hearing loss – the chance to hear clear, real-life sound through sophisticated, reliable solutions incorporating Phonak sound processing technology. The two brands also benefit from complementary customer bases and joint marketing opportunities.

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

New products

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

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

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

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

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

Market access

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

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

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

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

eSolutions

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

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

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

Investing in our people

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

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

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

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

On the path to growth

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

Asia / Pacific facts & figures:

Population:
over 4.5 billion
of which:
China: 1.37 billon
India: 1.31 billion
Australia: 24.4 million
Growth: +0.9 % (2016)

GDP:
China:
GDP: USD 11.4 trillion (2016)
Growth: +6.6 % (2016)
India:
GDP: USD 2.3 trillion (2016)
Growth: +7.6 % (2016)
Australia:
GDP: USD 1.2 trillion (2016)
Growth: +2.9 % (2016)

Region with significant potential

Around 60 % of the world's population lives in the Asia / Pacific region. Mature markets, such as Australia, New Zealand, and Japan, continue to develop steadily. The largest countries in the region, China and India, show a low penetration rate.

Sonova in the region

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

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

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

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

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

All these strands converge at Sonova's regional hub in the city-state of Singapore, where synergies between the various Group companies are forged, ensuring cost efficiency and integrated service. Sonova's Asia / Pacific hub is optimally located: the flight to Shanghai is five hours, you can be in Delhi in six, and the west coast of Australia is only five hours away. The Sonova Group operates its own companies in countries such as China, India, Vietnam, South Korea, Japan, Australia, New Zealand and Singapore while other parts of the region are covered via distributors.

The Sonova Group's operation centers in Vietnam and China manufacture products for the entire world. The Ho Chi Minh City production facility in Vietnam was enlarged by 10,000 m² in 2016; the new factory is built to accommodate a production team of 1,200 and is equipped to produce a variety of hearing instruments. The operation center also meets the highest environmental protection standards, with a state-of-the-art building management system helping to minimize energy consumption. The production capacity of the operation center in China has also grown rapidly over the last few years; the facility in Suzhou manufactured around one million units (predominantly behind-the-ear hearing aids) in the 2007 / 08 financial year but production has since increased several times over. This success is rooted in the commitment of the employees and close cooperation within the team. General Manager Davy Ling believes it is especially important for everyone to feel part of the Sonova Group and to be motivated to contribute new ideas. "At the entrance to our operation center we have a pinboard showing improvements suggested by our staff – tips on how to optimize production processes, for example," explains Ling.

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

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

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

Sonova’s hearing aid brand Unitron is equally well-positioned in the Asia / Pacific region, with Australia figuring as one of its key markets. Here too, hearing care professionals can offer their customers an opportunity to test out a device before deciding on a purchase. This Flex:Trial™ system has been demonstrated in workshops to hearing care professionals up and down the country with great success, and course participants also learn ways of improving the customer experience: “It’s not about selling a product, it’s about offering a solution,” explains trainer Catherine Brown. The Flex:Trial workshops also introduce participants to Unitron’s Log It All software, which allows hearing care professionals to make use of customer data when giving advice, as Log It All documents user behavior in various acoustic environments. The end result is a comprehensive picture, as data about acoustic conditions and hearing aid settings are recorded. The customer’s personal experiences of hearing situations are linked with these data via an app. “This allows customers and hearing care professionals to work together to assess which situations and settings the wearer was happy with. Customers can try out various levels of technology with the Flex:Trial unit without having to get used to a new device,” explains Brown. With the Flex:Upgrade program, customers are able to enhance the performance level of a hearing aid they have already bought simply by taking it to the hearing care professional to have it reprogrammed.

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

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

At the same time, a young dancer is training in the Chinese city of Harbin, 9,000 km northwest of Sydney. Tianjiao (Jiaojiao) Zhang leaps from the floor of the bright training room and glides through the air for a moment, her left arm stretched out above her. She lands gently, relaxes her joints, and laughs. Even as a child, the 20-year-old dancer knew there was only one career for her, despite her profound hearing loss – and she has been supported in this endeavor by hearing aids from Sonova brand Phonak; Jiaojiao has been wearing these since she was five years old. As a little girl, Jiaojiao learned to dance, hear and speak all at the same time. “Lots of people said to me that I would never manage it. But my teacher and especially my mother have always believed in me.” Her teacher recognized her talent for dancing at an early age and practiced with her, speaking slowly and with plenty of gestures, and always looking for eye contact. The training was very hard. “I had this determination within me not to cry, but to grit my teeth. I wanted to get better and better.” Nowadays, Jiaojiao can smile when she talks about that time. Success came quickly, and even as a teenager, Jiaojiao was winning prizes at national and international competitions before studying dance at a prestigious academy in Beijing. Having graduated, she now works as a freelance dancer with bookings all over the country for appearances with various dance troupes. She also gives ballet lessons to children. “I love teaching children and encouraging them. My dream is to have my own dance school one day. Dancing makes me happy and I want to pass this on,” she says, smiling – and preparing for her next pirouette.

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

Hearing instruments business

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

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

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

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

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

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

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

New products

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

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

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

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

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

Market access

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

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

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

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

eSolutions

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

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

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

1 MarkeTrak 2015, asked of non-owners only (n=2099) – multiple responses allowed

2 Expected results when fully charged, and up to 80 minutes wireless streaming time

3 Phonak Field Study News, June 2015. AutoSense OS – Benefit of the next generation of technology automation.

4 Phonak Field Study News, April 2011. StereoZoom improved speech understanding even with open fittings.

Practical training for optimal hearing solutions

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

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

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

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

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

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

Retail business

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

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

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

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

New products and services

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

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

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

Market access

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

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

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

eSolutions

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

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

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

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

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

Network for better hearing

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

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

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

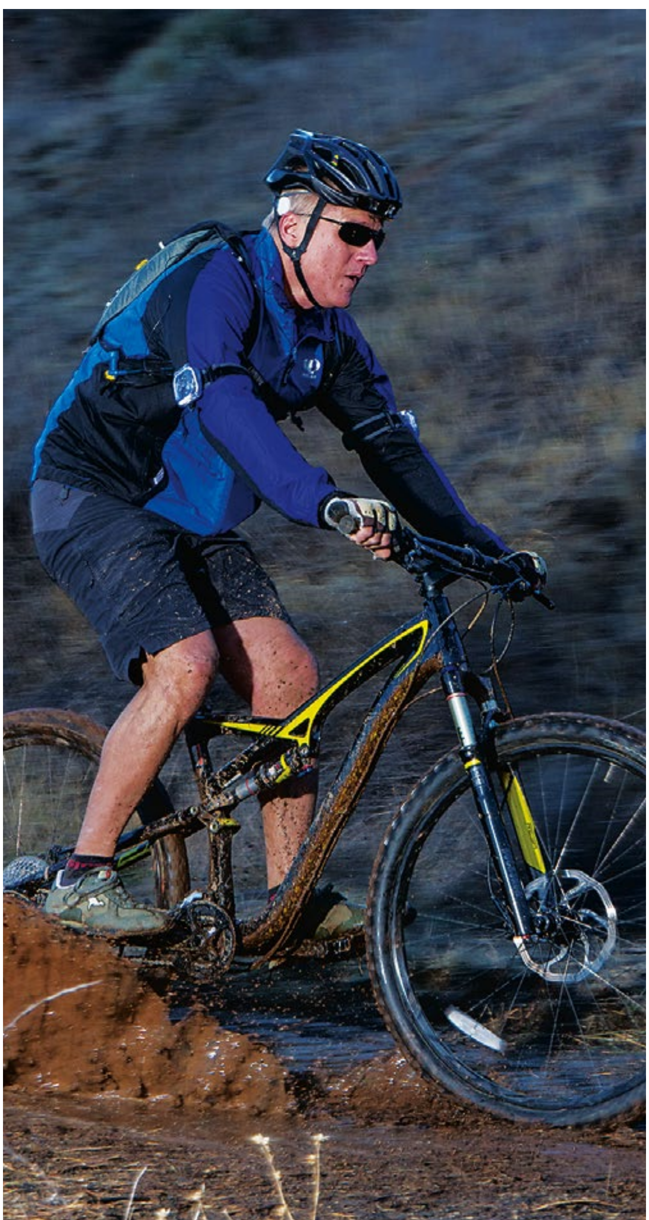
The Connect Hearing team sits around a conference table in the roomy loft of its Sydney headquarters and waits for questions; the live chat is projected onto a screen and Sutcliff’s responses are typed directly into the computer. The audiologist mainly supplies contact information for hearing care professionals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

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

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

Cochlear implants business

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



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

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

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

New products

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

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

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

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

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

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

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

Market access

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

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

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

eSolutions

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

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

1 Veugen LC, Chalupper J, Snik AF, van Opstal AJ, Mens LH. (2016) Matching automatic gain control across devices in bimodal cochlear implant users. Ear and Hearing (2015 Dec 10, epub ahead of print).

2 Mirza S, Douglas S, Lindsey P, Hildreth T, Hawthorne M. (2003) Appreciation of music in adult patients with cochlear implants: a patient questionnaire. Cochlear Implants International 4(2):85 – 95.

3 Quick A, Koch DB, Osberger MJ. HiResolution with Fidelity 120 sound processing: listening benefits in CII and HiRes 90K implant users. Presentation at the Conference on Implantable Auditory Prostheses, Lake Tahoe, CA, July 15 – 20, 2007. [Available upon request]

Focus on follow-up care

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

This renowned surgeon has been one of Advanced Bionics' partners in India for many years and he has placed a good number of the brand's implants. He conducts live-streamed operations at universities and trains colleagues in implant surgery. Dr. Medikeri admires Advanced Bionics' technology, its personalized service and its human approach. "The decision to go for an implant is something that will stay with a patient for the rest of their life," says Medikeri. "So everything has to be right."

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

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

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

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

Tablet in hand, engineer Hot Xi and Corporate Social Responsibility Manager Rex Ge monitor the array of solar collectors on the roof of Sonova's operation center in the Chinese city of Suzhou. The system generated 500,000 kWh in 2016, making it possible to reduce the Sonova Group's CO_2 emissions by 3.5 %.

Corporate social responsibility

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

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

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

Access to hearing care
To expand access to hearing care, we offer an extensive product portfolio and support education of local specialists, in particular in emerging markets. We also support people with hearing loss and limited access to hearing care through our Hear the World Foundation. Over the past ten years, the foundation has provided funding, hearing technology, and expertise with a total value of over CHF 8 million to over 80 projects in 39 countries.

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

The full CSR Report is available at:
www.sonova.com/en/csrreport

High standards

Engineer Hot Xi looks on in contentment at the sunbeams breaking through the clouds. The solar arrays on the roof of Sonova's operation center in Suzhou, China, are working at full capacity. They cover an area of 5,000 m^2 – equivalent to almost 20 tennis courts. "We are very happy with the collectors' performance," says Xi. He has been looking after the system since it went live in February 2015. It generated 500,000 kWh in 2016, and the lower consumption of coal-generated electricity that this enabled has reduced the Sonova Group's CO_2 emissions by 3.5 %.

Sonova has been setting a good example in the other countries in the Asia / Pacific region as well; in New Zealand, the company has held the Enviro-Mark environmental certification program's gold status for years. Waste has been cut by 90 % thanks to enhanced recycling practices, and a new in-house sales team that exploits online tools more effectively has made it possible to drastically reduce the number of business flights taken and car miles driven within New Zealand. In Australia, a detailed environmental management plan ensures low emissions and a high recycling rate.

Sonova is also successfully combining environmental protection with a staff-friendly corporate culture in the Asia / Pacific region. "Sonova is like a second family to me," says Zhou Lijuan, who has been working at the operation center in Suzhou since 2003. The slender 36-year-old started work in assembly and is now in charge of the entire production planning process. She takes one of the operation center's shuttle buses to work. Lijuan values the company's integrated approach, which also takes employee health into account: "We do exercises in the workplace twice a day for 15 minutes." A staff outing is held once a year, allowing workers who have never traveled before to get to know Beijing, Hong Kong and the Philippines. Relatives can visit the production facility on "family day" and Sonova provides support if employees encounter any problems. "Such as when the father of a warehouse worker had an accident and needed an expensive neurological operation," recalls Lijuan.

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

Corporate governance

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

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

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

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

Group structure

Operational group structure

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

Listed companies

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

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

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

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

Non-listed companies

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

Shareholders

Registered shareholders

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

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

Significant shareholders

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

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

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

2) Registered without voting rights.

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

Cross-shareholdings

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

Articles of Association

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

Capital structure

Share capital

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

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

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

Authorized and conditional capital

Authorized capital

Sonova Holding AG has no authorized capital.

Conditional capital

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

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

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

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

Convertible bonds
Sonova Holding AG has not issued any convertible bonds.

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

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

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

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

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

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

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

Exceptions granted in the year under review
No exceptions were granted by the Board of Directors during the reporting period.

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

Procedure and conditions for cancelling statutory privileges and limitations on transferability
A resolution of the General Shareholders' Meeting approved by a relative majority of the votes cast is sufficient for cancellation.

Board of Directors

Introduction

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

Executive management positions

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

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

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

Other activities and vested interests

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

Mandates outside Sonova Holding AG

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

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

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

Elections and terms of office

Election procedure and limits on the terms of office

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

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

First election and remaining term of office

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

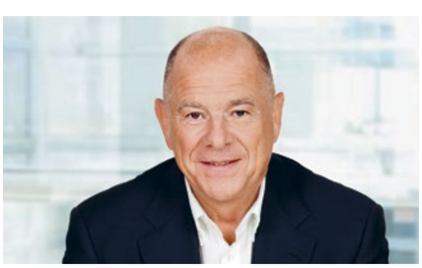
Name	Position	First elected
Robert F. Spoerry	Chairman	2003
Beat Hess	Vice Chairman	2012
Lynn Dorsey Bleil	Member	2016
Michael Jacobi	Member	2003
Stacy Enxing Seng	Member	2014
Ronald van der Vis	Member	2009
Anssi Vanjoki	Member	2009
Jinlong Wang	Member	2013

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

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

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

Other activities:
- Vice Chairman of the Board of Geberit AG (until April 2016)
- Member of the Board of Conzzeta Holding AG



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

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

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

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

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

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

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

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

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

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

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

Stacy Enxing Seng

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

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

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

Ronald van der Vis

(born 1967, Dutch citizen) was Executive Director of the Board and Group CEO of Esprit Holdings Limited, a global fashion and lifestyle company listed on the Hong Kong Stock Exchange, from 2009 until November 2012. Prior to this, since 1998, he held various general management positions at Pearle Europe (now GrandVision NV), the world's leading optical retailer. He was CEO of the Pearle Europe group from 2004 to 2009.

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

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

Anssi Vanjoki

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

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

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

Jinlong Wang

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

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

Other activities:
- Chairman of the Board for PizzaExpress Group Limited

Internal organizational structure

Allocation of tasks within the Board of Directors

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

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

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.

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.

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

Work methods of the Board of Directors and its committees

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

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

[1] Board of Directors
[2] Audit Committee
[3] Nomination and Compensation Committee
[4] As guest
[5] Member since AGM 2016, participation in May and June 2016 as guest
[6] Member until AGM 2016
[7] Excluding telephone conferences and preparation time

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

The agenda for a meeting of the Board of Directors or of a Board committee is set by its respective Chairman. Any member of the Board of Directors or a committee may request a meeting or ask that an item be put on the agenda. Members of the Board of Directors and the committees are provided in advance of meetings with all relevant documents that enable them to prepare for the discussion of the items on the agenda during the meeting. The Board of Directors and its committees constitute a quorum if half of the members are present. The Board of Directors and its committees approve resolutions by a majority of members present at the meeting. In the event of an equal number of votes, the Chairman has the casting vote.

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

Definition of areas of responsibility

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

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

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

Internal audit, risk and compliance

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

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

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

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

Corporate Social Responsibility

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

Management Board

The Management Board is responsible for the preparation, implementation, and monitoring of the strategic roadmap, the management of the members' respective Group functions, and the preparation, implementation, and delivery of the annual plan and budget. The Management Board also prepares for and executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, the Management Board is chaired by the CEO and comprises at least the CFO, plus such additional members as appropriately reflect the company's structure and activities. The members of the Management Board are proposed by the CEO and are appointed by the Board of Directors on the request of the Nomination and Compensation Committee.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hans Mehl completed his education in business administration in Germany.

Franz Petermann

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

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

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 (see page 35). The Articles of Association are available at http://www.sonova.com/en/investors/articles-association.

Management contracts

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

Compensation and shareholdings

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

Compensation, shareholdings and loans

See: Compensation report (beginning on page 46)

Shareholders' participation rights

Voting rights and representation restrictions

Voting rights restrictions

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

Exceptions granted in the year under review

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

Statutory rules on participation in the General Shareholders' Meeting

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

Independent Proxy and electronic voting

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

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

Statutory quorums

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

Convocation of the General Shareholders' Meeting

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

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

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

Inclusion of items on the agenda

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

Registration in the share register

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

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

Securities trading policy

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

Auditors

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

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

Fees

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

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

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

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

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

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

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

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

Information policy

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

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

The website of the Sonova Group www.sonova.com 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 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.

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

Compensation report

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

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

The report is structured as follows:

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

Dear Shareholders

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

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

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

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

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

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

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

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

Yours sincerely,

Robert Spoerry
Chairman of the Nomination and Compensation Committee

2. Compensation policy and principles

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

Sonova's compensation principles

Market competitiveness

To be able to attract, motivate, and retain talented executives and employees, compensation is regularly benchmarked and is in line with competitive market practice.

Pay for performance

Compensation inspires best-in-class performance. A large portion of compensation depends on the company's performance and individual contributions. We recognize both short-term success and long-term value creation through a well-balanced combination of incentive plans.

Alignment with shareholder's interests

A substantial portion of the compensation of the Management Board, CEO and Board of Directors is delivered in the form of company equity: Restricted Share Units (RSUs), options and restricted shares. We have share ownership guidelines to foster the long-term commitment of the Management Board and the Board of Directors, and the alignment of their interests with those of the shareholder's.

Alignment with company's values

Compensation incentivizes behavior that is in line with the company's values and high standard of integrity.

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

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

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

- The short-term cash incentive award is awarded under Sonova's Variable Cash Compensation plan (VCC), which is based on Sonova's key performance indicators (KPIs), such as sales, operating profit before acquisition-related amortization (EBITA), free cash flow (FCF), earnings per share (EPS), average sales price (ASP), and operating expenses (OPEX) at Group and / or business unit level. It additionally reflects the achievement of individual objectives as defined in the annual performance review process. Therefore, the VCC rewards both the company's success and individual performance over a one-year period.

- The long-term equity incentive award includes the grant of Restricted Share Units (RSUs) and options under Sonova's Executive Equity Award Plan (EEAP), for both of which the vesting is dependent on the return on capital employed (ROCE) performance. The vesting is time based over a period of 4 years and 4 months. The EEAP reinforces the alignment between compensation and the company's long-term performance. It also aligns the interests of the Management Board with those of shareholders, and fosters the long-term retention of the Management Board (see section 4.3 for more information related to the planned revision of the EEAP award for the 2017 / 18 financial year).

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

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

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

Board of Directors composition

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

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

Board of Directors competence

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

Yearly Board of Directors evaluation

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

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

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

Board of Directors independence

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

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

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

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

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

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

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

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

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

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

Approval and authority levels on compensation matters:

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

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

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

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

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

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

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

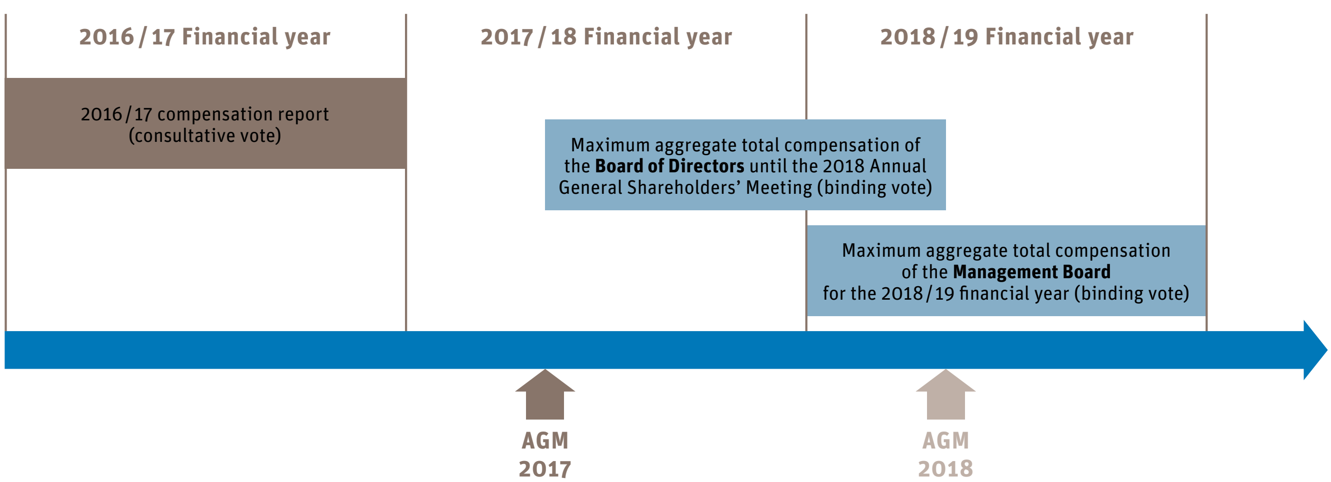
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors.

3.8 Governance and shareholders' involvement

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

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

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



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

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

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

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

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

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

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

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

Articles of Association

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

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

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

3.9 Process of determining compensation

Benchmarks and external consultants

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

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

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

Performance Management

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

Objective setting
(April)
Determination of Group, business unit targets and individual objectives

Performance Review
(March / April)
Self-appraisal and performance assessment

Determination of Compensation
(May)
Determination of actual compensation

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

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

4. Compensation system

4.1 Overview of compensation components

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

[1] MB members under a foreign employment contract receive benefits in line with local practice.
[2] Only for MB members with a Swiss employment contract.
[3] Flat rate car allowance
[4] If applicable
[5] Options and Restricted Share Units

4.2 Board of Directors compensation system

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

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

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

Restricted Shares in CHF	Chairman	Board members excl. Chairman
Fair value at grant [2]	400,000	200,000

[1] Multiplied by the number of meeting attended.
[2] The tax value at grant differs from the value at grant by reduction of 6 % per year of restriction. In addition, for tax purposes the volume weighted average price on grant date was used whereas the fair value per share was calculated by taking the risk free rate into account on closing price at grant date.

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

Sonova Share Ownership Guidelines

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

4.3 Management Board compensation system

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

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

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

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

Fixed base salary

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

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

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

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

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

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

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

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

Ranges of performance objectives for members of the Management Board

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

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

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

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

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

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

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

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

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

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

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

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

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

Disclosure of targets

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

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

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

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

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

Sonova Share Ownership Guidelines

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

Benefits

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

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

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

Employment terms and conditions

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

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

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

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

5. Compensation for the financial year

5.1 Board of Directors compensation

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

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

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

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

in CHF						2016/17
	Cash retainer (fixed fee)	Meeting attendance fee / expenses[1]	Employer's social insurance contribution (AHV / ALV)[2]	Total cash compensation	Value of restricted shares[3]	Total compensation
Robert F. Spoerry Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	54,199	556,699	289,699	846,398
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	9,500	16,801	148,801	153,135	301,936
Stacy Enxing Seng Member of the Nomination and Compensation Committee	105,979	9,000	18,416	133,395	153,135	286,530
Michael Jacobi Chairman of the Audit Committee	125,000	9,000	20,104	154,104	153,135	307,239
Anssi Vanjoki Member of the Audit Committee	107,500	9,000	18,922	135,422	153,135	288,557
Ronald van der Vis Member of the Audit Committee	107,500	8,500	18,889	134,889	153,135	288,024
Jinlong Wang	100,000	7,000	18,281	125,281	153,135	278,416
Lynn Dorsey Bleil[4]	79,726	6,000	16,879	102,605	153,135	255,740
Total (active members)	**1,248,205**	**60,500**	**182,491**	**1,491,196**	**1,361,644**	**2,852,840**
John J. Zei[5]	22,089	4,500	1,527	28,116		28,116
Total (including former members)	**1,270,294**	**65,000**	**184,018**	**1,519,312**	**1,361,644**	**2,880,956**

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

1) 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).

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

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

4) New member of the Board of Directors since June 2016.

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

in CHF						2015/16
	Cash retainer (fixed fee)	Meeting attendance fee / expenses[1]	Employer's social insurance contribution (AHV / ALV)[2]	Total cash compensation	Value of restricted shares[3]	Total compensation
Robert F. Spoerry Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	66,226	568,726	285,550	854,276
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	7,500	16,043	146,043	151,277	297,320
Stacy Enxing Seng	100,000	5,000	17,602	122,602	151,277	273,879
Michael Jacobi Chairman of the Audit Committee	125,000	7,500	36,860	169,360	151,277	320,637
Anssi Vanjoki Member of the Audit Committee	107,500	7,500	20,904	135,904	151,277	287,181
Ronald van der Vis Member of the Audit Committee	107,500	7,500	34,836	149,836	151,277	301,113
Jinlong Wang	100,000	5,500	17,635	123,135	151,277	274,412
John J. Zei Member of the Nomination and Compensation Committee	107,500	7,500	29,400	144,400	151,277	295,677
Total (active members)	**1,270,000**	**50,500**	**239,506**	**1,560,006**	**1,344,489**	**2,904,495**
Andy Rihs[4]	21,096	2,500	6,237	29,833		29,833
Total (including former members)	**1,291,096**	**53,000**	**245,743**	**1,589,839**	**1,344,489**	**2,934,328**

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

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

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

3) Calculation of the value of restricted shares: Tax discounted value per restricted share at grant date for the Chairman of the Board of Directors CHF 90.91, and for the other members of the Board of Directors CHF 96.35. The discount takes into account a reduction of 6 % per year of restriction and reflects the fact that once the restricted shares have been granted, they are then blocked over a restriction period of 5 years and 4 month for the Chairman of the Board of Directors and 4 years and 4 month for the other members of the Board of Directors.

4) Andy Rihs retired from the Board of Directors at the Annual General Shareholders' Meeting from June 16, 2015.

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

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

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

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

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

5.2 Management Board compensation

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

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

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

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

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

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

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

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

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

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

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

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

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

in CHF									2016 / 17
	Fixed base salary	Variable salary[1)]	Fringe benefits	Employer's pension contribution	Employer's social security contribution[2)]	Total cash compensation	Value of RSUs[3)]	Value of options[4)]	Total compensation
Lukas Braunschweiler, CEO	800,000	590,845	48,700	127,306	125,058	1,691,909	393,630	656,239	2,741,778
Other members of the MB[5)]	3,477,041	2,139,261	321,574	700,532	696,223	7,334,631	2,006,858	2,007,385	11,348,874
Total	**4,277,041**	**2,730,106**	**370,274**	**827,838**	**821,281**	**9,026,540**	**2,400,488**	**2,663,624**	**14,090,652**

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

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

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

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

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

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

in CHF									2015 / 16
	Fixed base salary	Variable salary[1)]	Fringe benefits	Employer's pension contribution	Employer's social security contribution[2)]	Total cash compensation	Value of RSUs[3)]	Value of options[4)]	Total compensation
Lukas Braunschweiler, CEO	800,000	464,865	24,891	127,306	109,956	1,527,018	318,658	531,232	2,376,908
Other members of the MB	4,124,266	2,208,612	370,683	721,139	780,788	8,205,488	2,068,024	2,068,611	12,342,123
Total	**4,924,266**	**2,673,477**	**395,574**	**848,445**	**890,744**	**9,732,506**	**2,386,682**	**2,599,843**	**14,719,031**

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

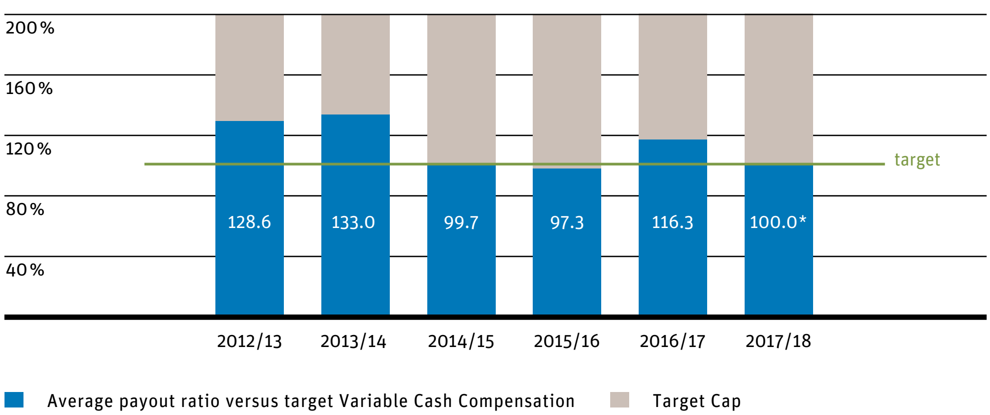
1) The variable salary will be paid out after the end of the financial year.

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

3) Fair value per RSU at grant date CHF 120.43.

4) Fair value per option at grant date CHF 20.60.

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



* Payout ratio at 100% estimate for 2017/2018

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

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

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

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

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

6. Share ownership information

6.1 Shareholdings of members of the Board of Directors

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

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

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

[1] These shares are subject to a restriction period which varies from June 1, 2017 to June 1, 2022 depending on the grant date.
[2] For further details see also Note 31 in the consolidated financial statements.
[3] SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
[4] New member of the Board of Directors since June 2016.
[5] John J. Zei retired from the Board of Directors at the Annual General Shareholders' Meeting from June 14, 2016.

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

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

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

EEAP 2017 and 2016, no options or warrants were granted – 100% restricted shares.
[1] 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.
[2] SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
[3] John J. Zei retired from the Board of Directors at the Annual General Shareholders' Meeting from June 14, 2016.

6.2 Shareholdings of members of the Management Board

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

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

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

1) Shares are dividend entitled with full voting rights.
2) For further details see also Note 31 in the consolidated financial statements.
3) Member of the Management Board since January 23, 2017.
4) Member of the Management Board until March 31, 2016.
5) Member of the Management Board until August 31, 2016.

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

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

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

1) Excluding Christophe Fond (GVP Retail, joined the Management Board as of January 23, 2017).
2) Calculated with the EEAP 2017 grant price of CHF 130.00.
3) Average of other members of the Management Board excluding Christophe Fond (GVP Retail, joined the Management Board as of January 23, 2017).

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

							31.03.2017
	Options EEAP 17[1]	Options EEAP 16[2]	Options EEAP 15[3]	Options EEAP 14[4]	Options EEAP 13[5]	Options EEAP 12[6]	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[7]	13,243						13,243
Total	**147,948**	**102,847**	**101,978**	**70,264**	**57,742**	**52,986**	**533,765**

[1] 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.
[2] 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.
[3] 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.
[4] 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.
[5] 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.
[6] 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.
[7] Member of the Management Board since January 23, 2017.

						31.3.2016
	Options EEAP 16[1]	Options EEAP 15[2]	Options EEAP 14[3]	Options EEAP 13[4]	Options EEAP 12[5]	Total options
Lukas Braunschweiler	25,788	27,173	21,719	20,669	25,575	120,924
Claude Diversi	10,315	7,672	4,599	2,222	1,375	26,183
Hansjürg Emch	10,315	10,869	8,687	8,267	10,230	48,368
Hartwig Grevener	10,315	10,869	8,687	8,267		38,138
Martin Grieder	10,315	10,869				21,184
Sarah Kreienbühl	10,315	10,869	8,687	8,267	10,230	48,368
Stefan Launer	4,854	5,115	4,088	3,720	5,115	22,892
Albert Chin-Hwee Lim	6,067	6,393	5,110	3,100		20,670
Hans Mehl	10,315	10,869	8,687	8,267	6,230	44,368
Jan Metzdorff	7,281	7,672	4,599	2,170	1,343	23,065
Franz Petermann	4,854	5,115	3,066	1,654	525	15,214
Paul Thompson	5,157	10,869	6,516	4,134	2,558	29,234
Andi Vonlanthen	10,315	10,869	8,687	8,267	8,951	47,089
Total	**126,206**	**135,223**	**93,132**	**79,004**	**72,132**	**505,697**

1) 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.
2) 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.
3) 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.
4) 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.
5) Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

Glossary

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
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSR	Corporate social responsibility
EBITA	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
Ordinance	Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies
PSU	Performance Share Unit
ROCE	Return on capital employed
RSU	Restricted Share Unit
SLI	Swiss Leaders Index
rTSR	relative Total Shareholder Return
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
Stäfa

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

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

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

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

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

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

PricewaterhouseCoopers AG

Sandra Boehm	Kai Mauden

Audit expert
Auditor in charge
Zurich, 9 May 2017

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Financial reporting

Financial review

In the 2016/17 financial year, Sonova generated sales of CHF 2,395.7 million, an increase of 15.3 % in local currencies or 15.6 % in reported Swiss francs. Normalized for one-time costs, Group EBITA rose by 12.1 % in local currencies and 11.8 % in reported Swiss francs to CHF 481.4 million.

Solid organic growth further boosted by strategic acquisitions

Sonova Group sales in 2016/17 grew by 15.3 % in local currencies and 15.6 % in reported Swiss francs to CHF 2,395.7 million. Organic growth was 4.3 %, driven both by the hearing instruments and cochlear implants segments, and saw a marked acceleration over the course of the year. Exchange rate fluctuations had a minimal impact, adding just 0.3 % to the reported growth rate. The sales increase was strongly supported by acquisitions made in the reporting period, as well as annualizations of prior year acquisitions. In total, acquisitions added CHF 244.6 million or 11.8 % to the increase, mainly stemming from the acquisition of AudioNova, effective September 2016. Prior year business disposals reduced growth by 0.8 %.

Strong momentum driven by Europe

Sales in EMEA (Europe, Middle East, and Africa), the largest region with 48 % of Group sales, increased 33.8 % in local currencies. A solid organic sales increase in both segments was further boosted by acquisitions, in particular AudioNova. Good progress was achieved in major European markets including the UK, the Nordics, France, and Italy. The development of our hearing instruments business was negatively affected by expected reactions from wholesale customers, mainly in Germany, following the announcement of the AudioNova acquisition in May 2016; these were mainly felt during the first half of the financial year. The cochlear implants business achieved strong progress throughout the year.

The Group's business in the United States, representing 33 % of total sales, accelerated in the second half of the year, resulting in a sales increase of 1.0 % in local currency. Growth in the hearing instruments segment was driven by the Phonak brand, which benefited from the highly successful introduction of new products. This was partially offset by a decline at Unitron ahead of a new platform introduction towards the end of the fiscal year, along with no growth in our US retail network, which is undergoing a streamlining program. The cochlear implants business maintained strong momentum throughout the year, achieving a double digit sales increase. The rest of the Americas (excluding the US), which represented 9 % of total sales, reported a sales increase of 3.8 % in local currencies. Solid overall performance was partly offset by a targeted reduction of low-margin government tender business in Brazil and a sales decline at Unitron Canada.

Sonova Group key figures

in CHF m unless otherwise specified	2016/17	2015/16	Change in Swiss francs	Change in local currencies
Sales	2,395.7	2,071.9	15.6 %	15.3 %
EBITA	463.0	430.6	7.5 %	7.9 %
EPS (CHF)	5.35	5.11	4.7 %	
Operating free cash flow	424.8	344.2	23.4 %	
ROCE[1]	20.4 %	26.0 %		
EBITA (normalized)[2]	481.4	430.6	11.8 %	12.1 %
EBITA margin (normalized)[2]	20.1 %	20.8 %		
EPS (CHF) (normalized)[2]	5.58	5.11	9.2 %	

1) For detailed definitions, please refer to "Key figures".

2) 2016/17 excluding one-time costs of CHF 18.4 million, consisting of transaction costs and integration related restructuring costs in connection with the acquisition of AudioNova.

Sales by regions

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,162.2	48 %	33.8 %	883.0	43 %
USA	787.3	33 %	1.0 %	767.6	37 %
Americas (excl. USA)	210.9	9 %	3.8 %	197.1	9 %
Asia / Pacific	235.3	10 %	2.0 %	224.2	11 %
Total sales	**2,395.7**	**100 %**	**15.3 %**	**2,071.9**	**100 %**

Accounting for 10 % of Group sales, the Asia / Pacific region achieved a sales increase of 2.0 % in local currencies. This in part reflects the demanding base level set after the exceptional sales increase achieved in the prior year. Australia, New Zealand, and Japan showed solid growth, while China and India saw a refocusing on higher-margin business, resulting in targeted reductions in certain channels.

Business transformation affecting the cost structure

Reported gross profit reached CHF 1,651.8 million, an increase of 20.1 % both in local currencies and reported Swiss francs. Gross profit margin was 68.9 %, up strongly from 66.4 % in the prior year. The gross profit margin was lifted by a solid organic increase and the effect of an increased share of retail revenues with higher gross margin arising from the acquisition of AudioNova.

Reported operating expenses, including other operating income, reached CHF 1,188.8 million (2015 / 16: CHF 944.8 million). This includes CHF 18.4 million in one-time costs in connection with the AudioNova acquisition, which related to transaction as well as restructuring costs. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses in local currencies rose by 23.7 % or by 23.9 % in Swiss francs to CHF 1,170.3 million, mainly driven by the acquisition of AudioNova.

Underpinning its commitment to innovation, the Group maintained its high level of investment in research and development (R & D) with R & D expenses reaching CHF 137.1 million, an increase of 5.3 % in local currencies. Due to the increased relative share of the retail business after the acquisition of AudioNova, R & D as a percentage of sales declined from 6.3 % to 5.7 %.

Both sales and marketing as well as general and administrative (G & A) costs showed a significant increase as a result of the AudioNova acquisition, which led to higher cost ratios as a percentage of sales compared to the prior year. Normalized sales and marketing costs were up 26.9 % in local currencies to CHF 811.0 million. As a percentage of sales, normalized sales and marketing expenses rose to 33.9 %, compared to 30.8 % in the prior year.

Normalized G & A costs increased by 17.3 % in local currencies to CHF 228.5 million. As a percentage of sales, normalized G & A costs were stable at 9.5 % (2015 / 16: 9.4 %).

Other income amounted to CHF 6.3 million, down from CHF 17.9 million in the prior year. A CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims was broadly offset by costs of CHF 35.6 million stemming from the impairment of previously capitalized development costs. The latter was the result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for our cochlear implant sound processor technology. Furthermore, the current year figure includes a CHF 3.9 million capital gain from the sale of non-core retail activities in France. During the 2015 / 16 financial year, other income included a capital gain of CHF 8.7 million from divestments, mainly consisting of our previous Italian retail business, and a CHF 8.8 million release from a provision for cochlear implant product liabilities.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 463.0 million (2015 / 16: CHF 430.6 million), an increase of 7.9 % in local currencies or 7.5 % in Swiss francs from the prior year. Reported EBITA margin reached 19.3 % (2015 / 16: 20.8 %). For the year under review, exchange rate development had a minimal impact on the reported EBITA margin. Normalized for one-time costs, EBITA increased by 12.1 % in local currencies or 11.8 % in Swiss francs to CHF 481.4 million, corresponding to a margin of 20.1 %. Reported operating profit (EBIT) reached CHF 423.7 million, compared to CHF 403.4 million for the prior year, up by 5.0 %, reflecting the growth in reported EBITA and an expected increase in acquisition related amortization.

Earnings per share

Net financial expenses, including the result from associates, was stable at CHF 6.3 million (2015 / 16 CHF 6.4 million). Income taxes for the financial year totaled CHF 61.2 million, up from CHF 51.2 million in 2015 / 16, and representing an effective tax rate of 14.7 %, compared to 12.9 % in the prior year. The increase

Sales by product groups – Hearing instruments segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	604.5	28%	14.7%	512.8	27%
Advanced hearing instruments	464.7	21%	12.8%	403.4	21%
Standard hearing instruments	713.9	32%	15.8%	599.8	32%
Wireless communication systems	106.7	5%	14.9%	90.5	5%
Miscellaneous	300.5	14%	24.9%	278.5	15%
Total hearing instruments segment	**2,190.3**	**100%**	**15.9%**	**1,885.0**	**100%**

in the tax rate reflects a higher legacy tax rate at the acquired AudioNova entities; the effect is temporary until the acquired businesses are fully integrated into the Sonova group structures. Reported income after taxes was CHF 356.2 million, up 3.0% from the previous year. Basic earnings per share (EPS) therefore reached CHF 5.35 (2015/16: CHF 5.11), an increase of 4.7% from the previous year. Normalized for one-time costs, EPS increased 9.2% to CHF 5.58.

Workforce increases to 14,089

At the end of the 2016/17 financial year, the Group's total workforce stood at 14,089 full-time equivalents – an increase of 3,195 over the previous year. This growth comes mainly from the acquisition of AudioNova. Our manufacturing work force also increased at the Vietnam operation center, where we expanded the capacity of our production facility.

Hearing instruments segment – Growth from new products and acquisitions

Sales in the hearing instruments segment reached CHF 2,190.3 million, representing an increase of 15.9% in local currencies and 16.2% in reported Swiss francs. Organic growth was 3.8% in local currencies, supplemented by 12.1% or CHF 227.1 million from acquisitions net of disposals. The bulk of this came from the acquisition of AudioNova. Organic growth in the second half accelerated significantly with several successful new product launches, in particular the introduction of the rechargeable Phonak Audéo™ B product.

All hearing instrument product categories achieved solid double-digit growth in local currencies. The acquisition of AudioNova did not result in a significant shift of the product mix. Wireless communication systems were up 14.9% in local currencies, almost exclusively from organic growth. This marks the third consecutive year with double digit growth, reflecting a continued strong market response to our innovative solutions for school and workplace use. Sales in the "miscellaneous" product category increased by 24.9% in local currencies, largely driven by AudioNova. This category includes accessories, batteries, and services.

The hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own retail business, grew 2.8% in local currencies to CHF 1,311.2 million. Sales saw a marked acceleration in the second half, driven by the successful introduction of Phonak Audéo™ B in September 2016. Specifically, the rechargeable version, based on innovative lithium-ion technology, resulted in market-beating demand in the US and key European markets. The rechargeable technology product range was further broadened by the launch of the same feature in the Phonak Bolero™ product family in February 2017. Growth in Europe was strong, despite an expected headwind from independent customers in Germany after the announcement of the AudioNova acquisition in May 2016. Phonak in the US and Canada grew strongly across the main channels and we also increased market share in our business with the US Department of Veterans Affairs (VA). An updated product offering at Costco was very well received and contributed to strong growth in the second half-year. This was partially offset by a decline at Unitron in both countries, where the product portfolio was coming to the end of its current product cycle ahead of the introduction of the new Tempus platform in March/April 2017. With the exception of China and India, the Asia/Pacific region continued its growth trajectory with strong increases in Australia, Japan, and Korea. In China and India, the Group has proactively reduced its exposure to low-margin business.

The retail business, consisting of over 3,300 Sonova owned points of sale in 12 key markets, increased sales by 42.7% in local currencies to CHF 879.1 million. Good organic growth across Europe was supplemented by the acquisition of AudioNova and a number of smaller chains in several countries, thereby further extending our market-leading position across the region. Boots Hearingcare continued on its long term growth trajectory supported by new product introductions. The retail market environment in the US remained challenging and the business could not grow beyond the prior year's result. The US network is undergoing a further streamlining and productivity improvement. Canada and Asia/Pacific continued to perform strongly.

Sales by business – Hearing instruments segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing instruments business	1,311.2	60%	2.8%	1,266.2	67%
Retail business	879.1	40%	42.7%	618.7	33%
Total hearing instruments segment	**2,190.3**	**100%**	**15.9%**	**1,885.0**	**100.0%**

AudioNova was consolidated from September 2016. The integration of the business is well on track and did not affect day-to-day retail business. Geers in Germany kept up its strong growth record, expanding on its leading position in the market. AudioNova in the Netherlands initiated a restructuring program to adjust the store network and cost structure to recent changes in the reimbursement conditions. In a successive transaction, the AudioNova business in France was sold effective March 1, 2017. Effective April 1, 2017, AudioNova's Portuguese business was also sold to the same buyer. This transaction will appear in the accounts for the 2017/18 financial year.

Reported EBITA for the hearing instruments segment amounted to CHF 455.0 million, up 6.0% in local currencies. The normalized EBITA for the hearing instruments segment increased by 10.3% in local currencies to CHF 473.4 million, corresponding to an EBITA margin of 21.6%. The EBITA margin development in the ongoing business was positive through a strong focus on managing operating costs and achieving additional efficiency and scale in manufacturing. The acquisition of AudioNova and other retail businesses, with its resulting higher relative share of retail revenues, negatively affected the margin. This was partially offset by a CHF 3.9 million capital gain from the sale of AudioNova France. In the prior year, reported EBITA included a capital gain of CHF 8.7 million from the sale of two non-core businesses, partly offset by a CHF 2.3 million foreign exchange loss on working capital.

Cochlear implants segment – Accelerating in the second half

After a good first half, the cochlear implants business continued to build momentum in the second half of the year. Total sales were CHF 205.4 million, an increase of 9.6% in local currencies and 9.8% in reported Swiss francs.

Double digit new systems sales growth across North America and the EMEA region was driven by an attractive product portfolio and new product introductions in the second half-year, including the new HiRes™ Ultra implant. This was partially offset by slower growth in Latin America and the Asia/Pacific region. Upgrade sales to existing users were held back by a decline in the first half-year, largely related to a smaller qualifying customer base eligible for insurance funded replacement of their sound processors. Increasing at a double-digit rate, upgrade sales recovered strongly in the second half of the year.

EBITA increased to CHF 8.0 million, compared to a break-even result in the prior year, reflecting good operating leverage and strict cost management. CHF 35.6 million in capitalized development costs were impaired as a result of changes in the development roadmap, specifically the decision to skip directly to our new 2.4 GHz platform for the sound processor technology in cochlear implants. This cost was offset by a CHF 37.4 million provision release for cochlear implant product liabilities that resulted from a better than expected development in related claims. The assessment of both of these items is based on a regular systematic review. In summary, this resulted in a net benefit of CHF 1.8 million, which was reflected in the reported EBITA.

Sales by product groups – Cochlear implants segment

in CHF m	2016/17			2015/16	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	160.0	78%	12.8%	141.6	76%
Upgrades and accessories	45.4	22%	0.5%	45.3	24%
Total cochlear implants segment	**205.4**	**100%**	**9.6%**	**186.9**	**100%**

Strong operating free cash flow

Cash flow from operating activities reached CHF 522.4 million, compared to CHF 428.4 million in the prior year. Investments in tangible and intangible assets increased by CHF 15.2 million or 18.3 % to CHF 98.2 million, resulting in a strong operating free cash flow of CHF 424.8 million, up by 23.4 % or CHF 80.6 million. Cash consideration for acquisitions amounted to CHF 675.3 million, compared to 121.3 million in the prior year. The increase is mainly caused by the AudioNova acquisition, with its gross purchase price of CHF 921.2 million and acquired debt of CHF 290.8 million. The cash inflow from divestments amounted to CHF 17.8 million as against CHF 29.6 million in the prior year. In summary, this resulted in a negative free cash flow of CHF 232.6 million, compared to a positive free cash flow of CHF 252.6 million in the prior year.

The cash inflow from financing activities in the 2016 / 17 financial year was CHF 290.5 million, compared to a cash outflow of CHF 325.6 million in the prior year. This reflects an increase in net borrowings by CHF 468.9 million, mainly consisting of the bond issue related to the financing of the AudioNova acquisition. Cash spent under the share buy-back program decreased significantly to CHF 11.8 million (2015 / 16: CHF 155.6 million) as a result of the suspension of the program following the announcement of the acquisition of AudioNova in May 2016. In the 2016 / 17 financial year, a net amount of CHF 20.8 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 19.7 million in the prior year. The cash outflow from financing also reflects dividend payments of CHF 137.2 million.

Balance sheet remains strong

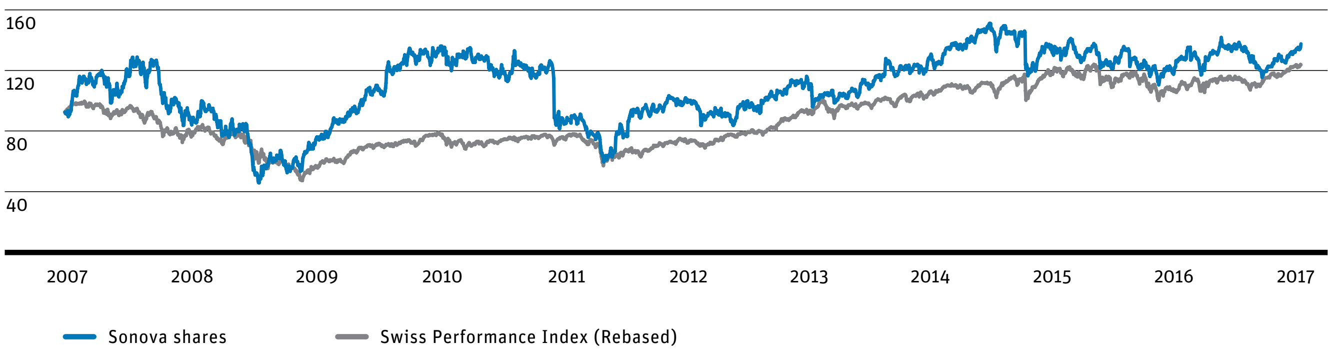
Reported net working capital was CHF 169.7 million, compared to CHF 185.5 million at the end of the prior year, reflecting a strong focus on working capital management. Capital employed was CHF 2,535.9 million, compared to CHF 1,608.0 million in the prior year; the increase was largely driven by the acquisition of AudioNova. The Group's equity position amounted to CHF 2,131.3 million, resulting in a solid equity ratio of 54.2 %. The net debt position stood at CHF 404.6 million, compared to a net cash position of CHF 298.3 million the end of the prior year. As a result of acquisitions, the return on capital employed (ROCE) experienced an expected decrease to 20.4 %, compared to 26.0 % in the prior year.

In light of the continued strong operating free cash flow of the Sonova Group, as well as its healthy financial position, the Board of Directors will propose to the Annual General Shareholders' Meeting on June 13, 2017 a dividend of CHF 2.30. This proposed distribution is up 9.5 % over the prior year, and represents a stable payout ratio, normalized for one-time cost, of 41 % (reported: 43 %).

Outlook 2017 / 18

We expect to achieve continued solid growth in sales and profitability in both the hearing instruments and cochlear implants segments during 2017 / 18. The development will be supported by our attractive product and solutions portfolio as well as our continued commitment to innovation. Coupled with the annualization of prior year acquisitions, in particular AudioNova, we expect overall sales to grow in the range of 10 % – 12 % in local currencies.

Share price performance



Share price performance [1]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	49.4 %	38.5 %	7.4 %	2.7 %	13.1 %
Swiss Performance Index (SPI)[2]	34.2 %	68.6 %	18.6 %	5.5 %	15.9 %
Sonova shares relative to the SPI	15.2 %	(30.1 %)	(11.1 %)	(2.8 %)	(2.8 %)

[1] Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2016 / 17 financial year.
[2] The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 year key figures

in 1,000 CHF unless otherwise specified	Normalized performance 2016/17[1]	Reported performance 2016/17	2015/16
Sales	**2,395,650**	**2,395,650**	**2,071,930**
change compared to previous year (%)	15.6	15.6	1.8
Gross profit	**1,651,752**	**1,651,752**	**1,375,468**
change compared to previous year (%)	20.1	20.1	(0.9)
in % of sales	68.9	68.9	66.4
Research & development costs	**137,134**	**137,134**	**130,255**
in % of sales	5.7	5.7	6.3
Sales & marketing costs	**810,988**	**815,018**	**638,240**
in % of sales	33.9	34.0	30.8
Operating profit before acquisition-related amortization and impairment (EBITA)	**481,441**	**462,998**	**430,632**
change compared to previous year (%)	11.8	7.5	(5.5)
in % of sales	20.1	19.3	20.8
Operating profit (EBIT)	**442,120**	**423,677**	**403,437**
change compared to previous year (%)	9.6	5.0	(6.0)
in % of sales	18.5	17.7	19.5
Income after taxes	**371,484**	**356,176**	**345,847**
change compared to previous year (%)	7.4	3.0	(6.1)
in % of sales	15.5	14.9	16.7
Basic earnings per share (CHF)	5.58	5.35	5.11
Dividend / distribution per share (CHF)	2.30[12]	2.30[12]	2.10
Net cash[4]	**(404,634)**	**(404,634)**	**298,274**
Net working capital[5]	**169,706**	**169,706**	**185,459**
Capital expenditure (tangible and intangible assets)[6]	**97,120**	**97,120**	**83,051**
Capital employed[7]	**2,535,906**	**2,535,906**	**1,607,992**
Total assets	**3,935,680**	**3,935,680**	**2,751,611**
Equity	**2,131,272**	**2,131,272**	**1,906,266**
Equity financing ratio (%)[8]	**54.2**	**54.2**	**69.3**
Free cash flow[9]	**(232,615)**	**(232,615)**	**252,573**
Operating free cash flow[10]	**424,847**	**424,847**	**344,212**
in % of sales	17.7	17.7	16.6
Return on capital employed (%)[11]	**20.4**	**20.4**	**26.0**
Number of employees (average)	**12,802**	**12,802**	**10,697**
change compared to previous year (%)	19.7	19.7	7.4
Number of employees (end of period)	**14,089**	**14,089**	**10,894**
change compared to previous year (%)	29.3	29.3	7.0

1) Excluding one-time costs of CHF 18.4 million, consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related key figures (including respective ratios) as reported.
2) Restated following the implementation of IAS 19 (revised).
3) Excluding one-off cost, mainly related to the increase of the product liability provision within the cochlear implants business. Balance sheet related key figures (including respective ratios) as reported.
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.

2014 / 15	2013 / 14	Normalized performance 2012 / 13 2)/3)	Reported performance 2012 / 13 2)
2,035,085	**1,951,312**	**1,795,262**	**1,795,262**
4.3	8.7	10.8	10.8
1,387,524	**1,340,449**	**1,239,780**	**1,239,780**
3.5	8.1	12.1	12.1
68.2	68.7	69.1	69.1
130,897	**125,657**	**113,884**	**113,884**
6.4	6.4	6.3	6.3
613,217	**589,627**	**559,077**	**559,077**
30.1	30.2	31.1	31.1
455,564	**430,109**	**385,304**	**181,688**
5.9	11.6	22.2	(42.4)
22.4	22.0	21.5	10.1
429,069	**404,030**	**359,175**	**155,559**
6.2	12.5	24.8	(45.9)
21.1	20.7	20.0	8.7
368,323	**347,382**	**307,745**	**110,869**
6.0	12.9	24.9	(55.0)
18.1	17.8	17.1	6.2
5.37	5.08	4.60	1.65
2.05	1.90	1.60	1.60
382,343	**311,525**	**185,800**	**185,800**
181,379	**190,571**	**187,148**	**187,148**
88,735	**93,918**	**82,354**	**82,354**
1,489,461	**1,462,850**	**1,455,460**	**1,455,460**
2,691,631	**2,593,748**	**2,680,042**	**2,680,042**
1,871,804	**1,774,375**	**1,641,260**	**1,641,260**
69.5	**68.4**	**61.2**	**61.2**
308,700	**288,618**	**262,370**	**262,370**
366,385	**318,430**	**318,553**	**318,553**
18.0	16.3	17.7	17.7
29.1	**27.7**	**10.4**	**10.4**
9,960	**9,175**	**8,709**	**8,709**
8.6	5.4	9.3	9.3
10,184	**9,529**	**8,952**	**8,952**
6.9	6.4	8.9	8.9

6) Excluding goodwill and intangibles relating to acquisitions.
7) Equity – net cash.
8) Equity in % of total assets.
9) Cash flow from operating activities + cash flow from investing activities.
10) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired / divested.
11) EBIT in % of capital employed (average).
12) Proposal to the Annual General Shareholders' Meeting of June 13, 2017.

Consolidated financial statements

Consolidated income statements

1,000 CHF	Notes	2016/17	2015/16
Sales	6	**2,395,650**	**2,071,930**
Cost of sales		(743,898)	(696,462)
Gross profit		**1,651,752**	**1,375,468**
Research and development		(137,134)	(130,255)
Sales and marketing		(815,018)	(638,240)
General and administration		(242,893)	(194,223)
Other income / (expenses), net	7	6,291	17,882
Operating profit before acquisition-related amortization (EBITA)[1]		**462,998**	**430,632**
Acquisition-related amortization	20	(39,321)	(27,195)
Operating profit (EBIT)[2]		**423,677**	**403,437**
Financial income	8	7,393	4,298
Financial expenses	8	(13,598)	(12,249)
Share of profit / (loss) in associates / joint ventures, net	18	(143)	1,574
Income before taxes		**417,329**	**397,060**
Income taxes	9	(61,153)	(51,213)
Income after taxes		**356,176**	**345,847**
Attributable to:			
Equity holders of the parent		349,172	337,026
Non-controlling interests		7,004	8,821
Basic earnings per share (CHF)	10	5.35	5.11
Diluted earnings per share (CHF)	10	5.34	5.10

[1] Earnings before financial result, share of profit / (loss) in associates / joint ventures, taxes and acquisition-related amortization (EBITA).
[2] Earnings before financial result, share of profit / (loss) in associates / joint ventures and taxes (EBIT).

The Notes are an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

1,000 CHF	Notes	2016/17	2015/16
Income after taxes		**356,176**	**345,847**
Other comprehensive income			
Actuarial gain / (loss) from defined benefit plans, net	30	39,448	(6,610)
Tax effect on actuarial gain / (loss) from defined benefit plans, net		(5,539)	893
Total items not to be reclassified to income statement in subsequent periods		**33,909**	**(5,717)**
Currency translation differences		(5,815)	(2,547)
Tax effect on currency translation items		(2,040)	760
Total items to be reclassified to income statement in subsequent periods		**(7,855)**	**(1,787)**
Other comprehensive income, net of tax		**26,054**	**(7,504)**
Total comprehensive income		**382,230**	**338,343**
Attributable to:			
Equity holders of the parent		377,154	330,309
Non-controlling interests		5,076	8,034

The Notes are an integral part of the consolidated financial statements.

Consolidated balance sheets

Assets 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Cash and cash equivalents	12	374,504	317,266
Other current financial assets	13	4,164	6,748
Trade receivables	14	413,375	354,672
Current income tax receivables		6,426	7,755
Other receivables and prepaid expenses	15	86,328	69,610
Inventories	16	255,655	240,451
Total current assets		**1,140,452**	**996,502**
Property, plant and equipment	17	310,321	267,870
Intangible assets	20	2,323,087	1,349,628
Investments in associates / joint ventures	18	11,471	9,275
Other non-current financial assets	19	20,365	19,970
Deferred tax assets	9	129,984	108,366
Total non-current assets		**2,795,228**	**1,755,109**
Total assets		**3,935,680**	**2,751,611**

Liabilities and equity 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Current financial liabilities	22	13,355	6,546
Trade payables		106,028	77,828
Current income tax liabilities		117,583	93,812
Other short-term liabilities	23	259,175	214,189
Short-term provisions	21	112,279	105,220
Total current liabilities		**608,420**	**497,595**
Non-current financial liabilities	24	766,960	15,174
Long-term provisions	21	185,929	191,880
Other long-term liabilities	26	106,278	94,764
Deferred tax liabilities	9	136,821	45,932
Total non-current liabilities		**1,195,988**	**347,750**
Total liabilities		**1,804,408**	**845,345**
Share capital	27	3,271	3,331
Treasury shares		(12,130)	(155,676)
Retained earnings and reserves		2,117,271	2,034,677
Equity attributable to equity holders of the parent		**2,108,412**	**1,882,332**
Non-controlling interests		22,860	23,934
Equity		**2,131,272**	**1,906,266**
Total liabilities and equity		**3,935,680**	**2,751,611**

The Notes are an integral part of the consolidated financial statements.

Consolidated cash flow statements

1,000 CHF	Notes		2016/17		2015/16
Income before taxes			**417,329**		**397,060**
Depreciation, amortization and impairment of tangible and intangible assets	17, 20	147,404		88,743	
Loss on sale of tangible and intangible assets, net		727		769	
Share of loss / (gain) in associates / joint ventures, net	18	143		(1,574)	
Decrease in long-term provisions		(38,384)		(7,403)	
Financial (income) / expense, net	8	6,205		7,951	
Share based payments and other non-cash item		19,985		4,061	
Income taxes paid		(36,353)	99,727	(40,545)	52,002
Cash flow before changes in net working capital			**517,056**		**449,062**
(Increase) / decrease in trade receivables		(23,926)		312	
(Increase) / decrease in other receivables and prepaid expenses		(6,505)		4,415	
Decrease in inventories		3,604		5,019	
Increase / (decrease) in trade payables		14,497		(11,327)	
Increase / (decrease) in other payables, accruals and short-term provisions		17,665	5,335	(19,038)	(20,619)
Cash flow from operating activities			**522,391**		**428,443**
Purchase of tangible and intangible assets		(98,220)		(83,051)	
Proceeds from sale of tangible and intangible assets		997		576	
Cash consideration for acquisitions, net of cash acquired	28	(675,283)		(121,252)	
Cash consideration from divestments, net of cash divested	28	17,821		29,613	
Changes in other financial assets		(1,486)		(5,034)	
Interest received and realized gain from financial assets		1,165		3,278	
Cash flow from investing activities			**(755,006)**		**(175,870)**
Proceeds from borrowings		880,493			
Repayment of borrowings		(411,597)		(479)	
(Purchase) / sale of treasury shares, net		(32,603)		(175,377)	
Dividends paid by Sonova Holding AG		(137,178)		(136,039)	
Transactions with non-controlling interests		(6,150)		(11,403)	
Interest paid and other financial expenses		(2,443)		(2,312)	
Cash flow from financing activities			**290,522**		**(325,610)**
Exchange losses on cash and cash equivalents			(669)		(183)
Decrease in cash and cash equivalents			**57,238**		**(73,220)**
Cash and cash equivalents at the beginning of the financial year			317,266		390,486
Cash and cash equivalents at the end of the financial year			**374,504**		**317,266**

The Notes are an integral part of the consolidated financial statements.

Consolidated changes in equity

1,000 CHF

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2015	**3,359**	**2,207,642**	**(295,027)**	**(71,473)[1]**	**27,303**	**1,871,804**
Income for the period		337,026			8,821	345,847
Actuarial loss from defined benefit plans, net		(6,610)				(6,610)
Tax effect on actuarial loss		893				893
Currency translation differences		19	(1,779)		(787)	(2,547)
Tax effect on currency translation			760			760
Total comprehensive income		**331,328**	**(1,019)**		**8,034**	**338,343**
Capital decrease – share buy-back program	(28)	(73,551)		73,579		
Share-based payments		7,565				7,565
Sale of treasury shares		(6,222)		22,732		16,510
Purchase of treasury shares				(180,514)		(180,514)
Dividend paid		(136,039)			(11,403)	(147,442)
Balance March 31, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**

	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**
Income for the period		349,172			7,004	356,176
Actuarial gain from defined benefit plans, net		39,448				39,448
Tax effect on actuarial gain		(5,539)				(5,539)
Currency translation differences		(67)	(3,820)		(1,928)	(5,815)
Tax effect on currency translation			(2,040)			(2,040)
Total comprehensive income		**383,014**	**(5,860)**		**5,076**	**382,230**
Capital decrease – share buy-back program	(60)	(155,579)		155,639		
Share-based payments		4,824				4,824
Sale of treasury shares		(6,627)		38,780		32,153
Purchase of treasury shares				(50,873)		(50,873)
Dividend paid		(137,178)			(6,150)	(143,328)
Balance March 31, 2017	**3,271**	**2,419,177**	**(301,906)**	**(12,130)[1]**	**22,860**	**2,131,272**

[1] Includes derivative financial instruments on treasury shares.

The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2017

1. Corporate information

The Sonova Group (the “Group”) specializes in the design, development, manufacture, worldwide distribution and service of technologically advanced hearing systems for adults and children with hearing impairment. The Group operates worldwide and distributes its products in over 100 countries through its own distribution network and through independent distributors. The ultimate parent company is Sonova Holding AG, a limited liability company incorporated in Switzerland. Sonova Holding AG’s registered office is located at Laubisrütistrasse 28, 8712 Stäfa, Switzerland.

2. Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31 prepared in accordance with uniform accounting policies. The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial assets at market value, in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 9, 2017, and are subject to approval by the Annual General Shareholders’ Meeting on June 13, 2017.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant companies which are consolidated is given in Note 35.

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported as assets and liabilities and contingent assets and liabilities at the date of the financial statements as well as revenue and expenses reported for the financial year (refer also to Note 2.7, “Significant accounting judgments and estimates”). Actual results could differ from these estimates.

2.1 Changes in accounting policies

In 2016 / 17 the Group has adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group’s result and financial position:

- Accounting for acquisitions of interest in joint operations (Amendment to IFRS 11)
- Clarification of acceptable methods of depreciation and amortization (Amendments to IAS 16 and IAS 38)
- Annual improvements to IFRSs 2012 – 2014
- Equity method in separate financial statements (Amendment to IAS 27)
- Sale or contribution of assets between an investor and its associate or joint venture (Amendments to IFRS 10 and IAS 28)
- Investment entities: applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendment to IAS 1)

Although the Group is still assessing the potential impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2017, based on the analysis to date the Group does not expect a significant impact on the Group’s result and financial position. The Group is also assessing other new and revised standards which are not mandatory until after 2017, notably:

IFRS 9 “Financial instrument”: The standard completes the guidance on recognition / derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments. The Group does not expect IFRS 9 to have a significant impact on its consolidated financial statements and will implement the new standard on April 1, 2018.

IFRS 15 “Revenues from Contracts with Customers”: The standard combines, enhances and replaces specific guidance on recognizing revenue with a single standard based on a five step approach. The Group is currently assessing the impact of adopting the standard. A reliable estimation of the impact, however, is not possible prior to the completion of the assessment. Implementation of the standard is planned for April 1, 2018.

IFRS 16 “Leasing”: The standard will replace IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group is currently assessing the impact of adopting the standard. A reliable estimation of the impact, however, is not possible prior to the completion of the assessment. Implementation of the standard is planned for April 1, 2019.

2.2 Principles of consolidation

Investments in subsidiaries
Investments in subsidiaries are fully consolidated. These are entities over which Sonova Holding AG directly or indirectly exercises control. Control exists when the Group is exposed, or has rights, to variable returns from its relationship with an entity and has the power to affect those returns. Control is presumed to exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control. For the consolidated entities, 100 % of assets, liabilities, income, and expenses are included. Non-controlling interests in equity and net income or loss are shown separately in the balance sheet and income statement. Changes in the ownership interest of a subsidiary that do not result in a loss of control will be accounted for as an equity transaction. Hence, neither goodwill nor any gains or losses will result.

Group Companies acquired during the year are included in the consolidation from the date on which control over the company was transferred to the Group. Group companies divested during the year are excluded from the consolidation as of the date the Group ceases to have control over the company. Intercompany balances and transactions (including unrealized profit on intercompany inventories) are eliminated in full.

Investments in associates and joint ventures
Investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are entities in which Sonova has a significant influence but does not exercise control (usually 20 % – 50 % of voting rights). Joint ventures are joint arrangements whereby two or more parties have rights to the net assets of the arrangement.

Under the equity method, the investment in an associate / joint venture is initially recognized at cost (including goodwill on acquisition) and the carrying amount is increased or decreased to recognize Sonova's share of profit or loss of the associate / joint venture after the acquisition date. When the Group's share of losses in an associate / joint venture equals or exceeds its interest in the associate / joint venture, no further losses are recognized, unless there is a legal or constructive obligation. In order to apply the equity method the most recent available financial statements of an associate / joint venture are used, however due to practicability reasons the reporting dates might vary up to three months from the Group's reporting date.

2.3 Currency translation

The consolidated financial statements are expressed in Swiss francs ("CHF"), which is the Group's presentation currency. The functional currency of each Group company is based on the local economic environment to which an entity is exposed, which is normally the local currency.

Transactions in foreign currencies are accounted for at the rates prevailing on the dates of the transactions. The resulting exchange differences are recorded in the local income statements of the Group companies and included in net income.

Monetary assets and liabilities of Group companies which are denominated in foreign currencies are translated using year-end exchange rates. Exchange differences are recorded as an income or expense. Non-monetary assets and liabilities are translated at historical exchange rates. Exchange differences arising on intercompany loans that are considered part of the net investment in a foreign entity are recorded in other comprehensive income in equity.

When translating foreign currency financial statements into Swiss francs, year-end exchange rates are applied to assets and liabilities, while average annual rates are applied to income statement accounts (see Note 5). Translation differences arising from this process are recorded in other comprehensive income in equity. On disposal of a Group company, the related cumulative translation adjustment is transferred from equity to the income statement.

2.4 Accounting and valuation principles

Cash and cash equivalents
This item includes cash on hand and cash at banks, bank overdrafts, term deposits and other short-term highly liquid investments with original maturities of three months or less. The consolidated cash flow statement summarizes the movements in cash and cash equivalents.

Other current financial assets
Other current financial assets consist of financial assets held for trading as well as short-term loans to third parties. Marketable securities within this category are classified as financial assets at fair value through profit or loss (see Note 2.5). Derivatives are classified as held for trading unless they are designated as hedges (see Note 2.6).

Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months.

Trade receivables
Trade receivables are recorded at original invoice amount less provisions made for doubtful accounts. A provision for doubtful accounts is recorded when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision is the difference between the carrying amount and the recoverable amount, the latter being the present value of expected cash flows.

Inventories
Purchased raw materials, components and finished goods are valued at the lower of cost or net realizable value. To evaluate cost, the standard cost method is applied, which approximates historical cost determined on a first-in first-out basis.

Standard costs take into account normal levels of materials, supplies, labor, efficiency, and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses. Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Provisions are established for slow-moving, obsolete and phase-out inventory.

Property, plant and equipment

Property, plant and equipment is valued at purchase or manufacturing cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful lifetime of the individual assets or asset categories. Where an asset comprises several parts with different useful lifetimes, each part of the asset is depreciated separately over its applicable useful lifetime. The applicable useful lifetimes are 25 – 40 years for buildings and 3 – 10 years for production facilities, machinery, equipment, and vehicles. Land is not depreciated. Leasehold improvements are depreciated over the shorter of useful life or lease term.

Subsequent expenditure on an item of tangible assets is capitalized at cost only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure for repair and maintenance which do not increase the estimated useful lifetimes of the related assets are recognized as an expense in the period in which they are incurred.

Leasing

There are no assets that are held under leases which effectively transfer to the Group the risks and rewards of ownership (finance leases). Therefore all leases are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

Intangible assets

Purchased intangible assets such as software, licenses and patents are measured at cost less accumulated amortization (applying the straight-line method) and any impairment in value. Software is amortized over a useful lifetime of 3 – 5 years. Intangibles relating to acquisitions of subsidiaries (excluding goodwill) consist generally of technology, client relationships, customer lists, and brand names, and are amortized over a period of 3 – 20 years. Other intangible assets are generally amortized over a period of 3 – 10 years. For capitalized development costs in the Cochlear implants segment amortization starts when the capitalized asset is ready for use, which is generally after receipt of approval from regulatory bodies. These assets are amortized over the estimated useful lifetime of 2 – 7 years applying the straight-line method. For in-process capitalized development costs these capitalized costs are tested annually for impairment. Except for goodwill, the Sonova Group has no intangible assets with an indefinite useful life.

Research and development

Research costs are expensed as incurred. Development costs are capitalized only if the identifiable asset is commercially and technically feasible, can be completed, its costs can be measured reliably and will generate probable future economic benefits. Group expenditures which fulfill these criteria are limited to the development of tooling and equipment as well as costs related to the development of cochlear implants. All other development costs are expensed as incurred. In addition to the internal costs (direct personnel and other operating costs, depreciation on research and development equipment and allocated occupancy costs), total costs also include externally contracted development work. Such capitalized intangibles are recognized at cost less accumulated amortization and impairment losses.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company. Any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities so recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired. Acquisition-related costs are expensed. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

If a business combination is achieved in stages (control obtained over an associate), the previously held equity interest in an associate is remeasured to its acquisition-date fair value and any resulting gain or loss is recognized in "financial income / expenses" in profit or loss.

Other non-current financial assets

Other non-current financial assets consist of investments in third parties and long-term receivables from associates and third parties as well as rent deposits. Investments in third parties are classified as financial assets at fair value through profit or loss and long-term receivables from associates and third parties as well as rent deposits are classified as loans and receivables (see Note 2.5).

Financial liabilities

Current financial liabilities consist of short-term bank debt and all other interest bearing debt with a maturity of 12 months or less. Given the short-term nature of these debts they are recorded at nominal value. In addition, current financial liabilities also consist of financial liabilities resulting from contingent considerations as well as deferred payments (earn-out agreements) from acquisitions with a maturity of 12 months or less. In the case of earn-outs, they are classified as financial liabilities at fair value through profit or loss.

Derivative financial instruments are initially recognized in the balance sheet at fair value and are re-measured to their current fair value at the end of each subsequent reporting period.

Bonds are initially measured at fair value including direct transaction costs. In subsequent accounting periods, they are re-measured at amortized costs applying the effective interest method.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources will be required to settle the obligation, and where a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows.

The Group recognizes provisions for warranty costs to cover any costs arising from the warranty given on its products sold (including costs for legal proceedings and related costs). The provision is calculated using historical and projected data on warranty rates, claim rates and amounts, service costs, remaining warranty period and number of hearing instruments and implants on which the warranty is still active. Short-term portions of warranty provisions are reclassified to short-term provisions at each reporting date.

Share capital

Ordinary shares are classified as equity. Dividends on ordinary shares are recorded in equity in the period in which they are approved by the parent companies' shareholders.

In case any of the Group Companies purchase shares of the parent company, the consideration paid is recognized as treasury shares and presented as a deduction from equity. Any consideration received from the sale of own shares is recognized in equity.

Income taxes

Income taxes include current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions and significant judgment is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations implies estimates and assumptions. The Group recognizes liabilities based on estimates of whether additional taxes will be due.

Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. Deferred tax is recorded on the valuation differences (temporary differences) between the tax bases of assets and liabilities and their carrying values in the consolidated balance sheet. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences and tax losses can be offset. Deferred income tax liabilities are provided for on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue recognition

Sales are recognized net of sales taxes and discounts when the significant risk and rewards of ownership has been transferred to the buyer, mainly upon delivery of products and services and reasonably assured collectibility of the related receivables.

For hearing instruments sold, probable returns of products are estimated and a corresponding provision is recognized. The portion of goods sold that are expected to be returned are estimated based on historical product return rates.

For cochlear implants, sales are generally recognized upon delivery to the buyer, mainly hospitals. For returns of products, accumulated experience is used to determine the respective provision.

Revenue from the sale of service is recognized when the service has been provided to the customer and where there are no continuing unfulfilled service obligations. Sales of service contracts, such as long-term service contracts and extended warranties are separated from the sale of goods and recognized on a straight-line basis over the term of the contract.

Interest income is recognized on a time proportion basis using the effective interest method. Dividend income is recognized when the right to receive payment is established.

Acquisition-related amortization

The Group is continuously amending its business portfolio with acquisitions resulting in acquisition-related intangibles (see section "Intangible Assets") and related amortization charges. The Group discloses acquisition-related amortization as a separate line item in the income statement, and identifies EBITA as its key profit metric for internal (refer to Note 6) as well as for external reporting purposes. The functional allocation of these acquisition-related amortization costs are further disclosed in Note 20 "Intangible Assets" in the notes to the financial statements.

Segment reporting

Operating segments are defined on the same basis as information is provided to the chief operating decision maker. For the Sonova Group, the Chief Executive Officer (CEO) is the chief operating decision maker, who is responsible for allocating resources and assessing the performance of operating segments. Additional general information regarding the factors used to identify the entity's reportable segments are disclosed in Note 6.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. The recoverable amount of an asset or, where it is not possible to estimate the recoverable amount of an individual asset, a cash-generating unit is the higher of its fair value less cost of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit. If the recoverable amount is lower than the carrying amount, an impairment loss is recognized. Impairments of financial assets are described in Note 2.5 "Financial assets". For the purpose of impairment testing, goodwill as well as corporate assets are allocated to cash generating units. A goodwill impairment test is performed annually, even if there is no indication of impairment (see section "Business combinations and goodwill").

Related parties

A party is related to an entity if the party directly or indirectly controls, is controlled by, or is under common control with the entity, has an interest in the entity that gives it significant influence over the entity, has joint control over the entity or is an associate or a joint venture of the entity. In addition, members of the Board of Directors and the Management Board or close members of their families are also considered related parties as well as post-employment plan organizations (pension funds) for the benefit of Sonova employees. No related party exercises control over the Group.

Employee benefits

Pension obligations

Most employees are covered by post-employment plans sponsored by corresponding Group companies in the Sonova Group. Such plans are mainly defined contribution plans (future benefits are determined by reference to the amount of contributions paid) and are generally administered by autonomous pension funds or independent insurance companies. These pension plans are financed through employer and employee contributions. The Group's contributions to defined contribution plans are charged to the income statement in the year to which they relate.

The Group also has several defined benefit pension plans, both funded and unfunded. Accounting and reporting of these plans are based on annual actuarial valuations. Defined benefit obligations and service costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the income statement so as to spread the regular cost over the service lives of employees participating in these plans. The pension obligation is measured as the present value of the estimated future outflows using interest rates of government securities which have terms to maturity approximating the terms of the related liability. Service costs from defined benefit plans are charged to the appropriate income statement heading within the operating results.

A single net interest component is calculated by applying the discount rate to the net defined benefit asset or liability. The net interest component is recognized in the income statement in the financial result.

Actuarial gains and losses, resulting from changes in actuarial assumptions and differences between assumptions and actual experiences, are recognized in the period in which they occur in "Other comprehensive income" in equity.

Other long-term benefits

Other long-term benefits mainly comprise length of service compensation benefits in certain Group companies. These benefits are accrued and the corresponding liabilities are included under "Other provisions".

Equity compensation benefits

The Board of Directors of Sonova Holding AG, the Management Board, and certain management and senior employees of other Group companies participate in equity compensation plans. The fair value of all equity compensation awards granted to employees is determined at the grant date and recorded as an expense over the vesting period (for details refer to Note 31). The expense for equity compensation awards is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity (for equity-settled compensation) or financial liability (for cash-settled compensation) is recorded. In the case of cash-settled compensation, until the liability is settled it is revalued at each reporting date, recognizing changes in the fair value in the income statement.

2.5 Financial assets

The Group classifies its financial assets in the categories financial assets at fair value through profit or loss, loans and receivables. Management determines the classification of its investments at initial recognition. All purchases and sales are recognized on the settlement date.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss consist of cash-settled calls on Sonova shares as a hedge against obligations from warrant appreciation rights (WARs) and share appreciation rights (SARs) allocated to US employees participating in the Executive Equity Award Plan (EEAP) and certain minority investments in hearing instrument related businesses. These financial assets are measured at their fair value. Those fair value changes are included in the profit or loss for the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services, directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities of more than 12 months, these are classified as non-current assets. Loans are measured at amortized cost. Amortized cost is the amount at which the financial asset is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount, minus any reduction for impairment or uncollectibility. The effective interest method is a method calculating the amortized cost of a financial asset and allocating the interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected lifetime of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset.

Impairment of financial assets

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The Group assesses, at each balance sheet date, whether there is any objective evidence that a financial asset may be impaired. If any such evidence exists, the Group estimates the recoverable amount of that asset and recognizes any impairment loss in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively related to an event occurring after the write-down, the write-down of the financial asset is reversed. The reversal will not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been, had the impairment not been recognized, at the date the write-down of the financial asset is reversed. The amount of the reversal is included in profit or loss for the financial year.

2.6 Derivative financial instruments and hedging

The Group regularly hedges its net exposure from foreign currency balance sheet positions with forward contracts and options. Such contracts are not qualified as cash flow hedges and are therefore not accounted for using hedge accounting. Gains and losses on these transactions are recognized directly in the income statement.

2.7 Significant accounting judgments and estimates

Key management judgments made in applying accounting policies

In the process of applying the Group's accounting policies, management may be required to make judgments, apart from those involving estimates, which have an effect on the amounts recognized in the financial statements.

These include, but are not limited to, the following areas:

Capitalization of development costs

As outlined under 2.4 "Accounting and valuation principles" the Group capitalizes costs relating to the development of cochlear implants. In determining the commercial as well as the technical feasibility, management judgment may be required. In the current financial year the group impaired development costs in the amount of CHF 35.6 million (disclosed in the annual income statement in the line "Other income / (expenses), net").

Business combinations

In the course of recognizing assets and liabilities from business combinations, management judgments might be required for the following areas:

- Acquisition-related intangibles resulting from technology, customer relationships, client lists or brand names.
- Contingent consideration arrangements.

Key accounting estimates and assumptions

Preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses, and related disclosures. This includes estimates and assumptions in the ordinary course of business as well as non-operating events such as the outcome of pending legal disputes. The estimates and assumptions are continuously evaluated and are based on experience and other factors, including expectations of future events that are believed to be reasonable. Actual results may differ from these estimates and assumptions. The main estimates and assumptions with the potential of causing an adjustment, are discussed below.

Cost of business combinations

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resulting change in the carrying value of goodwill (for business combinations entered into before April 1, 2010) or in the income statement (for business combinations entered into after April 1, 2010). At the end of the 2016 / 17 financial year, such liabilities contingent on future events amount to CHF 10.6 million (previous year CHF 13.9 million) and are disclosed under other provisions (for business combinations entered into before April 1, 2010) or other financial liabilities (for business combinations entered into after April 1, 2010).

Intangible assets, including goodwill

The Group has intangible assets with a carrying value of CHF 2,323.1 million (previous year CHF 1,349.6 million) as disclosed in Note 20.

Included in the intangible assets is goodwill amounting to CHF 1,815.2 million (previous year CHF 1,069.5 million).

Furthermore intangible assets also include capitalized development costs in the amount of CHF 100.6 million (previous year CHF 113.8 million). The capitalized development cost are reviewed on a regular basis as a matter of a standard systematic procedure. Due to the revision of the Cochlear implants product roadmap in the 2016 / 17 financial year, Sonova has identified the need of valuation adjustments on certain R&D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement in the line "other income / (expense), net".

The Group determines annually, in accordance with the accounting policy stated in Note 2.4, whether any of the assets are impaired. For the impairment tests, estimates are made of the expected future cash flows from the use of the asset or cash-generating unit. The actual cash flows could vary significantly from these estimates.

Deferred tax assets

The consolidated balance sheet includes deferred tax assets of CHF 130.0 million (previous year CHF 108.4 million) related to deductible differences and, in certain cases, tax loss carry-forwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

Employee benefit plans
The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2016 / 17 financial period amounts to CHF 356.5 million (previous year CHF 361.1 million) as disclosed in Note 30. This includes CHF 353.3 million (previous year CHF 356.4 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term such deviations could have an impact on the equity. The carrying amounts of the plan assets and liabilities in the balance sheet together with a sensitivity analysis considering changes for the main input parameters in the actuarial valuation are set out in Note 30.

Provisions for warranty and returns
On March 31, 2017, the Group recorded provisions for warranty and returns of CHF 117.5 million (previous year CHF 96.3 million) as disclosed in Note 21.

The calculation of these provisions is based on turnover, past experience and projected number and cost of warranty claims and returns. The actual costs for warranty, claims, and returns may differ from these estimates.

Provision for product liabilities
The Sonova Group accounts consider a provision for product liabilities related to products affected by a voluntary cochlear implant product recall of Advanced Bionics LLC in 2006.

The provision for product liabilities is reassessed on a regular and systematic basis. The provision is estimated based on a financial model. Generally the model used to calculate the provision for the end of the 2016 / 17 financial year is consistent to the prior year, except for a change in the claim rates and cost per case used to calculate the provision. Due to more available historical data about the claims and cost per case to date, these factors are now based on historical averages and no longer based on expert estimation. In the 2016 / 17 financial year, improvements in the expected number and cost of current and future claims led to a reversal of CHF 37.4 million which is contributing to the profit of 2016 / 17 in the same amount (disclosed in the annual income statement in the line “Other income / (expenses), net”). In the previous year the positive effect in the income statement amounted to CHF 8.8 million.

On March 31, 2017, the provision for the before mentioned cochlear implant product liabilities was CHF 132.5 million (previous year CHF 166.4 million).

The calculation of this provision is based on past experience regarding the number and cost of current and future claims. As actual results may differ from these forecasts, the respective provision may need to be adjusted accordingly.

3. Changes in Group structure

In the 2016 / 17 and 2015 / 16 financial years, the Group entered into several business combinations. The companies acquired / divested are in the business of producing and distributing hearing instruments.

On September 14, 2016 Sonova Holding AG completed the acquisition of AudioNova International B.V., a Rotterdam (Netherlands) based hearing aid retailer, following regulatory approvals. The company is one of Europe’s leading hearing aid retailers and service providers. AudioNova employs around 2,750 staff (including 1,600 acousticians) across eight countries. In the calendar year 2015 sales were approx. EUR 360 million (CHF 395 million).

On April 16, 2015, Sonova Holding AG announced that it has completed the acquisition of Hansaton Akustik GmbH, a Hamburg (Germany) based wholesale hearing aid company, following regulatory approvals. The company develops and manufactures hearing aids and employs around 200 staff in Germany, France and the US. In calendar year 2014 sales were EUR 42 million (CHF 44 million).

On January 16, 2017, Sonova Holding AG announced that Sonova is engaged in negotiations regarding a potential sale of AudioNova retail business in France. In February 2017 all necessary regulatory approvals were obtained and the transaction has been closed on March 1, 2017. Furthermore on January 16, 2017 Sonova also announced that it has signed an agreement to sell its MiniSom retail business in Portugal. In March 2017 all necessary regulatory approval were obtained and the transaction will be closed on April 1, 2017. Further in the reporting period the Group divested a minor Group company in the Americas region. These three transactions have no material impact on the financial statements.

The effect of the acquisitions and divestments for the 2016 / 17 and 2015 / 16 financial years is disclosed in Note 28.

4. Number of employees

On March 31, 2017, the Sonova Group employed the full time equivalent of 14,089 people (previous year 10,894). They were engaged in the following regions and activities:

By region	31.3.2017	31.3.2016
Switzerland	1,178	1,200
EMEA (excl. Switzerland)	6,399	3,452
Americas	3,538	3,622
Asia / Pacific	2,974	2,620
Total	**14,089**	**10,894**
By activity		
Research and development	742	697
Operations	4,369	4,033
Sales and marketing, general and administration	8,978	6,164
Total	**14,089**	**10,894**

The average number of employees (full time equivalents) of the Sonova Group for the year was 12,802 (previous year 10,697). Total personnel expenses for the 2016 / 17 financial year amounted to CHF 861.3 million (previous year CHF 746.3 million).

5. Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2017	31.3.2016	2016 / 17	2015 / 16
	Year-end rates		Average rates for the year	
AUD 1	0.77	0.74	0.74	0.72
BRL 1	0.32	0.27	0.30	0.27
CAD 1	0.75	0.74	0.75	0.74
CNY 1	0.15	0.15	0.15	0.15
EUR 1	1.07	1.09	1.08	1.07
GBP 1	1.25	1.38	1.29	1.47
JPY 100	0.90	0.86	0.91	0.81
USD 1	1.00	0.96	0.99	0.97

6. Segment information

Segment information by business segments

Since the acquisition of Advanced Bionics as of December 30, 2009, the Group is active in the two business segments cochlear implants and hearing instruments, which are reported separately to the Group's chief operating decision maker (i.e. Chief Executive Officer). The financial information that is provided to the Group's chief operating decision maker, which is used to allocate resources and to assess the performance, is primarily based on the sales analysis as well as the consolidated income statements and other key financial metrics for the two segments.

Hearing instruments: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing instruments and related products. Research and development is centralized in Switzerland while some activities are also performed in Canada and Sweden. Production of hearing instruments is concentrated in three production centers in Switzerland, China, and Vietnam. Technologically advanced production processes are performed in Switzerland, whereas standard assembly of products is conducted in Asia. Most of the marketing activities are steered by the brand marketing departments in Switzerland, Canada, the United States and Sweden. The execution of marketing campaigns lies with the sales organizations in each market. The distribution of products is effected through sales organizations in the individual markets. The distribution channels of the Group in the individual markets vary depending on the sales strategy and the characteristics of the countries. The distribution channels of the Group in the individual markets vary depending on the sales strategy and the characteristics of the countries. The distribution channels can broadly be split into a retail business where Sonova operates its own store network and sells directly to end consumers and a hearing instruments business, reflecting the wholesale sales to independent audiologists, 3rd party retail chains, multinational and government customers.

Cochlear implants: This operating segment includes the companies that are active in the design, development, manufacture, distribution and service of hearing implants and related products. The segment consists of Advanced Bionics and the related sales organizations, which were acquired as of December 30, 2009 and which provide cochlear implant systems. In addition, since the acquisition the Group set up further sales organizations. Research and development as well as marketing activities of Advanced Bionics are predominantly centralized in the United States and Switzerland while production resides in the United States. The distribution of products is effected through sales organizations in the individual markets.

1,000 CHF	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	2,191,985	1,887,211	207,244	187,267			2,399,229	2,074,478
Intersegment sales	(1,688)	(2,243)	(1,891)	(305)			(3,579)	(2,548)
Sales	**2,190,297**	**1,884,968**	**205,353**	**186,962**			**2,395,650**	**2,071,930**
Operating profit before acquisition-related amortization (EBITA)	**454,993**	**430,753**	**8,005**	**(121)**			**462,998**	**430,632**
Depreciation, amortization and impairment	(92,767)	(70,901)	(54,637)	(17,842)			(147,404)	(88,743)
Segment assets	**3,552,007**	**2,423,715**	**588,382**	**582,286**	**(720,668)**	**(689,297)**	**3,419,721**	**2,316,704**
Unallocated assets[1]							515,959	434,907
Total assets							**3,935,680**	**2,751,611**

[1] Unallocated assets include cash and cash equivalents, other current financial assets (excluding loans), investments in associates/joint ventures, employee benefit assets and deferred tax assets.

Reconciliation of reportable segment profit 1,000 CHF	**2016/17**	**2015/16**
EBITA	462,998	430,632
Acquisition-related amortization	(39,321)	(27,195)
Financial costs, net	(6,205)	(7,951)
Share of (loss)/gain in associates/joint ventures, net	(143)	1,574
Income before taxes	**417,329**	**397,060**

Entity-wide disclosures

Sales by product groups 1,000 CHF	**2016/17**	**2015/16**
Premium hearing instruments	604,506	512,796
Advanced hearing instruments	464,710	403,356
Standard hearing instruments	713,864	599,814
Wireless communication systems	106,684	90,510
Miscellaneous	300,533	278,492
Total hearing instruments segment	**2,190,297**	**1,884,968**
Cochlear implant systems	159,971	141,647
Upgrades and accessories	45,382	45,315
Total cochlear implants segment	**205,353**	**186,962**
Total sales	**2,395,650**	**2,071,930**

Sales by business – hearing instruments segment 1,000 CHF	**2016/17**	**2015/16**
Hearing instruments business	1,311,207	1,266,240
Retail business	879,090	618,728
Total hearing instruments segment	**2,190,297**	**1,884,968**

Sales and selected non-current assets by regions 1,000 CHF	**2016/17**	**2015/16**	**2016/17**	**2015/16**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	26,837	24,883	241,460	263,910
EMEA (excl. Switzerland)	1,135,362	858,087	1,461,948	462,191
USA	787,324	767,631	700,766	682,090
Americas (excl. USA)	210,888	197,144	130,749	123,856
Asia/Pacific	235,239	224,185	109,967	94,726
Total Group	**2,395,650**	**2,071,930**	**2,644,890**	**1,626,773**

[1] Sales based on location of customers.
[2] Total of property, plant & equipment, intangible assets and investments in associates/joint ventures.

As common in this industry, the Sonova Group has a large number of customers. There is no single customer who accounts for more than 10 % of total sales.

7. Other income / expenses, net

"Other income / expenses, net" in the 2016 / 17 financial year amounts to CHF 6.3 million (previous year CHF 17.9 million). The regular and systematic assessment of the provision for product liabilities led to a release of CHF 37.4 million (previous year CHF 8.8 million). Further there was an impairment of previously capitalized development costs of CHF 35.6 million. For further information refer to Note 2.7 "Provision for product liabilities", Note 20 "Intangible assets" and Note 21 "Provisions". In addition the divestment of the AudioNova retail business in France together with a smaller divestment in the Americas region led to a gain of CHF 3.8 million (previous year other income from divestment CHF 8.7 million). For further information refer to Note 28.

8. Financial income / expenses, net

1,000 CHF	**2016 / 17**	**2015 / 16**
Interest income	3,797	2,007
Other financial income	3,596	2,291
Total financial income	**7,393**	**4,298**
Interest expenses	(1,728)	(1,475)
Other financial expenses	(11,870)	(10,774)
Total financial expenses	**(13,598)**	**(12,249)**
Total financial income / expenses, net	**(6,205)**	**(7,951)**

Other financial expenses in 2016 / 17 and 2015 / 16 include, amongst other items, the unwinding of the discount on provisions, contingent considerations and deferred payments, fair value adjustments of financial instruments as well as the costs for entering into forward foreign currency contracts.

9. Taxes

1,000 CHF	**2016 / 17**	**2015 / 16**
Income taxes	49,235	37,920
Change in deferred taxes	11,918	13,293
Total tax expense	**61,153**	**51,213**
Reconciliation of tax expense		
Income before taxes	417,329	397,060
Group's expected average tax rate	15.5 %	13.7 %
Tax at expected average rate	**64,887**	**54,384**
+ / – Effects of		
Expenses not subject to tax, net	3,564	1,106
Changes of unrecognized loss carryforwards / deferred tax assets	(3,785)	10,131
Local actual tax rate different to Group's expected average tax rate	(12,759)	(23,183)
Change in tax rates on deferred tax balances	7,808	7,441
Prior year adjustments and other items, net	1,438	1,334
Total tax expense	**61,153**	**51,213**
Weighted average effective tax rate	14.7 %	12.9 %

The Group's expected average tax rate is the aggregate obtained by applying the expected tax rate for each individual jurisdiction to its respective result before taxes.

Deferred tax assets and (liabilities) 1,000 CHF					31.3.2017
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(6,168)	(25,570)	27,295	66,877	62,434
Changes through business combinations	(612)	(78,784)	8,294	9,662	(61,440)
Deferred taxes recognized in the income statement	(356)	3,238	(4,414)	(10,386)	(11,918)
Deferred taxes recognized in OCI[1]			5,539		5,539
Exchange differences	42	1,389	(1,399)	(1,484)	(1,452)
Balance March 31	**(7,094)**	**(99,727)**	**35,315**	**64,669**	**(6,837)**
Amounts in the balance sheet					
Deferred tax assets					129,984
Deferred tax liabilities					(136,821)
Total deferred taxes, net					**(6,837)**

1) Other comprehensive income.

Deferred tax assets and (liabilities) 1,000 CHF					31.3.2016
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(5,907)	(16,106)	28,532	71,907	78,426
Changes through business combinations		(7,165)			(7,165)
Deferred taxes recognized in the income statement	34	(1,479)	(3,288)	(8,560)	(13,293)
Deferred taxes recognized in OCI[1]			893		893
Exchange differences	(295)	(820)	1,158	3,530	3,573
Balance March 31	**(6,168)**	**(25,570)**	**27,295**	**66,877**	**62,434**
Amounts in the balance sheet					
Deferred tax assets					108,366
Deferred tax liabilities					(45,932)
Total deferred taxes, net					**62,434**

1) Other comprehensive income.

Deferred tax assets have been capitalized based on the projected future performance of the Group companies.

The gross values of unused tax loss carryforwards, which have not been capitalized as deferred tax assets, with their expiry dates are as follows:

1,000 CHF	31.3.2017	31.3.2016
Within 1 – 3 years	60,213	61,202
Within 4 years	39,851	11,009
Within 5 years	17,585	42,182
More than 5 years	416,462	386,436
Total	**534,111**	**500,829**

Tax loss carryforwards which have not been capitalized also include pre-acquisition tax losses with limitation of use and losses which do not qualify for capitalization. The inherent uncertainty regarding the level and use of such tax losses, and changes in tax regulations and laws can impact the annual assessment of these unused tax loss carryforwards.

10. Earnings per share

Basic earnings per share are calculated by dividing the income after taxes attributable to the ordinary equity holders of the parent company by the weighted average number of shares outstanding during the year.

Basic earnings per share	**2016/17**	**2015/16**
Income after taxes (1,000 CHF)	349,172	337,026
Weighted average number of outstanding shares	65,321,391	65,946,732
Basic earnings per share (CHF)	**5.35**	**5.11**

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through to 2017 and which have not yet been exercised. Anti-dilutive options have not been considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

Diluted earnings per share	**2016/17**	**2015/16**
Income after taxes (1,000 CHF)	349,172	337,026
Weighted average number of outstanding shares	65,321,391	65,946,732
Adjustment for dilutive share options	91,619	100,524
Adjusted weighted average number of outstanding shares	65,413,010	66,047,255
Diluted earnings per share (CHF)	**5.34**	**5.10**

11. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 13, 2017, that a dividend of CHF 2.30 shall be distributed (previous year CHF 2.10).

12. Cash and cash equivalents

1,000 CHF	**31.3.2017**	**31.3.2016**
Cash on hand	1,129	714
Current bank accounts	289,819	276,962
Term deposits	83,556	39,590
Total	**374,504**	**317,266**

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD.

For details of the movements in cash and cash equivalents refer to the consolidated cash flow statements.

13. Other current financial assets

1,000 CHF	31.3.2017	31.3.2016
Marketable securities	358	1,918
Positive replacement value of forward foreign exchange contracts	819	810
Loans to third parties	2,987	4,020
Total	**4,164**	**6,748**

14. Trade receivables

1,000 CHF	31.3.2017	31.3.2016
Trade receivables	439,453	376,838
Provision for doubtful receivables	(26,078)	(22,166)
Total	**413,375**	**354,672**

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk. The aging of trade receivables and related provisions is as follows:

1,000 CHF	31.3.2017	31.3.2016
Total trade receivables, net	**413,375**	**354,672**
of which:		
Not overdue	302,406	255,086
Overdue 1 – 30 days	54,547	46,517
Overdue more than 30 days	56,422	53,069
Total	**413,375**	**354,672**

Provision for doubtful receivables is established based on individual adjustments and past experience. The charges to the income statement are included in general and administration costs. The following table summarizes the movements in the provision for doubtful receivables:

1,000 CHF	2016 / 17	2015 / 16
Provision for doubtful receivables, April 1	**(22,166)**	**(22,755)**
Changes through business combinations	(3,039)	(2,023)
Utilization or reversal	9,299	10,488
Additions	(10,661)	(8,308)
Disposal	979	255
Exchange differences	(490)	177
Provision for doubtful receivables, March 31	**(26,078)**	**(22,166)**

During 2016 / 17 the Group has utilized CHF 7.3 million (previous year CHF 5.7 million) of this provision to write-off receivables.

The carrying amounts of trade receivables are denominated in the following currencies:

1,000 CHF	31.3.2017	31.3.2016
BRL	22,155	22,350
CAD	24,546	22,502
CHF	13,625	13,201
EUR	139,628	103,237
GBP	12,859	13,962
USD	134,033	116,904
Other	66,529	62,516
Total trade receivables, net	**413,375**	**354,672**

15. Other receivables and prepaid expenses

1,000 CHF	31.3.2017	31.3.2016
Other receivables	65,240	50,590
Prepaid expenses	21,088	19,020
Total	**86,328**	**69,610**

The largest individual items included in other receivables are recoverable value added taxes and deposits. Prepaid expenses mainly consist of advances to suppliers.

16. Inventories

1,000 CHF	31.3.2017	31.3.2016
Raw materials and components	40,905	46,381
Work-in-process	93,891	96,090
Finished products	156,871	129,218
Allowances	(36,012)	(31,238)
Total	**255,655**	**240,451**

Allowances include value adjustments for slow moving, phase out and obsolete stock.

In 2016 / 17, CHF 639.2 million (previous year CHF 594.5 million) were recognized as an expense and included in “cost of sales”.

17. Property, plant and equipment

1,000 CHF					31.3.2017
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	177,323	236,953	182,728	7,835	604,839
Changes through business combinations	10,650	25,726	122,691	2,069	161,136
Additions	7,509	22,782	22,585	3,059	55,935
Disposals	(311)	(13,449)	(15,225)		(28,985)
Transfers		4,572	2,972	(7,544)	
Exchange differences	(132)	678	(2,411)	14	(1,851)
Balance March 31	**195,039**	**277,262**	**313,340**	**5,433**	**791,074**
Accumulated depreciation					
Balance April 1	(60,095)	(171,618)	(105,256)		(336,969)
Changes through business combinations	(3,623)	(20,166)	(90,685)		(114,474)
Additions	(5,673)	(24,033)	(26,436)		(56,142)
Disposals	233	12,897	12,510		25,640
Transfers		402	(402)		
Exchange differences	(43)	(572)	1,807		1,192
Balance March 31	**(69,201)**	**(203,090)**	**(208,462)**		**(480,753)**
Net book value					
Balance April 1	117,228	65,335	77,472	7,835	267,870
Balance March 31	**125,838**	**74,172**	**104,878**	**5,433**	**310,321**

1,000 CHF					31.3.2016
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	169,130	224,000	167,009	14,598	574,737
Changes through business combinations	497	1,647	2,989	20	5,153
Additions	910	15,936	20,096	10,045	46,987
Disposals	(142)	(8,809)	(11,637)	(61)	(20,649)
Transfers	7,225	5,506	3,793	(16,524)	
Exchange differences	(297)	(1,327)	478	(243)	(1,389)
Balance March 31	**177,323**	**236,953**	**182,728**	**7,835**	**604,839**
Accumulated depreciation					
Balance April 1	(55,027)	(157,886)	(91,836)		(304,749)
Additions	(5,261)	(22,260)	(19,982)		(47,503)
Disposals	140	7,609	6,722		14,471
Exchange differences	53	919	(160)		812
Balance March 31	**(60,095)**	**(171,618)**	**(105,256)**		**(336,969)**
Net book value					
Balance April 1	114,103	66,114	75,173	14,598	269,988
Balance March 31	**117,228**	**65,335**	**77,472**	**7,835**	**267,870**

Pledged fixed assets amounted to CHF 0.1 million (previous year CHF 0.03 million).

There are no assets held under finance leases.

18. Investments in associates / joint ventures

The Group's share in the results as well as in assets and liabilities of associates / joint ventures, all unlisted enterprises, is as follows:

1,000 CHF	2016 / 17	2015 / 16
Current assets	919	442
Non-current assets	1,518	1,096
Total assets	**2,437**	**1,538**
Current liabilities	(394)	(278)
Non-current liabilities		(32)
Total liabilities	**(394)**	**(310)**
Net assets	**2,043**	**1,228**
Income for the year	2,170	2,847
Expenses for the year	(2,313)	(1,273)
Profit for the year	**(143)**	**1,574**
Net book value at year-end	11,471	9,275
Share of (loss) / gain recognized by the Group	(143)	1,574

In the 2016 / 17 financial year, the Group acquired three and divested one associate, being all in the business of selling hearing instruments. The total purchase consideration for the associates acquired amounted to CHF 1.6 million. In the 2015 / 16 financial year, there have been no changes in the number of associates / joint ventures.

Sales to associates / joint ventures in the 2016 / 17 financial year amounted to CHF 7.3 million (previous year CHF 7.5 million). At March 31, 2017, trade receivables towards associates / joint ventures amounted to CHF 2.2 million (previous year CHF 1.8 million).

At the end of the 2016 / 17 and 2015 / 16 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 11.5 million (previous year CHF 9.3 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2016.

19. Other non-current financial assets

1,000 CHF	31.3.2017	31.3.2016
Financial assets at fair value through profit or loss	3,190	7,442
Loans to associates	7,855	8,102
Loans to third parties	7,722	4,171
Rent deposits	1,598	255
Total	**20,365**	**19,970**

Financial assets at fair value through profit or loss mainly consist of minority interests in patent and software development companies specific to the hearing aid industry. Besides these non-controlling investments, financial assets at fair value through profit or loss also consists of warrants to hedge the financial exposure in connection with the employee share option program (refer to Note 31).

The loans are primarily denominated in CAD, EUR, GBP, USD and ZAR. Loans to third parties consist mainly of loans to customers. As of March 31, 2017, the respective repayment periods vary between one and eight years and the interest rates vary generally between 3 % and 5 %. The valuation of the loans approximates to fair value.

20. Intangible assets

1,000 CHF					31.3.2017
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,217,979	303,894	138,217	67,356	1,727,446
Changes through business combinations	753,856	315,541		12,673	1,082,070
Additions			32,369	8,816	41,185
Disposals	(4,302)	(6,099)	(35,569)	(974)	(46,944)
Exchange differences	1,685	(6,375)	66	(389)	(5,013)
Balance March 31	**1,969,218**	**606,961**	**135,083**	**87,482**	**2,798,744**
Accumulated amortization and impairments					
Balance April 1	(148,518)	(158,834)	(24,420)	(46,046)	(377,818)
Changes through business combinations		(26,556)		(10,790)	(37,346)
Additions		(39,321)[2]	(10,069)	(6,303)	(55,693)
Disposals		437	35,569	958	36,964
Impairment			(35,569)		(35,569)
Exchange differences	(5,544)	(658)		7	(6,195)
Balance March 31	**(154,062)**	**(224,932)**	**(34,489)**	**(62,174)**	**(475,657)**
Net book value					
Balance April 1	1,069,461	145,060	113,797	21,310	1,349,628
Balance March 31	**1,815,156**	**382,029**	**100,594**	**25,308**	**2,323,087**

[1] Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R&D and technology.
[2] Relates to research and development (CHF 5.1 million) and sales and marketing (CHF 34.2 million).

1,000 CHF					**31.3.2016**
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,121,654	271,267	112,325	63,519	1,568,765
Changes through business combinations	106,531	38,072		895	145,498
Additions			26,366	9,698	36,064
Disposals	(7,389)	(6,028)	(430)	(6,940)	(20,787)
Exchange differences	(2,817)	583	(44)	184	(2,094)
Balance March 31	**1,217,979**	**303,894**	**138,217**	**67,356**	**1,727,446**
Accumulated amortization and impairments					
Balance April 1	(150,151)	(136,029)	(16,010)	(46,977)	(349,167)
Additions		(27,195)[2]	(8,410)	(5,635)	(41,240)
Disposals		3,683		6,643	10,326
Exchange differences	1,633	707		(77)	2,263
Balance March 31	**(148,518)**	**(158,834)**	**(24,420)**	**(46,046)**	**(377,818)**
Net book value					
Balance April 1	971,503	135,238	96,315	16,542	1,219,598
Balance March 31	**1,069,461**	**145,060**	**113,797**	**21,310**	**1,349,628**

1) Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R&D and technology.
2) Relates to research and development (CHF 4.4 million) and sales and marketing (CHF 22.8 million).

For the purpose of impairment testing, goodwill is allocated to the cash-generating unit, which is expected to benefit from the synergies of the corresponding business combination.

For the Group, a meaningful goodwill allocation can only be done at the level of the segments, hearing instruments and cochlear implants. This also reflects the level that the goodwill is monitored by management.

For both of the two cash-generating units, the recoverable amount (higher of the cash-generating unit's fair value less cost of disposal and the cash-generating units value in use) is compared to the carrying amount. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM). Value in use is normally assumed to be higher than the fair value less cost of disposal. Therefore, fair value less cost of disposal is only investigated when value in use is lower than the carrying amount of the cash-generating unit.

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2016 / 17 and 2015 / 16 financial years.

Hearing instruments

As of March 31, 2017, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,492.7 million (prior year CHF 758.6 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0 % (prior year 2.1 %) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.2 % (prior year 9.9 %) was used. An increase in the discount rate of 1 % would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2017, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 322.5 million (prior year CHF 310.9 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the Cochlear implants business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.1 % (prior year 2.1 %) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.1 % (prior year 9.8 %) was used. An increase in the discount rate of 1 % would not result in an impairment of goodwill.

The capitalized development cost are reviewed on a regular basis. Due to the revision of the Cochlear implants product roadmap in the 2016 / 17 financial year, Sonova has identified the need of valuation adjustments on certain R & D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement in the line “other income / (expense), net”. The capitalized intangibles are included in the reportable segment “Cochlear implants” disclosed in Note 6.

21. Provisions

1,000 CHF					**31.3.2017**
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	96,293	11,380	166,385	23,042	297,100
Changes through business combinations	16,250			16,901	33,151
Amounts used	(63,621)	(6,816)	(3,157)	(11,520)	(85,114)
Reversals	(2,792)	(6)	(37,380)	(3,439)	(43,617)
Increases	70,798	6,302		12,479	89,579
Disposals	(60)			(539)	(599)
Present value adjustments	3		960		963
Exchange differences	618	326	5,717	84	6,745
Balance March 31	**117,489**	**11,186**	**132,525**	**37,008**	**298,208**
thereof short-term	78,793	11,180	14,062	8,244	112,279
thereof long-term	38,696	6	118,463	28,764	185,929

1,000 CHF					**31.3.2016**
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	83,042	10,841	192,504	30,694	317,081
Changes through business combinations	5,866	132		3,033	9,031
Amounts used	(50,710)	(6,726)	(16,369)	(10,745)	(84,550)
Reversals	(5,869)	(166)	(8,847)	(5,490)	(20,372)
Increases	64,553	7,406		6,909	78,868
Disposals	(77)			(1,336)	(1,413)
Present value adjustments	14		1,167		1,181
Exchange differences	(526)	(107)	(2,070)	(23)	(2,726)
Balance March 31	**96,293**	**11,380**	**166,385**	**23,042**	**297,100**
thereof short-term	70,656	11,361	12,899	10,304	105,220
thereof long-term	25,637	19	153,486	12,738	191,880

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. During this period, products will be repaired or a replacement product will be provided free of charge. The provision is based on turnover, past experience and projected warranty claims.

The provision for reimbursement to customers considers commitments to provide volume rebates. The provision is based on expected volumes. The large majority of the cash outflows are expected to take place within the next 12 months.

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics LLC in 2006. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees.

The provision for the above mentioned cochlear implant product liabilities is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a reduction of CHF 37.4 million (previous year CHF 8.8 million) in "other income / (expense), net". For further information refer to Note 2.7 "Provision for product liabilities". The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings.

Other provisions include earn-out provisions as well as provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. The main change compared to previous year is primarily related to the acquisition of AudioNova. The timing of cash outflows for the other provisions are expected to take place within the next two years.

22. Current financial liabilities

1,000 CHF	**31.3.2017**	**31.3.2016**
Short-term debt	19	45
Deferred payments and contingent considerations	12,323	5,652
Other current financial liabilities	1,013	849
Total	**13,355**	**6,546**
Unused borrowing facilities	187,003	187,836

Current financial liabilities mainly consist of financial liabilities resulting from earn-out agreements related to contingent considerations and deferred payments from acquisitions.

Given the short-term nature of the deferred payments they are recognized at nominal value. The book value of deferred payments approximates fair value.

In the 2015 / 16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at balance sheet date.

23. Other short-term liabilities

1,000 CHF	31.3.2017	31.3.2016
Other payables	47,661	39,772
Accrued expenses	184,190	146,600
Deferred income	27,324	27,817
Total	**259,175**	**214,189**

Other payables include amounts to be remitted in respect of withholding taxes, value added taxes, social security payments, employees' income taxes deducted at source, and customer prepayments. Accrued expenses include salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers.

24. Non-current financial liabilities

1,000 CHF	31.3.2017	31.3.2016
Bank debt	78	101
Bonds	759,198	
Other non-current financial liabilities	7,684	15,073
Total	**766,960**	**15,174**

In connection with the financing of the acquisition of AudioNova, on October 11, 2016 the Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40 % with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan pays an interest between 0.00 % p.a. (floor) and 0.05 % p.a. (cap). The maturity will be on October 11, 2018. The fair value as of March 31, 2017 is amounting to CHF 150.0 million (100.23 %).
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15 % with a 0.00 % interest rate and maturity on October 11, 2019. The fair value as of March 31, 2017 is amounting to CHF 250.0million (100.04 %).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100 % with interest of 0.01 % p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis. The fair value as of March 31, 2017 is amounting to CHF 360.0 million (100.13 %).

Other non-current financial liabilities consist of obligations in relation to earn-out agreements from acquisitions as well as amounts due in relation to the share appreciation rights (SARs) and warrant appreciation rights (WARs) (refer to Note 31).

Analysis by currency 1,000 CHF				31.3.2017			31.3.2016
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Other non-current financial liabilities	Total
CHF		759,198	5,944	765,142		13,615	13,615
USD			419	419		1,075	1,075
EUR						3	3
Other	78		1,321	1,399	101	380	481
Total	**78**	**759,198**	**7,684**	**766,960**	**101**	**15,073**	**15,174**

25. Risk management and financial instruments

Group risk management

Risk management at Group level is an integral part of business practice and supports the strategic decision-making process. The assessment of risk is derived from both "top-down" and "bottom-up" and covers corporate, all business segments, and all consolidated Group companies. This approach allows for the Group to examine all types of risk exposures caused by internal and external impacts and events, from financial, operational processes, customer and products, management and staff. The risk exposures are managed by specific risk mitigating initiatives, frequent re-evaluations, communication, risk consolidation and prioritization.

The responsibility for the process of risk assessment and monitoring is allocated to the corporate risk function. The Management Board, in addition to Group companies and functional managers, support the annual risk assessment and are responsible for the management of the risk mitigating initiatives. The Board of Directors discusses and analyzes the Group's risks at least once a year in the context of a strategy meeting.

Financial risk management

Due to Sonova Group's worldwide activities, the Group is exposed to a variety of financial risks such as market risks, credit risks and liquidity risks. Financial risk management aims to limit these risks and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses selected financial instruments for this purpose. They are exclusively used as hedging instruments for cash in- and outflows and not for speculative positions.

The fundamentals of Sonova Group's financial risk policy are periodically reviewed by the Audit Committee and carried out by the Group finance department. Group finance is responsible for implementing the policy and for ongoing financial risk management.

Market risk

Exchange rate risk

The Group operates globally and is therefore exposed to foreign currency fluctuations, mainly with respect to the US dollar and the Euro. As the Group uses Swiss francs as presentation currency and holds investments in different functional currencies, net assets are exposed to foreign currency translation risk. Additionally, a foreign currency transaction risk exists in relation to future commercial transactions which are denominated in a currency other than the functional currency.

To minimize foreign currency exchange risks, forward currency contracts are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between 1 and 6 months. No hedge accounting has been applied to these hedges, since they do not qualify for such treatment under IAS 39.

Positive replacement values from hedges which do not qualify for hedge accounting are recorded as financial assets at fair value through profit or loss whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

As of March 31, 2017, forward currency contracts amounting to CHF 201.8 million (previous year CHF 173.8 million) were open. The open contracts on March 31, 2017 as well as on March 31, 2016 were all due within one year.

Notional amount of forward contracts 1,000 CHF		**31.3.2017**		**31.3.2016**
	Total	Fair Value	Total	Fair Value
Positive replacement values	57,513	819	146,841	810
Negative replacement values	102,597	(870)	26,976	(637)
Total	**160,110**	**(51)**	**173,817**	**173**

Foreign currency sensitivity analysis

1,000 CHF	2016/17	2015/16	2016/17	2015/16
	Impact on income after taxes		Impact on equity	
Change in USD/CHF +5%	1,181	2,589	32,494	23,100
Change in USD/CHF –5%	(1,181)	(2,589)	(32,494)	(23,100)
Change in EUR/CHF +5%	4,665	3,708	17,733	6,576
Change in EUR/CHF –5%	(4,665)	(3,708)	(17,733)	(6,576)

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2016/17 financial year of CHF 236 million (previous year CHF 249 million). On liabilities the most significant risk relates to the two year variable rate bond (see Note 24). If interest rates during the 2016/17 financial year had been 1% higher the positive impact on income before taxes would have been CHF 1.3 million. In case interest rates had been 1% lower the income would have been negatively impacted by CHF 0.2 million.

Other market risks

Risk of price changes of raw materials or components used for production is limited. A change in those prices would not result in financial effects being above the Group's risk management tolerance level. Therefore, no sensitivity analysis has been conducted.

Credit risk

Financial assets which could expose the Group to a potential concentration in credit risk are principally cash and bank balances, receivables from customers and loans.

Core banking relations are maintained with at least "BBB+" rated (S&P) financial institutions. As of March 31, 2017, the largest balance with a single counterparty amounted to 19% (previous year 32%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity there is no single credit limit for all customers, however the Group assesses its customers taking into account their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related parties.

The Group does not expect any significant losses either from receivables or from other financial assets.

Liquidity risk

Group finance is responsible for centrally managing the net cash/debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2017 and 2016:

1,000 CHF					31.3.2017
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debt	19				19
Other current financial liabilities	4,563	8,773			13,336
Trade payables and other short-term liabilities	232,106	111,198			343,304
Total current financial liabilities	**236,688**	**119,971**			**356,659**
Long-term bank debt			78		78
Bonds			759,198		759,198
Other non-current financial liabilities			7,684		7,684
Total non-current financial liabilities			**766,960**		**766,960**
Total financial liabilities	**236,688**	**119,971**	**766,960**		**1,123,619**

1,000 CHF					31.3.2016
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debt	45				45
Other current financial liabilities	4,694	1,807			6,501
Trade and other short-term liabilities	179,042	104,016			283,058
Total current financial liabilities	**183,781**	**105,823**			**289,604**
Long-term bank debt			101		101
Other non-current financial liabilities			15,073		15,073
Total non-current financial liabilities			**15,174**		**15,174**
Total financial liabilities	**183,781**	**105,823**	**15,174**		**304,778**

Fair value hierarchy

The following table summarizes the financial instruments carried at fair value, by valuation method as of March 31, 2017 and 2016. The different levels have been defined as follows:

Level 1: The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.
Level 2: The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
Level 3: If a significant amount of inputs is not based on observable market data the instrument is included in level 3. For this level other techniques, such as discounted cash flow analysis, are used to determine fair value.

During the reporting period there were no reclassifications between the individual levels.

1,000 CHF				31.3.2017
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	1,788		1,531	3,319
Total	**1,788**		**1,531**	**3,319**
Financial liabilities				
At fair value through profit or loss		(704)	(20,598)	(21,302)
Total		**(704)**	**(20,598)**	**(21,302)**

1,000 CHF				31.3.2016
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	2,886		6,474	9,360
Total	**2,886**		**6,474**	**9,360**
Financial liabilities				
At fair value through profit or loss			(21,574)	(21,574)
Total			**(21,574)**	**(21,574)**

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2017 and 2016:

Financial assets at fair value through profit or loss 1,000 CHF	**2016/17**	**2015/16**
Balance April 1	6,474	6,695
Additions / (disposals), net	(3,263)	29
Losses recognized in profit or loss	(1,680)	(250)
Balance March 31	**1,531**	**6,474**

Financial liabilities at fair value through profit or loss 1,000 CHF	**2016/17**	**2015/16**
Balance April 1	(21,574)	(7,966)
(Additions) / disposals, net	1,620	(13,563)
Losses recognized in profit or loss	(644)	(45)
Balance March 31	**(20,598)**	**(21,574)**

Capital risk management

It is the Group's policy to maintain a strong equity base and to secure a continuous "investment grade" rating. The Group's strong balance sheet and earnings tracking provides for additional debt capacity.

The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth, and amortization of debt.

26. Other long-term liabilities

1,000 CHF	**31.3.2017**	**31.3.2016**
Long-term deferred income	80,697	29,440
Retirement benefit obligations	25,581	65,324
Total	**106,278**	**94,764**

Long-term deferred income relates to long-term service contracts with customers and is recognized as a sale over the period of the service contract. The increase in the financial year 2016/17 primarily relates to the acquisition of AudioNova.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 30.

27. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2015	67,173,287	(547,313)	66,625,974
Capital decrease – share buy-back program	(546,900)	546,900	
Purchase of treasury shares		(182,420)	(182,420)
Sale / transfer of treasury shares		176,344	176,344
Purchase of shares intended to be cancelled[2]		(1,203,500)	(1,203,500)
Balance March 31, 2016	**66,626,387**	**(1,209,989)**	**65,416,398**
Capital decrease – share buy-back program	(1,203,500)	1,203,500	
Purchase of treasury shares		(294,791)	(294,791)
Sale / transfer of treasury shares		293,090	293,090
Balance March 31, 2017	**65,422,887**	**(8,190)**	**65,414,697**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2017	**3,271**	**(1)**	**3,270**

Each share has a nominal value of CHF 0.05.

[1] Treasury shares are purchased on the open market and are not entitled to dividends.

[2] Shares purchased by the Group as part of the share buyback program.

At the Annual General Shareholder's Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2017. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

28. Acquisitions / Disposals of subsidiaries

Apart from the acquisition of AudioNova International B.V. as of September 14, 2016 (for further information refer to "3. Significant events and transactions") several small companies were acquired in Europe, North America and Asia / Pacific in the 2016 / 17 and 2015 / 16 financial year. Further during the financial year 2015 / 16 Hansaton Akustik GmbH was acquired.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the acquisition method of accounting. Assets and liabilities resulting from the acquisitions are as follows:

1,000 CHF			**2016 / 17**	**2015 / 16**
	AudioNova	Others	Total	Total
Trade receivables	32,486	333	32,819	12,998
Other current assets	77,152	2,444	79,596	27,948
Property, plant & equipment	45,572	1,090	46,662	5,153
Intangible assets	275,742	15,126	290,868	38,967
Other non-current assets	28,010	2,183	30,193	5,366
Current liabilities	(35,307)	(3,450)	(38,757)	(36,297)
Non-current liabilities	(460,818)	(5,117)	(465,935)	(19,546)
Net assets	**(37,163)**	**12,609**	**(24,554)**	**34,589**
Goodwill	720,610	33,246	753,856	106,531
Purchase consideration	**683,447**	**45,855**	**729,302**	**141,120**
Liabilities for contingent considerations and deferred payments[1]		(1,487)	(1,487)	(17,154)
Cash and cash equivalents acquired	(53,022)	(1,359)	(54,381)	(7,056)
Cash outflow for investments in associates, contingent considerations and deferred payments		1,849	1,849	4,342
Cash consideration for acquisitions, net of cash acquired	**630,425**	**44,858**	**675,283**	**121,252**
Settlement of pre-existing HAL intragroup financing	290,794		290,794	
Total consideration paid, net of cash acquired	**921,219**	**44,858**	**966,077**	**121,252**

[1] Contingent considerations and deferred payments (earn-out payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments is based on the latest estimate of the future performance.

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of Sonova products within acquired distribution companies and cost reduction in administrative and corporate functions as well as to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes. All acquisitions have been accounted for applying the acquisition method of accounting.

Recognized acquisition-related intangible assets for AudioNova largely contain trademarks (CHF 142.3 million) and customer relationships (CHF 131.5 million). For acquisition-related intangibles the lifetimes assigned range between 10 and 20 years. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 8.8 million (prior year period CHF 2.0 million), thereof CHF 8.1 million relating to the acquisition of AudioNova, have been expensed and are included in the line "General and administration". There are no variable purchase price components resulting from the AudioNova acquisition.

1,000 CHF			2016/17	2015/16
	AudioNova	Others	Total	Total
Contribution of acquired companies from date of acquisition				
Sales	218,086	12,661	230,747	60,434
Net income	11,589	1,269	12,858	(203)
Contribution, if the acquisitions occurred on April 1				
Sales	361,867	19,754	381,621	76,917
Net income[1)]	9,304	3,230	12,534	1,053

1) The contribution from AudioNova has been normalized for interest costs on the pre-existing intragroup financing arrangements with the former owners (HAL Investments B.V.) and includes amortization on additional acquisition-related intangibles.

On January 16, 2017, Sonova Holding AG announced that Sonova is engaged in negotiations regarding a potential sale of AudioNova retail business in France. In February 2017 all necessary regulatory approvals were obtained and the transaction has been closed on March 1, 2017. Further in the 2016/17 financial year, the Group divested a minor group company in the Americas region. The total consideration amounting to CHF 18.3 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 14.0 million including cash and cash equivalents of CHF 0.5 million. The net gain from these transactions of CHF 3.8 million has been recognized in the income statement and is included in “other income/(expense), net”. Furthermore on January 16, 2017 Sonova also announced that it has signed an agreement to sell its MiniSom retail business in Portugal. In March 2017 all necessary regulatory approval were obtained and the transaction was closed on April 1, 2017. These transactions have no material impact on the financial statements.

In the 2015/16 reporting period, the Group divested two minor group companies in the EMEA region. The consideration amounting to CHF 33.4 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 24.7 million including cash and cash equivalents of CHF 3.8 million. The net gain from those transactions of CHF 8.7 million has been recognized in the income statement and is included in “other income / (expense), net”.

29. Transactions and relations with members of the Management Board and the Board of Directors

1,000 CHF	2016 / 17	2015 / 16	2016 / 17	2015 / 16	2016 / 17	2015 / 16
	Management Board		Board of Directors		Total	
Short-term employee benefits	8,199	8,884	1,519	1,590	9,718	10,474
Post-employment benefits	828	848			828	848
Share based payments	5,064	4,987	1,362	1,344	6,426	6,331
Total	**14,091**	**14,719**	**2,881**	**2,934**	**16,972**	**17,653**

The total compensation to the Management Board for the 2016 / 17 reporting period, as shown above, relates to the 10 current members of the Management Board (including one member of the Management Board joined in January 2017) and one former member. The total compensation to the Management Board for the 2015 / 16 reporting period, as shown above, related to 13 members.

The total compensation to the Board of Directors for the 2016 / 17 reporting period, as shown above, relates, as in previous year, to eight current members and one former member (considered until retirement from the Board of Directors).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 30.

Further information in accordance with Swiss law relating to remuneration and ownership of shares and options of the Board of Directors and the Management Board can be found in the compensation report and in the Note 3.6 of the financial statements of Sonova Holding AG.

30. Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Norway, Canada, Germany and Israel. These plans are both funded and unfunded and determined by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland which in total accounts for CHF 353.3 million or 99.6 % (previous year CHF 356.4 million or 99.2 %) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is in essence contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. In the reporting period the foundation decided to reduce the actual annuity rate of 5.8 % applied to the individual accumulated retirement saving gradually over-time. Between now and 2019 the annuity rate will be reduced by 0.2 % per annum, to reach 5.4 % in 2019. Previous year the decision had been taken to reduce the annuity rate by 0.2 % on a straightline basis to reach 5.8 % in 2017 respectively 5.6 % in 2018. In addition the new generation tables BVG 2015 with higher life expectancy and lower invalidity incidence rates have been adopted.

As of March 31, 2017, 1,210 employees (previous year 1,238 employees) and 107 beneficiaries (previous year 84 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 14.3 years (previous year 14.5 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF 1,000	**31.3.2017**	**31.3.2016**
Present value of funded obligations	(354,721)	(359,282)
Fair value of plan assets	330,864	295,796
Net present value of funded plans	**(23,857)**	**(63,486)**
Present value of unfunded obligations	(1,724)	(1,838)
Total liabilities, net	**(25,581)**	**(65,324)**
Amounts in the balance sheet:		
Retirement benefit obligations	(25,581)	(65,324)

Remeasurements recognized in equity CHF 1,000	**2016/17**	**2015/16**
Balance April 1	69,497	62,887
Actuarial (gains)/losses from		
– changes in demographic assumptions	(6,775)	
– changes in financial assumptions	(4,125)	(1,053)
– changes in experience adjustments	(4,789)	(2,180)
Return on plan assets excluding interest income	(23,759)	9,843
Balance March 31	**30,049**	**69,497**

Amounts recognized in the income statement CHF 1,000	**2016/17**	**2015/16**
Current service cost[1]	23,982	21,350
Participants' contributions	(10,633)	(10,800)
Net interest cost	435	560
Total employee benefit expenses[2]	**13,784**	**11,110**

1) Current service cost for the 2016/17 as well as the 2015/16 financial year contains a gradual reduction of the annuity rate. In addition, 2015/16 included the implementation of a restructuring plan, announced on March 2, 2015, which provided for the reduction of approx. 100 positions in Switzerland.

2) The amount recognized in the consolidated income statement 2016/17 has been charged to:
– cost of sales CHF 2.4 million (previous year CHF 2.4 million);
– research and development CHF 4.3 million (previous year 3.3 million);
– sales and marketing CHF 2.7 million (previous year 2.0 million);
– general and administration CHF 4.0 million (previous year CHF 2.8 million);
– financial expenses CHF 0.4 million (previous year CHF 0.6 million).

Movement in the present value of the defined benefit obligations CHF 1,000	**2016/17**	**2015/16**
Beginning of the year	361,122	350,315
Interest cost	2,243	2,886
Current service cost	23,982	21,350
Benefits paid, net	(15,377)	(11,715)
Actuarial loss on obligations	(15,689)	(3,233)
Changes through business combinations	104	1,536
Exchange differences	67	(17)
Present value of obligations at end of period	**356,452**	**361,122**

Movement in the fair value of the plan assets CHF 1,000	**2016/17**	**2015/16**
Beginning of the year	295,778	288,505
Interest income on plan asset	1,808	2,326
Employer's contributions paid	13,944	14,128
Participants' contributions	10,633	10,800
Benefits paid, net	(15,218)	(11,626)
Return on plan assets excluding interest income	23,759	(9,843)
Changes through business combinations	110	1,512
Exchange differences	(55)	(24)
Fair value of plan assets at end of period	**330,759**	**295,778**

The plan assets consist of:	31.3.2017	31.3.2016
Cash	1.4 %	1.2 %
Domestic bonds	20.0 %	22.0 %
Foreign bonds	8.4 %	10.2 %
Domestic equities	13.8 %	13.3 %
Foreign equities	32.1 %	30.0 %
Real estates	15.0 %	16.0 %
Alternative investments	9.3 %	7.3 %

The actual return on plan assets amounted to CHF 25.4 million (previous year CHF – 7.5 million). The expected employer's contributions to be paid in the 2017 / 18 financial year amount to CHF 14.1 million.

Principal actuarial assumptions (weighted average)	2016 / 17	2015 / 16
Discount rate	0.60 %	0.60 %
Future salary increases	1.00 %	1.00 %
Future pension increases	0 %	0 %
Fluctuation rate	10 %	10 %
Demography	BVG 2015GT	BVG 2010GT

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions was changed. For the analysis, changes in the assumptions were considered separately and no inter-dependencies were taken into account.

Sensitivity analysis – Impact on defined benefit obligation CHF 1,000	31.3.2017	31.3.2016
Discount rate		
Discount rate + 0.25 %	(11,694)	(11,961)
Discount rate – 0.25 %	13,315	13,635
Salary growth		
Salary growth + 0.25 %	823	959
Salary growth – 0.25 %	(802)	(936)
Pension growth		
Pension growth + 0.5 %	13,485	13,466
Pension growth – 0.5 %	(13,485)	(13,466)
Fluctuation rate		
Fluctuation rate + 5 %	(14,357)	(17,199)
Fluctuation rate – 5 %	24,750	29,307

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounting to CHF 17.7 million in the year ended March 31, 2017 (previous year CHF 13.7 million) are recognized directly in the income statement.

31. Equity plans

Equity plans are offered annually to the members of the Board of Directors (BoD), to the members of the Management Board (MB) as well as to other management and senior employees of the Group, entitling them to receive long-term incentives in the form of equity plans free of charge. Equity plans are settled either with Sonova Holding AG shares (equity-settled share-based payment) or for certain US employees with an equivalent amount in cash (cash-settled share-based payment). The amount granted varies depending on the degree of management responsibility held.

In the 2016 / 17 and 2015 / 16 financial years, Sonova granted restricted shares, restricted share units (RSUs), options, and for US employees, share appreciation rights (SARs). From 2014, grants made under the Executive Equity Award Plan (EEAP) to the CEO and the other members of the MB includes a performance criterion: the vesting of options and RSUs in a given year is subject to achievement of a pre-defined minimum return on capital employed (ROCE) target.

The following share-based payment costs have been recognized in the financial years:

1,000 CHF	**2016 / 17**	**2015 / 16**
Equity-settled share-based payment costs	18,708	18,938
Cash-settled share-based payment costs	254	403
Total share-based payment costs	**18,962**	**19,341**

The following table shows the outstanding options and / or SARs, granted as part of the EEAP 2012 to 2017. All of the equity instruments listed below vest in 4 equal tranches, annually over a period of 4 years.

Summary of outstanding options and SARs granted until March 31, 2017:

Financial year granted	Instruments granted	First vesting date / Expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2011 / 12	Options / SARs	1.6.2013 31.1.2019	298,474	95.85	78,753	1.8	78,753
2012 / 13	Options / SARs	1.6.2014 31.1.2020	227,188	109.10	108,502	2.8	65,029
2013 / 14	Options / SARs[1]	1.6.2015 31.1.2021	242,673	124.60	156,076	3.8	62,098
2014 / 15	Options / SARs[2]	1.6.2016 31.1.2022	308,459	121.10	238,729	4.8	44,878
2015 / 16	Options / SARs[3]	1.6.2017 31.1.2023	298,520	124.20	265,360	5.8	
2016 / 17	Options / SARs[4]	1.6.2018 31.1.2024	378,652	130.00	378,652	6.8	
Total			**1,753,966**	**118.18**	**1,226,072**[5]	**5.2**	**250,758**[6]
Thereof:							
Equity-settled			1,551,500		1,123,708		239,356
Cash-settled			202,466		102,364		11,402

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Weighted average exercise price of outstanding options / SARs amounts to CHF 122.28.
6) Weighted average exercise price for exercisable options / SARs amounts to CHF 110.92.

The fair value of options and / or SARs is calculated at the grant date by using an "Enhanced American Pricing Model". The expected volatility is based on historical measures. Valuation assumptions used for the options and / or SARs granted in the current financial year and the 2015 / 16 financial year are as follows:

Assumptions for valuation at grant date	Executive Equity Award Plan 2017	Executive Equity Award Plan 2016
Valuation date	1.2.2017	1.2.2016
Expiry date	31.1.2024	31.1.2023
Share price on grant date	CHF 130.00	CHF 124.20
Exercise price	CHF 130.00	CHF 124.20
Volatility	21.7 %	24.4 %
Expected dividend yield	2.1 %	2.3 %
Weighted risk free interest rate	(0.3 %)	(0.4 %)
Weighted average fair value of options / SARs issued	**CHF 16.99**	**CHF 20.60**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to reassessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment.

Changes in outstanding options / warrants:		2016 / 17		2015 / 16
	Number of options	Weighted average exercise price (CHF)	Number of options / warrants[1]	Weighted average exercise price (CHF)
Outstanding options / warrants at April 1	1,010,026	117.07	1,019,036	114.50
Granted[2]	334,440	130.00	263,418	124.20
Exercised / sold[3]	(168,642)	108.20	(248,876)	114.20
Forfeited	(52,116)	121.82	(23,552)	115.82
Outstanding options / warrants at March 31	**1,123,708**	**122.03**	**1,010,026**	**117.07**
Exercisable at March 31	**239,356**	**110.71**	**203,464**	**105.04**

1) For better comparison, the number of warrants have been adjusted according to exercise ratio 25:1.
2) 2016 / 17 includes 147,948 performance options (previous year 126,206 performance options), granted to the CEO and MB members.
3) The movement in options / warrants for the 2016 / 17 financial year fully relates to options exercised as no warrants remain outstanding. In 2015 / 16 the movement related to 70,761 options exercised and 178,115 warrants sold. Total consideration from options exercised amounted to CHF 32.5 million (previous year CHF 7.6 million). The weighted average share price of the options exercised during the year 2016 / 17 was CHF 132.29 (previous year CHF 131.67).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs, multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until their expiry.

Changes in outstanding SARs / WARs:		**2016 / 17**				**2015 / 16**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)	Number of WARs	Weighted average exercise price (CHF)
Outstanding SARs / WARs at April 1	103,956	119.45	91,706	116.34	8,783	118.40
Granted	44,212	130.00	35,102	124.20		
Exercised / sold	(19,963)	110.83	(8,151)	105.14	(8,783)	118.40
Forfeited	(25,841)	122.18	(14,701)	119.30		
Outstanding SARs / WARs at March 31[1]	**102,364**	**125.00**	**103,956**	**119.45**	**0**	
Exercisable at March 31[2]	**11,402**	**115.43**	**13,489**	**108.71**		

1) The carrying amount of the liability relating to the SARs at March 31, 2017 is CHF 1.2 million (previous year CHF 1.0 million).

2) The intrinsic value of the SARs exercisable at March 31, 2017 amounts to CHF 0.3 million (previous year CHF 0.2 million).

Restricted shares / Restricted share units (RSUs)

Under the EEAP grants 2012 to 2017, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of performance RSUs, granted to the CEO and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is also dependent on the fulfillment of the performance criteria. In addition to the RSUs granted in respect to the EEAP 2017, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

Upon vesting of the RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely achievements of the ROCE targets for performance RSUs granted to CEO and the other members of the MB) to ensure that only vested amounts are expensed. The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2016 / 17 financial year as these shares have no vesting period.

Changes in outstanding RSUs:	2016/17	2015/16
	Number of RSUs	Number of RSUs
RSUs at April 1	458,436	435,473
Granted[1]	135,286	133,082
Released	(110,627)	(87,843)
Forfeited	(25,426)	(22,276)
RSUs at March 31	**457,669**	**458,436**

[1] 2016/17 includes 17,907 performance RSUs, granted to the CEO and MB members (previous year 19,818).

32. Contingent liabilities

At March 31, 2017 and 2016, there were no pledges given to third parties other than in relation to bank loans and mortgages.

In the 2015/16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at the balance sheet date.

Deposits in the amount of CHF 2.7 million (previous year CHF 1.1 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.8 million at March 31, 2017 (previous year CHF 0.9 million). Open purchase orders as of March 31, 2017 and 2016, were related to recurring business activities.

33. Leasing liabilities

At March 31, 2017, the following non-cancellable minimum operating lease obligations existed:

Financial year 1,000 CHF	**31.3.2017**	**31.3.2016**
2016 / 17		41,392
2017 / 18	69,320	31,133
2018 / 19	50,229	24,951
2019 / 20	38,743	22,225
2020 / 21	26,593	15,575
2021 / 22	21,391	15,919
thereafter	25,990	13,025
Total	**232,266**	**164,220**

The operating lease commitments relate primarily to long-term property lease agreements which are, in general, renewable.

In the 2016 / 17 financial year, CHF 79.6 million have been recognized as expenses for leases in the consolidated income statement (previous year CHF 54.0 million). The increase is mainly related to the acquisition of AudioNova.

As of March 31, 2017 and 2016, the Group had no financial lease obligations.

34. Events after balance sheet date

There have been no material events after the balance sheet date.

35. List of significant companies

Company name	Activity	Domicile (country)	Share / paid-in capital[1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,271	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	100 %
Advanced Bionics AG	A, B	Stäfa	CHF	4,350	100 %
Indomed AG	A	Zug	CHF	1,000	100 %
EMEA (excluding Switzerland)					
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124	100 %
Phonak GmbH	B	Fellbach-Oeffingen (DE)	EUR	25	100 %
Unitron Hearing GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100 %
Hansaton Akustik GmbH	B	Hamburg (DE)	EUR	1,000	100 %
Geers Hörakustik GmbH & Co. KG	B	Dortmund (DE)	EUR	4,990	100 %
Phonak Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Audition Santé SAS	B	Cahors (FR)	EUR	18,800	100 %
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000	100 %
Phonak Italia Srl	B	Milan (IT)	EUR	1,040	100 %
AudioNova International B.V.	A	Rotterdam (NL)	EUR	52,079	100 %
Schoonenberg Hoorcomfort B.V.	B	Dortrecht (NL)	EUR	19	100 %
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51 %
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100 %
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100 %
Americas					
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	36,179	100 %
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0 [3]	100 %
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0 [3]	100 %
Connect Hearing Inc.	B	Naperville (US)	USD	0 [4]	100 %
Ear Professionals International Corporation	B	Pomona (US)	USD	6	100 %
Unitron Hearing, Inc.	B	Plymouth (US)	USD	46,608	100 %
Advanced Bionics Corp.	A	Valencia (US)	USD	1	100 %
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0 [3]	100 %
Phonak LLC	B	Warrenville (US)	USD	0 [3]	100 %
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0 [3]	100 %
Development Finance Inc.	A	Wilmington (US)	USD	0 [5]	100 %
Asia / Pacific					
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	0 [6]	100 %
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	750	100 %
Triton Hearing Limited	B	Christchurch (NZ)	NZD	7,750	100 %
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100 %
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100 %

Activities:
A Holding / Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.

1) Share / paid-in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
2) GBP 133
3) Without par value
4) USD 1
5) USD 10
6) AUD 100

Report of the statutory auditor on the consolidated financial statement

pwc

Report of the statutory auditor

to the General Meeting of Sonova Holding AG

Staefa

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2017 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

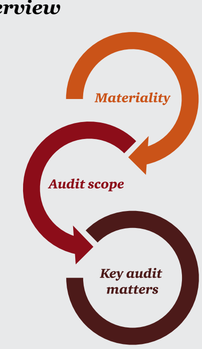
Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall Group materiality: CHF 20.5 million

We concluded full scope audit work at 25 reporting units in 11 countries. Our audit scope addressed over 64% of the Group's revenue and 74% of the Group's assets.

In addition, specified procedures were performed for 6 reporting units in 5 countries representing a further 6% of the Group's revenue and 3% of the Group's assets and limited reviews for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 8% of the Group's assets.

As key audit matters the following areas of focus have been identified:

- Goodwill impairment assessment
- Provision for product liabilities
- Acquisition of AudioNova – Business Combination

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group is primarily structured across two operating segments: Hearing Instruments and Cochlear Implants. Both segments are active in several markets, mainly Americas, Europe, Asia, Australia and South East Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, by component auditors from PwC network firms and component auditors from other firms operating under our instructions. The group consolidation, financial statement disclosures, goodwill and deferred tax assets are audited by the group engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Our Group engagement team's involvement included various conference calls with component auditors during the planning phase, interim and final audit.

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	CHF 20.5 million
How we determined it	5% of average profit before tax of the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years helps dampen volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group has goodwill of CHF 1,815.2 million at March 31, 2017. The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgments and estimates made by management. The judgements include the initial valuation and subsequent determination of timing and measurement of an impairment charge, if any, including the determination of cash generating units, the future cash flow forecasts and discount rates applied. Refer to page 98 (Significant accounting judgements and estimates), and pages 110-112 (notes).	We assessed and tested the design and operating effectiveness of the Group's controls over the Budget- and Management Reporting process which is the basis for the future cash flow forecast. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which was subject to timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets. In addition, we focused on whether the Management had identified all relevant CGUs. The Group operates as a fully integrated system provider in the respective segments covering the whole value chain. Individual entities or elements of the business are not generating independent cash flows. Therefore, our work focused on confirming management's position that the CGU's Hearing Instruments and Cochlear Implants are the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. We evaluated and challenged the reasonableness of management's key assumptions applied in its impairment assessment for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the assumptions had, with hindsight, been reasonable. • Mid and long term growth rates, by comparing them to economic and industry forecasts. • Discount rate, with support of our valuation specialists, by assessing the cost of capital for the company and comparable organisations. We performed our own sensitivity analysis around the assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. Sufficient headroom remained between our own value in use calculation used for sensitivity analysis and the carrying value of the CGUs in

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	the financial statements. We also found that the assessments were based upon reasonable assumptions consistently applied and concur with management's assessment.

Provisions for product liabilities

Key audit matter	*How our audit addressed the key audit matter*
Provisions for product liabilities amounted to CHF 132.5 million as of March 31, 2017. We focused on the provision for product liabilities related to the voluntary product recall of Advanced Bionics LLC in 2006 (for further details refer to page 99), due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially impact the Group's result. Refer to page 99 (Significant accounting judgements and estimates), and page 112-113 (notes) for more information.	In response to the risk, our audit procedures included, assessing management's process around the identification and evaluation of respective claims, proceedings and investigations at different levels in the organisation and the recording and continuous re-assessment of the related provision and disclosures. We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We also inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors as well as received external legal confirmation letters from a selection of external legal counsel. Management used a developed model to calculate the product liability. Generally the model is consistent to prior year except for a change in the claim rates and costs per case used to calculate the provision. Due to more available historical data about the claims and costs per case to date, Management decided to calculate the provision based on historical average claim rates and costs per claim instead of a claim rate and cost estimation. This results in a reversal of the provision amounting of CHF 37.4 million. The general model used has been examined carefully and represents management's best estimate for the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We have selected samples for settlements and insurance payments and assessed whether the settlements support the key determining factors used for the calculation model. Furthermore we assessed if the discounting of the provision was in accordance with IAS 37. Based on our procedures performed, the provision had been arrived based on the information currently available to the Management and after proper consideration of the legal advice received.

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Acquisition of AudioNova – Business Combination

Key audit matter	*How our audit addressed the key audit matter*
On September 14, 2016, following regulatory approvals, Sonova AG completed the acquisition of AudioNova International B.V., a Rotterdam (Netherlands) based hearing aid retailer. The company is one of Europe's leading hearing aid retailers and service providers. Accounting for business combinations and especially the allocation of the purchase price to identified assets and goodwill involves significant judgements and estimates, and has a significant impact on the current and future year's financial statements. Management determined that the fair value of the net identifiable assets acquired is CHF -37.2 million which includes an amount of CHF 142.3 million relating to trademarks and CHF 131.5 million relating to customer relationships. The Goodwill arising from the acquisition amounts of CHF 720.6 million. The valuation of the Goodwill and intangible assets was performed as part of the Purchase Price Allocation and the values have been provisionally determined in accordance with IFRS 3 pending the final completion of the valuation exercise. Refer to page 98 (Critical accounting estimates and judgements), and pages 120-121 (notes) for more information.	We assessed the appropriateness of the identifiable assets acquired and the liabilities assumed at the acquisition date by reviewing the procedures performed by management to identify the assets and liabilities and reviewed the clauses laid out in the Asset Purchase Agreement. We performed audit procedures on the purchase price allocation prepared by management and management's external expert. In doing so we evaluated the professional competence and objectivity of that expert and performed the following audit procedures with support of our valuation team: • We assessed the completeness of identifiable net assets, including intangible assets, and liabilities against our own expectations, formed from discussions with the Management and the review of the due diligence report prepared during the acquisition as well as the industry expertise of our valuation team. • We performed various substantive audit procedures to ensure completeness and adequate valuation of the identified assets and liabilities acquired. • We involved our valuation experts to support us in our audit of the allocation of the purchase consideration to the acquired assets and liabilities. • Assessment of the methodologies used for the fair value estimation of the trademarks (Relief from Royalty Method) and customer relationship (Multi-period Excess Earnings Method) and assessment of their application. • Challenged the management assumptions in the business plan used for the valuation by comparing them to the past performance of the Group as well as significant assumptions applied for future cash flows. • Assessed key assumptions of the valuation. This included the major elements of the discount rates and royalty rates applied. Furthermore we have re-performed critical aspects of the valuation.

	• Verification of the technical accuracy of the calculations performed including mathematical correctness. Based on the work done we have addressed the risk of inappropriate identification and valuation of relevant intangible assets and the related deferred taxes with no issues noted. We tested the calculation of the goodwill arising from the acquisition of AudioNova, being the difference between the total purchase consideration and the fair value of the net identifiable assets and noted that management's computation was in line with IFRS 3. The final goodwill arising from the acquisition is dependent on the completion of the valuation of the intangible assets, the values of which have been provisionally determined as at the balance sheet date.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Sonova Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always de-

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tect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm | Kai Mauden

Audit expert
Auditor in charge

Zürich, 9 May 2017

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

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Financial statements of Sonova Holding AG

Income statements

1,000 CHF	Notes	2016/17	2015/16
Income			
Investment income		125,729	279,257
License income		12,168	16,866
Financial income	2.1	31,738	39,575
Total income		**169,635**	**335,698**
Expenses			
Administration expenses		(8,858)	(7,571)
Other expenses		(1,014)	(1,053)
Financial expenses	2.1	(15,587)	(33,559)
Direct taxes		(1,497)	(1,508)
Total expenses		**(26,956)**	**(43,691)**
Net profit for the year		**142,679**	**292,007**

Balance sheets

Assets 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Cash and cash equivalents		8,514	71,347
Other receivables			
– Third parties		2,531	2,812
– Group companies		6,105	9,323
Prepaid expenses		16	30
Total current assets		**17,166**	**83,512**
Financial assets	2.2		
– Third parties		1,019	389
– Group companies		2,193,035	1,386,107
Investments	2.3	319,071	321,355
Total non-current assets		**2,513,125**	**1,707,851**
Total assets		**2,530,291**	**1,791,363**

Liabilities and shareholders' equity 1,000 CHF	Notes	**31.3.2017**	**31.3.2016**
Trade account payables			
– Third parties		22	112
– Group Companies			2,132
Short-term interest-bearing liabilities			
– Third parties		17	
– Group Companies		1,443	10,554
Other short-term liabilities to third parties		64	4,128
Accrued liabilities		4,470	3,786
Total short-term liabilities		**6,016**	**20,712**
Bonds	2.4	760,000	
Other long-term liabilities to third parties		217	
Total long-term liabilities		**760,217**	
Total liabilities		**766,233**	**20,712**
Share capital		3,271	3,331
Legal reserves			
– Reserves from capital contribution		18,630	18,570
– General reserves		1,800	1,800
Statutory retained earnings			
– Balance carried forward		1,610,541	1,611,352
– Net profit for the year		142,679	292,007
Treasury shares	2.5	(12,863)	(156,409)
Total shareholders' equity		**1,764,058**	**1,770,651**
Total liabilities and shareholders' equity		**2,530,291**	**1,791,363**

Notes to the financial statements as of March 31, 2017

1. General information

The financial statements of Sonova Holding AG, with registered office in Stäfa, comply with the requirements of Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations, 'SCO'). The company does not have any employees.

2. Accounting principles

2.1 Financial income / expenses

Financial income / expenses consists primarily of realized / unrealized foreign exchange gains and losses as well as interest income / expenses.

2.2 Financial assets

Financial assets contain loans to third parties as well as to Group companies and are recognized at cost less adjustments for foreign currency losses and impairment of value. Loans granted in foreign currency are translated at balance sheet date.

2.3 Investments

Investments consists mainly of participations in fully consolidated Group companies. They are in general subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.

2.4 Bonds

Bonds are valued at nominal value. Any bond premium/discount is accrued/capitalized and released/amortized linearly over the term.

2.5 Treasury shares

Treasury shares are recognized at cost and deducted from shareholders' equity. The gain or loss from sale is recognized in the income statement as financial gain or financial loss.

3. Information on income statement and balance sheet items

3.1 Bonds

On October 11, 2016, the Sonova Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40 % with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan pays an interest between 0.00 % p.a. (floor) and 0.05 % p.a. (cap). The maturity will be on October 11, 2018.
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15 % with 0.00 % interest payment and maturity on October 11, 2019.
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100 % with interest of 0.01 % p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.

3.2 Treasury shares

Out of total treasury shares amounting to 100,190 shares on March 31, 2017, 92,000 shares were purchased by the company as part of the share buyback program. In accordance with the acceptance of the annual general meeting on June 14, 2016, 1,203,500 treasury shares have been cancelled with the effect of a decrease in share capital. Consequently the reserves from capital contribution increased by the same amount. The average selling price amounted to CHF 110.94 and the average purchase price to CHF 133.82.

Number / 1,000 CHF

	Number	Treasury shares at cost
Balance April 1, 2016	1,209,989	156,409
Purchase of treasury shares from share buyback	92,000	11,789
Purchase of treasury shares	294,791	39,085
Sale / Transfer of treasury shares	(293,090)	(32,516)
Cancellation of treasury shares	(1,203,500)	(155,639)
Loss from sale of treasury shares		(6,265)
Balance March 31, 2017	**100,190**	**12,863**

3.3 Contingent liabilities

1,000 CHF	**31.3.2017**	**31.3.2016**
Guarantees given in respect of rental obligations of Group Companies	2,038	2,894

In the 2015 / 16 financial year, the Group entered into an agreement for a credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The terminal date of this credit facility is July 31, 2018, with an option to extend for two years. The credit facility was not used at the balance sheet date.

The Swiss Sonova entities form a VAT group and, hence, every company participating in the group is jointly and severally liable for VAT debt of other group participants. Further Sonova Group companies participating in the cashpool are jointly and severally liable for any debit position or outstanding overdraft in connection with them.

3.4 List of investments

Company name	Activity	Domicile	Share / paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Sonova AG	A, B,C,D	Stäfa	CHF	2,500	100 %
Phonak AG	A	Stäfa	CHF	100	100 %
Phonak Communications AG	B, C, D	Murten	CHF	500	100 %
Unitron Hearing GmbH	B	Stäfa	CHF	20	100 %
Verve Hearing Systems AG	A	Stäfa	CHF	100	100 %
EMEA (excluding Switzerland)					
Phonak France SA	B	Bron-Lyon (FR)	EUR	1,000	30 %[2]
SCI Du Triangle De Bron	A	Bron-Lyon (FR)	EUR	46	100 %
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	85 %[2]
Sonova Italia S.R.L.	B	Milan (IT)	EUR	1,040	100 %
Sonova Nederland B.V.	B	Vianen (NL)	EUR	227	100 %
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100 %
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0[3]	51 %
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR	5,000	100 %
Sonova Denmark A / S	B	Middelfart (DK)	DKK	11,075	100 %
Sonova Nordic AB	B	Stockholm (SE)	SEK	200	85 %[2]
Sonova Sweden AB	B	Stockholm (SE)	SEK	100	100 %
Sonova Norway AS	B	Oslo (NO)	NOK	900	100 %
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100 %
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100 %
Sonova Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100 %
Warsaw Service Center Sp.Z.o.o.	A	Warsaw (PL)	PLN	100	100 %
Sonova Hungary Korlátolt Felelösségü Társaság	B	Budapest (HU)	HUF	5,000	100 %
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100 %
Audition Santé SAS	B	Cahors (FR)	EUR	18,800	15 %[2]
HIMSA A / S	A	Copenhagen (DK)	DKK	250	25 %

For significant indirect investments refer to Note 35 of the consolidated financial statements of Sonova Holding AG.
Description:
A Holding / Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the Group.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.

1) Share / paid in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) GBP 133
4) Shares without par value

Company name	Activity	Domicile	Share / paid-in capital [1] Local currency 1,000		Shares held by Sonova Holding
Americas					
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0 [4]	100 %
Sonova United States Hearing Instruments, LLC	B	Warrenville (US)	USD	0 [4]	85 % [2]
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD	13,105	31 %
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0 [4]	85 % [2]
Phonak Mexicana S.A. de C.V.	B	Mexico DF (MX)	MXN	94,050	85 % [2]
Connect Hearing Mexico S.A. de C.V.	B	Mexico DF (MX)	MXN	66,050	99 % [2]
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL	37,106	100 %
Asia / Pacific					
Advanced Bionics Medical Instruments (Suzhou) Co., Ltd.	B	Suzhou (CN)	CNY	4,617	70 % [2]
Sonova Australia Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100 %
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD	250	100 %
Phonak Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100 %
Unitron Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100 %
Sichuan i-Hear Co., Ltd.	A	Chengdu (CN)	CNY	42,802	100 %
Sonova (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100 %
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD	3,100	100 %
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD	250	100 %
Sonova Korea Ltd.	B	Seoul (KR)	KRW	50,000	100 %
Sonova India Private Limited	B	Mumbai (IN)	INR	100	56 % [2]
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100 %
Sonova Viet Nam Company Limited	B	Ho Chi Minh City (VN)	VND	2,088,000	70 % [2]

For significant indirect investments refer to Note 35 of the consolidated financial statements of Sonova Holding AG.
Description:
A Holding / Finance: The entity is a holding or finance company.
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C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.

1) Share / paid in capital may not reflect the taxable share / paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) GBP 133
4) Shares without par value

3.5 Significant shareholders

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 3 % of the issued share capital). Significant shareholders may also hold non-registered shares which are reported under “Not registered”.

	31.3.2017	31.3.2016
Beda Diethelm	10.17 %	9.98 %
Chase Nominees Ltd.[1]	8.54 %	9.84 %
Hans-Ueli Rihs	5.84 %	6.02 %
Nortrust Nominees Ltd.[1]	4.63 %	3.96 %
Andy Rihs	3.16 %	3.52 %
Registered shareholders with less than 3 %	35.42 %	34.09 %
Not registered	32.24 %	32.59 %

1) Registered without voting rights.

3.6 Shareholdings and participations of the Board of Directors and the Management Board

				31.03.2017				31.03.2016
	Shares	Restricted Shares[1) 2)]	RSUs[2)]	Options (incl. SARs)[2)]	Shares	Restricted Shares[1) 2)]	RSUs[2)]	Options[2)]
Board of Directors	31,215	65,462		12,788	30,207	58,454	1,044	14,067
Management Board	52,243		56,026	533,765	53,542		68,456	505,697
Total	**83,458**	**65,462**	**56,026**	**546,553**	**83,749**	**58,454**	**69,500**	**519,764**

1) These shares are subject to a restriction period which varies from June 1, 2017 to June 1, 2022 depending on the grant date.
2) For further details see also Note 31 in the consolidated financial statements.

For further details to shareholdings in the company by members of the Board of Directors and by members of the Management Board, in accordance with Swiss Code of Obligation article 663c, refer to the Compensation report of Sonova Holding AG.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 13, 2017:

1,000 CHF	**31.3.2017**
Balance carried forward from previous year	1,610,541
Net profit for the year	142,679
Statutory retained earnings	**1,753,220**
Cancellation of treasury shares	(11,789)
Dividend distribution[1]	(150,241)
Balance to be carried forward	**1,591,190**

[1] If the Annual Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 2.30 per registered share of CHF 0.05 will be paid out (previous year distribution of CHF 2.10).

Report of the statutory auditor on the financial statements

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Report of the statutory auditor
to the General Meeting of Sonova Holding AG
Staefa

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Sonova Holding AG, which comprise the balance sheet as at 31 March 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

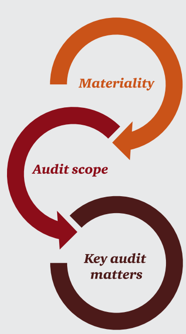
In our opinion, the accompanying financial statements as at 31 March 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview



Overall materiality: CHF 11.6 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Valuation of investments in subsidiaries and loans to group companies

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example,

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in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 11.6 million
How we determined it	5% of average profit before tax of the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years helps dampen volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries and loans to group companies

Key audit matter	*How our audit addressed the key audit matter*
The investments in subsidiaries and loans to group companies amount to CHF 2,512.1 million (99% of assets) as of March 31, 2017. In general the valuation of the investments is subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.	To identify indicators for impairments of investments and/or loans to group companies, management compared the investment value and/or loans with the shareholders equity of the respective investments. We evaluated and tested the assessment by re-performing the comparison for an appropriate sample of investments/loans. In addition, we reviewed

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We consider the valuation of investments and loans to group companies as a particularly significant area due to the size of the carrying value and judgement involved in assessing the recoverability of these assets. Investments are typically not subject to scheduled depreciation, but impaired for possible value adjustments. The valuation methods used involve considerable judgment with respect to assumptions about the future results of the business.	management's assessment if other qualitative indicators for impairments exist. For investments and/or loans to group companies with indicators for impairment, management followed a process for estimating future cash flows. The overall budget for the Group, including cash flows for these critical investments, was subject to timely oversight and discussion with the Board of Directors and was consistent with the Board of Directors approved budgets. We evaluated and challenged the reasonableness of management's key assumptions applied in its impairment assessment for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the assumptions had, with hindsight, been reasonable. • Mid and long term growth rates, by comparing them to economic and industry forecasts. • Discount rate, by assessing the cost of capital for the company and comparable organisations. We performed our own sensitivity analysis around the assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for investments/loans to be impaired. We found that the assessments were based upon reasonable assumptions and were consistently applied and therefore we concur with management's assessment.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

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conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm	Kai Mauden
Audit expert Auditor in charge	

Zürich, 9 May 2017

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

Hear the World Foundation

The Hear the World Foundation contributes towards Sonova's vision – a world in which everyone gets the chance to enjoy good hearing – by helping disadvantaged people, particularly children, with hearing loss around the world.

Over 100 celebrity ambassadors had their picture taken by musician and photographer Bryan Adams in the Hear the World pose (Copyright: Bryan Adams)

HEAR THE WORLD FOUNDATION
a Sonova Group initiative

About a sixth of adults and 32 million children have significant hearing loss.[1] The vast majority of these live in low or middle-income countries with little or no access to hearing care.[2] Particularly for children, hearing loss can have a strong impact on the development of language skills and educational as well as job opportunities.

Worldwide support since 2006

The Hear the World Foundation, a Sonova initiative, helps disadvantaged people with hearing loss around the world by providing financial support, hearing aid technology, and expertise. Since its launch in 2006, the Foundation has supported over 80 projects in 39 countries, making a difference for thousands of people worldwide.

Preventing hearing loss

Approximately half of all hearing loss could be prevented if measures are taken early enough.[3] For children, 60 percent of hearing loss is preventable, and in low-income countries the figure rises to 75 percent.[4] A total of more a billion young people are currently at risk of hearing loss, simply through unsafe listening practices. The Hear the World Foundation actively supports hearing loss prevention through WHO's International World Hearing Day and awareness-raising initiatives, such as by distributing free earplugs and information about the risks of over-loud music at concerts.

Over 100 celebrity ambassadors

More than 100 celebrity ambassadors have supported the Foundation, posing for portraits taken by musician and photographer Bryan Adams with one hand cupped behind the ear in the Hear the World pose, a symbol of conscious hearing. Plácido Domingo, Sting, Tina Turner, Christoph Waltz, Cindy Crawford and Kate Moss are just some of the many featured celebrities, all of whom strongly identify with the cause of raising public awareness about the importance of good hearing and the consequences of hearing loss.

Volunteering by Sonova employees

Many of Sonova's over 14,000 employees actively support the Hear the World Foundation by contributing their time, skills and knowledge to its worldwide projects. Most remark that the experience of volunteering confirms the dedication to changing lives that made them choose a career in hearing care. Since 2013, more than 1,000 employees have performed over 10,000 hours of voluntary work in projects or through active participation in fundraising events.

Anyone can give the gift of hearing

If you want to help disadvantaged children with hearing loss around the world, you can make your contribution with a donation. The full amount of the donation goes directly to the Foundation's project work: Sonova covers all administrative costs and provides hearing equipment and professional support free of charge. All donations are tax deductible, within the laws and regulations of your country of residency.

For more information: www.hear-the-world.com

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1 WHO (2008)
1, 4 WHO (2016)
2 WHO (2012)
3 WHO (2015)

Commitment in India

When Crystal Variava first set foot in Rangammal School in the southern Indian city of Tiruvanamalai, she was astonished: 200 children were sitting in the bright classrooms of the spacious building and lessons were in full swing; but there was hardly a sound to be heard.

On Variava's second business visit, just a few months later, the Sonova audiologist heard cheery children's voices from the classrooms; the new digital hearing aids provided by the Hear the World Foundation had made a radical difference and the children were now using their voices. "Thinking back, I still find it moving," recalls Variava – the Sonova employee from company headquarters in Mumbai, who is attached to the project as a volunteer, has long since taken the children straight to her heart.

While India's economy is growing rapidly, this progress is rarely felt out in the country, where infrastructure and medical provision are in short supply. This state of affairs prompted Silvia Wright, a British citizen, to sell all her worldly possessions 35 years ago and found the Rangammal Memorial Rehabilitation Society. The Hear the World Foundation has been supporting this charitable project with digital hearing aids and funding for speech therapy and teacher training since 2014. To ensure that everything runs smoothly over the long term, Sonova India staff visit the school four times a year to check the hearing aids, which suffer in the damp climate, and to show the teachers how to carry out small repair jobs themselves – as well as how best to support the children's language development.

Sonova audiologist Crystal Variava was particularly taken with six-year-old Gurumoorthy, known as Guru: "He only got hearing aids when he was four years old, but he already speaks very well and wants to become a teacher!" His favorite sound is crows calling outside his window. Variava wants to stay involved with the project, and regular visits to Tiruvanamalai are planned: "The school is a magical place where children who barely had any prospects in their lives are offered new opportunities."

Crystal Variava has taken the children at Rangammal School straight to her heart – the Sonova employee volunteers as a helper for the Hear the World Foundation, which provides the children at this South Indian school with digital hearing aids and supports their language development.

Investor information

Financial calendar

June 13, 2017
General Shareholders' Meeting of
Sonova Holding AG at
Messe Zurich, Halle 7, Zurich-Oerlikon

November 13, 2017
Publication of Semi-Annual Report
as of September 30, 2017
Media and Analyst Conference Call

May 22, 2018
Publication of Annual Report
as of March 31, 2018
Media and Analyst Conference

June 12, 2018
General Shareholders' Meeting of
Sonova Holding AG
Messe Zurich, Halle 7, Zurich-Oerlikon

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Corporate & ad hoc news
Annual Reports
Semi-Annual Reports
IR presentations
www.sonova.com/en/investors

Information on the General Shareholders' Meeting
Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
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IR News Service
www.sonova.com/en/registration

Capital structure and shareholder rights

Share data
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Articles of Association
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Rules on Board Operations and Procedures
Committee Charters
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