

Corporate Social Responsibility Report 2016/17



Message from the CEO

Dear Reader

We are committed to creating sustainable value for all our stakeholders – by continuously innovating to offer the best solutions to our customers, by providing access to hearing care for millions of people with hearing loss, by investing in our employees and partners, and by applying eco-efficient practices across all our business activities.



For our customers, we continue to set new standards in hearing performance, ease of use, and design with our new portfolio of rechargeable and discreet solutions.

To expand access to hearing care, we offer the industry's most comprehensive 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 more than 80 projects in 39 countries.

Thanks to our professional leadership culture and proactive approach to employee retention, we were able for the third time in a row to fill more than half of our leadership positions with Sonova employees. We are proud, that 46% of our current leadership positions are held by women.

As part of our ongoing environmental management program, we continue to work on minimizing our ecological impact across all our business activities. For instance I am pleased that we have reached, for the first time, our long term goal of achieving average carbon emissions in our corporate car fleet of 140 grams CO₂ / km or below.

Our efforts to further advance our corporate social responsibility continue to be recognized by a number of relevant organizations in the field. Sonova has gained a place on the Global 100, an index of the hundred most sustainable corporations published yearly in Forbes magazine. The company remains in the internationally recognized Dow Jones Sustainability and FTSE4Good indices.

As a sign of our holistic sustainability engagement, Sonova became a signatory to the UN Global Compact in 2016, endorsing its ten principles in the areas of human rights, labor, environment, and anti-corruption. All employees of the Sonova Group, as well as its business partners, are expected to comply with these standards and principles. With this report, I also confirm our ongoing support for the ten principles of the UN Global Compact.

I invite you to read this report to learn more about our strategy and the progress we have made in advancing our four sustainability commitments.



**Hear the world
activity report**



Forbes Global 100



UN Global Compact

Hearing care market and supply chain

Hearing – an underestimated topic

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

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



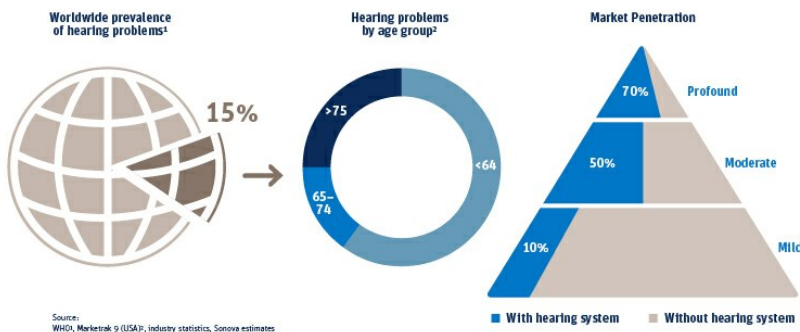
WHO global estimates

In addition to the impact of hearing loss at an individual level, untreated hearing loss puts a heavy cost burden on society. Today's hearing technologies offer the opportunity to reduce this significantly.

Market opportunities

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

Around 15% of adults have some degree of hearing impairment

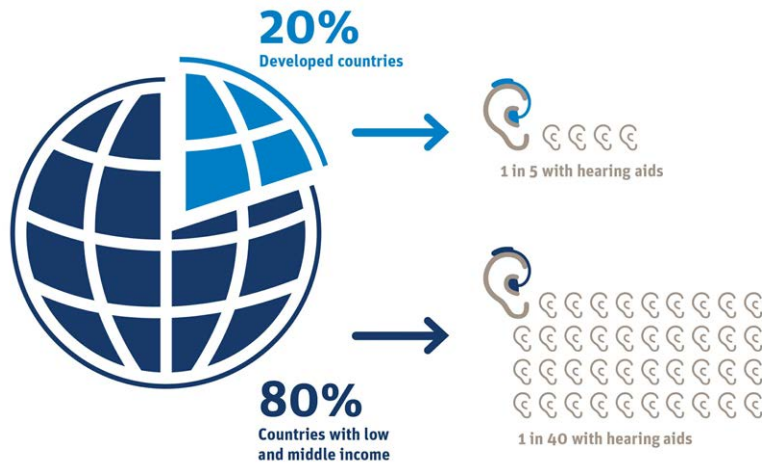


15%

of the world's population is affected by hearing loss

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

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



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

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

Two-thirds

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

Market challenges

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

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

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

Our business



Hearing instruments

The hearing instrument business comprises the Group companies that design, develop, manufacture, distribute, and service hearing instruments with complementary wireless communications systems. Our core hearing instrument brands are Phonak, Unitron, and Hansaton. Research and development is mainly based in Switzerland and Canada. Hearing instrument manufacturing is concentrated in three operations centers in Switzerland, China, and Vietnam.



Phonak



Unitron



Hansaton

Cochlear implants

This operating segment comprises the companies that design, develop, manufacture, distribute, and service cochlear implants and related products. 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. Advanced Bionics research and development activities are predominantly centered in the United States and Switzerland; production is based in the United States. Products are distributed through sales organizations in the individual markets.



Advanced Bionics

Retail

The retail business of Sonova is consolidated under the AudioNova umbrella. 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. The business operates a total 3,300 retail stores, 2,500 of which are located in Europe.



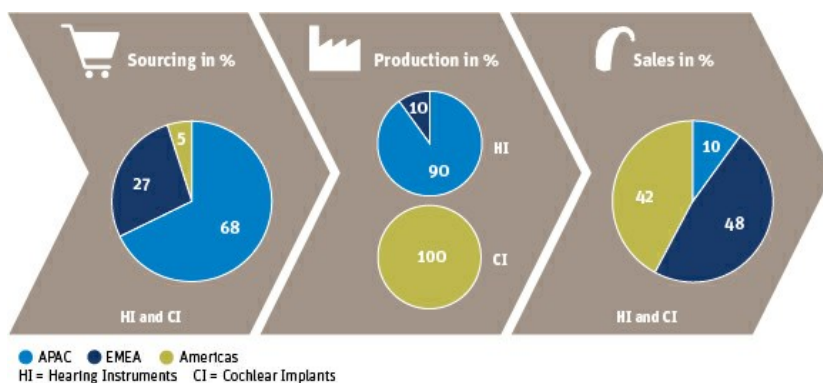
AudioNova

International Supply Chain

Sonova deals with around 430 suppliers to its hearing instruments segment, who deliver components for manufacturing and assembly, and around 120 direct material suppliers to the cochlear implant segment. In spending terms, 68.3% of Sonova's purchase volume is located in the Asia / Pacific region, 10.8% in Switzerland, 14.5% in Europe (excl. Switzerland), 5.4% in North America, and 1.0% in Africa.

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

Supplier Management



Sustainability program



Materiality Analysis

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

Identification and Prioritization

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



**Materiality Matrix
2014/15**

G4-18, G4-27

Sustainability Landscape



G4-19

Our vision – the “why”

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



Sonova Vision and Mission

Our values – the “how”

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



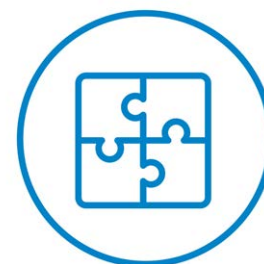
Sonova Values

Our commitments – the “what”

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

Customer focused solutions

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



Fields of activity

- New products
- E-solutions

Goal

We will continue to offer the broadest range of technologically advanced hearing solutions to our customers by investing 7–8% of our sales in R&D and by applying for a minimum of 40 patents each year.

Approach

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

- E-solutions: We strategically focus on the development of e-solutions to establish one-to-one, real-time relationships with our customers.

Performance

Read about our achievements and progress in 2016/17 in the corresponding section of this CSR Report “Customer focused solutions”.

Access to hearing care

We improve the quality of life for millions of people with hearing loss.



Fields of activity

- New markets
- Hear the World Foundation

Goal

We aim to provide access to hearing care and improve the quality of life for more than 12 million people worldwide by 2020.

Approach

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

cater to these groups through our charitable Hear the World Foundation.

Performance

Read about our achievements and progress in 2016/17 in the corresponding section of this CSR Report “Access to hearing care”.

Investment in people

We offer a flexible and inclusive work environment and an open culture that inspires personal growth and professional development. We act responsibly towards and communicate openly with all employees and partners.



Fields of activity

- Professional development
- Body & Mind
- Diversity & Inclusion
- Human rights & Labor practices

Goal

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

Approach

- Professional career development: We develop our employees to higher levels of success with a systematic talent management process including a strategic approach to training, succession, and career planning.
- Holistic group-wide health initiative: We foster a culture of health and wellbeing at work through our Body & Mind initiative.
- International labor standards: We conduct business and align our codes and principles according to internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic

Cooperation and Development (OECD). All our employees, business partners, and suppliers are expected to comply with these standards.

Performance

Read about our achievements and progress in 2016/17 in the corresponding section of this CSR Report “Investment in people”.

Safeguarding the environment

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



Fields of activity

- Environmental program
- Smart Mobility

Approach

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

Performance

Read about our achievements and progress in 2016/17 in the corresponding section of this CSR Report “Safeguarding the environment”.

Validation

The CSR Steering Committee assesses the sustainability program for completeness and determines its significance to the organization's economic, environmental, and social impact. The Committee also assesses the program in terms of effectiveness based on the yearly reporting.

Aspect boundaries

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

G4-20, G4-21

Stakeholder engagement



Open Dialog

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

G4-24, G4-25

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

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

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

Customers

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

We ensure continuous dialog with our business-to-business customers through our sales representatives, brand tracker surveys, customer satisfaction surveys, advisory network, knowledge management and sharing, customer hotline and support, audiology conferences, online customer communities, and complaint management channels. We provide a broad range of professional training and courses that address the various specializations in the hearing care industry. We also organize e-learning seminars, road shows, face-to-face in-clinic training, and technical marketing material to help transfer our knowledge and train hearing care specialists.

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

G4-26



HearingLikeMe.com

The Phonak Pediatric Advisory Board was founded in 1998 to help steer Phonak’s pediatric product development and establish and recommend industry-best practices to support the needs of children with hearing loss and ensure optimal outcomes for them. Among other activities in 2016, the Pediatric Advisory Board met to discuss new e-solutions which specifically support children and their families. The Advisory Board also made a vital contribution in the organization of the 7th International Pediatric Audiology Conference “Sound Foundations”, sponsored by Phonak. The group has also produced the first of a new series of audiological resources for hearing care professionals called the Pediatric Focus.



Pediatric Advisory Board



International Pediatric Audiology Conference

Employees

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

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

G4-26

Investment in people

Shareholders

Sonova has 17,902 registered shareholders, who together own around 68% of the total shares. Shareholders’ interests are represented by the Board of Directors, which sets and oversees the general direction of the company.

G4-26

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



**Annual Report
2016/17**

Suppliers

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

G4-26



**Group Supplier
Principles**

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

Academia and opinion leaders

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

G4-26

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

Financial community

As a publicly listed company, Sonova pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time.

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

G4-26



Sonova Investor Relations

Media

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

Our media relations team works globally with top-tier media, general media, trade media, financial media, and the major wire services to ensure that we reach as many people as possible, creating awareness of hearing loss and of our business.

G4-26



Sonova News Room

Regulators

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

G4-26

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

Insurers

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

G4-26

Competitors

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

G4-26

Customer focused solutions

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



Development of new products

The market offers exciting opportunities for new customer groups and new solution formats. Our consistent platform approach to product development in hearing instruments and cochlear implants – along with our continued high investment in research and development – has allowed us to expand our product offering over the year to exploit these opportunities.

Innovation through collaboration

At Sonova, we consider interdisciplinary collaboration as the guarantor of progress. Especially when it comes to as complex a subject as hearing. One key area of our innovation strategy therefore lies in establishing and promoting international networks where the specific knowledge of leading research bodies, hospitals, companies and institutions is pooled together, enriched and comes to fruition in new hearing solutions.

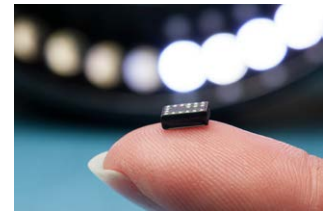
>50

number of scientific
cooperations

Long-term partnership and open exchange are the hallmarks of our collaboration with around fifty top-class universities and centers of excellence and technology. The focus of this interdisciplinary work is to leverage all potential for innovation: Together, we are broadening our understanding of auditory perception and its cognitive processing, driving forward digital signal processing and the miniaturization of electronics, improving material and implantation technologies and researching the possibilities of bionics. We work especially closely with the international groups of experts from the Pediatric Advisory Board to develop hearing solutions that counteract hearing loss in early childhood and at the same time include and support the entire family.

Smart technologies

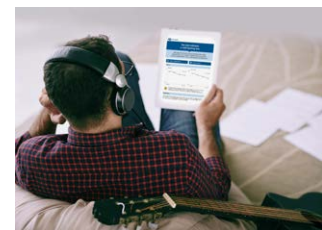
The digital revolution and the Internet of Things are making their way into various aspect of our lives. New, web-based business models are questioning the status quo because they promise more convenience, simplicity and freedom with smart technologies and services. We welcome this development, since maximum comfort and autonomy for the user, as well as flawless service, are also our key areas of innovation.



The Hybrid is the core electronics solution for Sonova hearing aids

eSolutions today

Digital technology and comprehensive connectivity make our hearing solutions smart companions that have about as much in common with the conventional idea of a hearing aid as iPods do with gramophones. And this is not just in terms of resolution, sound, understanding of speech, form factor or design: Media players of all kinds can be wirelessly connected and music, TV sound or calls can be enjoyed in excellent quality directly inside the ear. Thanks to the discreet Bluetooth microphone, you can follow conversations even in noisy environments - and in some cases better than a person without hearing loss. And with the [smartphone App](#), all of the parameters and functions can be controlled intuitively and individually.



Hearing check at home - the Hearing Check App tests hearing in two minutes

eSolutions for the future

Audiological quality and ease of operation are one thing, while the multiplication of opportunities through networking is another: Our hearing solutions go way beyond just the instrument itself, becoming a digital experience that brings together, empowers and supports the healthcare provider and the user seamlessly and in real time at all stages of the hearing journey. From online-based histories and efficient customer support to electronic remote adjustment and optimization under real, in situ conditions, digitally networked solutions offer users a previously undreamed-of degree of control and freedom. Wherever the user might be, the audiologist can be by his side online in an emergency, directly capturing the specific audiological situation using definitive data and providing immediate assistance. Continuous data monitoring, as well as the influence of Big Data, are allowing ever more differentiated fine tuning, as well as more targeted advice. Follow-up appointments are a thing of the past, spatial distances are no longer an issue, professional and personal assistance as well as effortless instrument adjustment by the user are only a tap on the smartphone's touch display away. People with hearing loss enjoy complete autonomy in a fully networked world of hearing. Our promise is to use and further expand these digital channels to establish one-to-one, real-time relationships with our customers.

3,264

total number of
patents owned as of
2016

Product responsibility

Regulatory and standards

Sonova's medical devices are regulated by government agencies, healthcare authorities, and other regulatory bodies worldwide. These organizations verify that throughout the life cycle of our products we are fulfilling the requirements of applicable health and safety regulations. We are committed to maintaining transparent, constructive, and professional relationships with all applicable regulatory authorities on policy, product submissions, compliance, and product performance. Their requirements include design controls, marketing approvals, good manufacturing practices, vigilance systems, clinical studies, and other applicable product regulations, standards and normative documents specified by government agencies.

Our processes for identifying potential risks related to our products – and for estimating, evaluating, controlling, and monitoring these risks – are governed by the ISO 14971 standard, which specifies the application of risk management to medical devices.

Each national healthcare authority has specific requirements for products that are offered in its market which need to be respected e.g. in Europe our hearing instruments comply with the essential requirements and other relevant provisions of the Medical Device Directive 93/42/EEC, the Radio Equipment Directive 2014/53/EU and other applicable international standards. In the US, hearing instruments are regulated by the United States Food and Drug Administration (FDA) and classified as medical devices of the class I (hearing aids) and class II (wireless hearing aids). Both categories are exempt from the Premarket Approval (PMA) and Premarket Notification (PMN) known as 510(k) and can be introduced into commercial distribution without undergoing these processes.

Cochlear implants and their respective accessories from Advanced Bionics are classified as active implantable medical devices (Class III-AIMD), which are regulated by the EU Active Implantable Medical Devices Directive 90/385/EEC and must generally undergo a formal PMA process wherever they are launched.

All of our operation centers and major group companies are certified according to the ISO 13485 standard and USA FDA Quality System Regulation, Title 21 CFR Part 820, which specify the requirements for quality management systems.

Sonova is carefully following the changes in the related regulatory environments worldwide to ensure the conformity of the products to any time. In particular recently published changes in medical device regulation in Europe regarding the transition from Medical Devices Directive 93/42/EEC to Medical Devices Regulation 2017/745.

Product service and labeling

The majority of products from Sonova group companies are covered by these regulations, standards, and medical classes. All of these products are continuously assessed for health and safety improvements, using such tools as our complaint handling system and process, post-market surveillance, vigilance reporting, reliability trending, and post-launch engineering.



Access to hearing care

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

Expanding market reach

Innovation is not limited to products – it also drives the way we approach the market, both through our wholesale companies and our retail audiological service network. The industry is seeing a rise in lower-cost retailers, but also an increased emphasis on personalized care from dedicated audiologists. We address both these trends through channel partnership, vertical integration, services that generate increased customer demand, and an expanded presence in underdeveloped growth markets, such as China.

Broad product portfolio

Our declared goal is to offer the most technologically advanced hearing solutions and services available to users worldwide. The comprehensive, interdisciplinary knowledge that we acquire in the process is factored into each of our products. It also enables us to offer a broad bandwidth of service and pricing levels for individual needs and different markets.

Improved infrastructure and new channels

On accessible or established markets, we rely on product cooperation partnerships, which means we are constantly improving our networks and ensuring all-round, comprehensive care with audiological services and treatments. The development of new product and marketing formats, the targeted training of audiologists and in particular close collaboration with state bodies means we are able to reach more and more people, even in parts of the world where care has been in short supply, and contribute to establishing modern audiological healthcare.

Customized solutions

Around 1.3 billion people around the world speak a Sinitic language such as Mandarin or Cantonese. These are tonal languages, where the basic frequencies communicate the information content of words. To better understand the specific needs of Chinese people with hearing loss, we are working with China's largest hospital, the Tongren Hospital, in Beijing. The result is a specific prescription formula for the amplification / frequency curve shapes of tonal languages. Or to put it more simply, hearing aids offering significantly better speech clarity for millions of people in Asia.



Sonova has opened a new audiology training center for hearing care professionals in Suzhou, China

The Hear the World Foundation

Around 665,000 children with hearing loss are born every year. And 80 percent of them have no access to audiological or medical care. Sometimes their families are unable to afford it, or maybe there are no suitable facilities nearby because they live in crisis-hit parts of the world, or the societies they live in do not educate them about opportunities and consequences. The ramifications for their chances for the future can be devastating, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss also is often associated social isolation, less chance of getting an education, and poor prospects for future employment

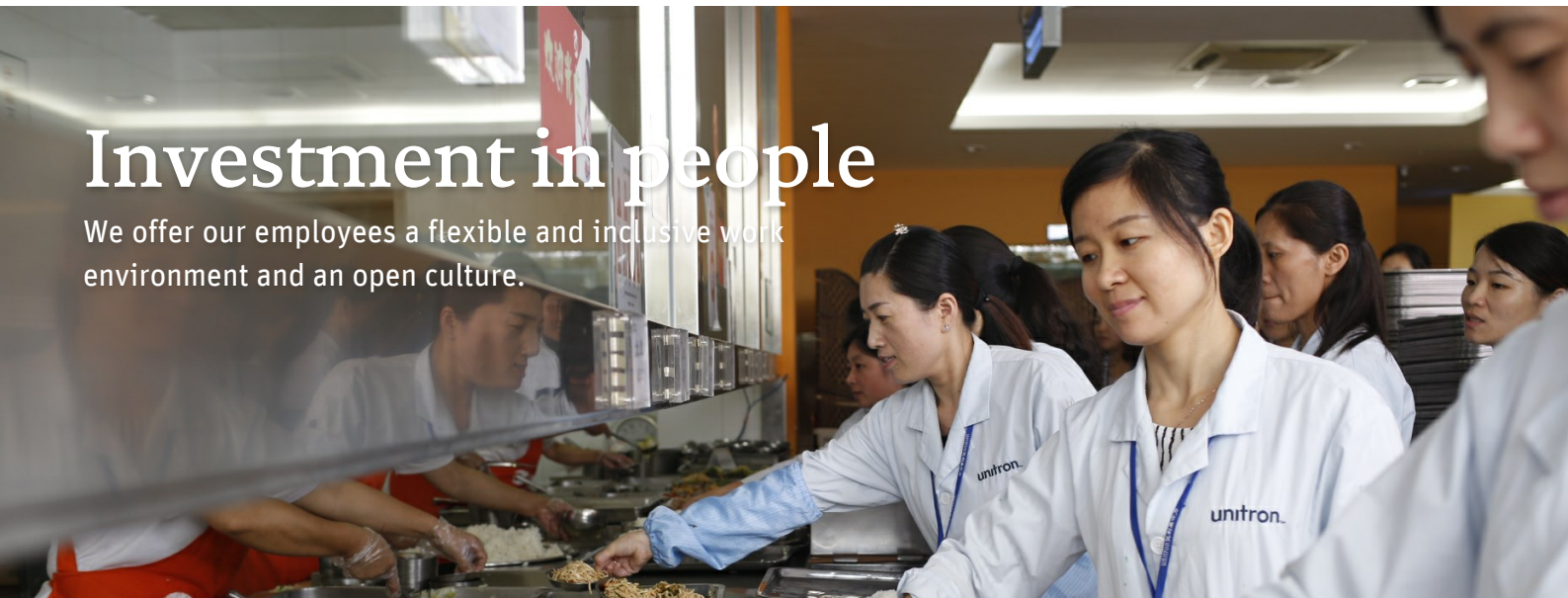
Through the Hear the World Foundation founded in 2006, we are working to counteract this and are committed to creating global, equal opportunities and a better standard of living for people with hearing loss, especially children. The key is education and prevention, but more specifically, acute assistance in the form of financial and technological project support on the ground. On many voluntary missions, our engaged employees have already successfully supported eighty projects in around forty countries, helped hundreds of children with advanced hearing solutions and actively contributed to the establishment of local audiological care infrastructures.



**Hear the World
Foundation**

Investment in people

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



Our employees are key to our success

At Sonova, our employees contribute to something greater than themselves – they transform lives. We work towards enhancing the quality of life of millions by bringing better hearing to people with hearing loss. Our shared corporate values – innovation, engagement, and responsibility – shape the culture that defines and unites us as a company across all brands and regions.

Global trends such as demographic changes, limited availability of specialist talent, and the need to adapt quickly to shifting markets highlight the importance of a proactive staffing strategy for Sonova. We strongly believe that developing talent with the goal of ensuring internal succession is vital to sustainable success. Appointing internally to key positions while retaining and developing skilled employees helps to ensure that Sonova's specialist knowledge and intellectual property remain within the company, sustaining our competitive advantage. In 2016, we were able to fill 53% of our open leadership positions with Sonova employees, thereby reaching our long term target.

Our conscientious treatment of our workforce, professional leadership culture, and proactive approach to employee retention over the past years have combined to reduce our global employee turnover to the very low level of 10.8%. The average tenure of our managerial staff is 8.2 years, while the total average workforce tenure is 6.2 years. All in all, the low turnover rates and the high tenure figures confirm what is implied by our global employee satisfaction rate of above 80%.

Above
80%

employee
satisfaction

Employee turnover rates

(in percent)

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|--------------------------|-----------|-----------|-----------|
| Switzerland | 7.5 | 10.3 | 5.2 |
| EMEA (excl. Switzerland) | 6.2 | 7.2 | 7.8 |
| Americas | 18.0 | 19.1 | 18.5 |
| Asia / Pacific | 9.0 | 9.0 | 11.5 |
| Total | 10.8 | 11.9 | 12.2 |

The employee turnover rate is the percentage of the total workforce (excluding fixed-term employees and AudioNova) leaving Sonova employment during the fiscal year; this includes continuing and discontinued operations

Personnel figures

In the reporting year, the Sonova Group increased its workforce by 29% to 14,089 full time equivalents. The increase is in line with our expansion strategy and is explained by our acquisitions in the retail business, adding 2,824 full time equivalent employees, as well as by increased capacity at our production center in Vietnam (254 full time equivalents).



Workforce KPI's

Employees by region

Full time equivalent (end of period)

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|--------------------------|-----------|-----------|-----------|
| Switzerland | 1,178 | 1,200 | 1,238 |
| EMEA (excl. Switzerland) | 6,399 | 3,452 | 2,919 |
| Americas | 3,538 | 3,622 | 3,585 |
| Asia / Pacific | 2,974 | 2,620 | 2,442 |
| Total | 14,089 | 10,894 | 10,184 |

Employee numbers do not show any seasonal or other temporary fluctuation

Human resource organization

The majority of our employees are directly supported by a local human resources manager. At our corporate headquarters in Switzerland, we develop – in collaboration with our group companies – and monitor a comprehensive set of global human resource processes, standards, and policies, which are implemented locally in line with country-specific regulations and customs. We assess the impact of all our activities through a set of key performance indicators such as turnover, internal leadership recruitment rate, and bench strength. Regular audits ensure compliance with internal regulations and local labor law, with the objective to provide excellent working conditions and monitor progress in all our locations. Around 7% of Sonova’s global workforce is covered by collective bargaining agreements.

Career development

We offer a flexible and inclusive work environment and an open culture that inspires personal growth and professional development. By regularly reviewing the competencies, performance, potential, and career plans of our employees, we invest in the development of each individual's strengths. Our global Succession Planning process allows us to mitigate the risk of losing expertise in key positions while identifying and developing promising candidates for internal succession.

The Sonova Academy is our group-wide education platform. In close collaboration with selected external partners (such as the University of St. Gallen and INSEAD in Paris), our Academy offers targeted programs and provides an opportunity for our leaders, managers, and best-performing talents to enhance their skills and competencies. The Sonova Academy also serves as a cross-business learning network that provides consistency and supports change throughout our organization. The structure of our Academy reflects the Group's global structure.

International programs address themes that are relevant across national and organizational boundaries. The programs are available to participants from around the world and all Sonova business units. Regional programs, while sharing similar concepts, emphasize regional and brand-specific content.

The Leadership Advanced program further extends Sonova's portfolio of leadership development programs. Lasting three days, it builds on the Leadership Essentials syllabus, focusing on more advanced topics to equip Sonova's managers with the strategic tools and approaches they need to drive change and shape the company's future of Sonova. Through intensive feedback, coaching, and experiential exercises, the program gives participants the chance to reflect on their personal style, to understand and to increase the impact they have on their company's performance, and to plan how they will continue to develop as leaders at Sonova.



Young talent wanted

Sonova has an excellent network of research collaboration with various leading universities around the world, where students can participate in joint studies and other activities. We offer them the opportunity to work in our organization as a member of one of our Research and Development teams, either in an internship, or as part of their Bachelor's, Master's, or PhD thesis work.



Internship and Thesis

Our talent acquisition process also targets the most sought-after group of professionals in our industry: experts in audiology. To support our constant need for top audiologists, we offer an international Audiological Traineeship program, with training placements in the US, Canada, and Switzerland. This program is an opportunity for ambitious audiology graduates to benefit from a one-year formal development and rotation experience, where they will have the opportunity to work with our talented audiologists in various business units (Audiology, Marketing, Customer Training, Sales, and Research) before starting on their career path with Sonova.

At Sonova we conscientiously support and invest in Switzerland's effective dual training system, which links formal education with technical apprenticeships. The number of our apprentices has doubled since 2013. We train more than 40 apprentices at our headquarters, three of whom have disabilities. The range of Sonova apprenticeships is highly diverse, offering training in twelve professions, from polymechanics and logistics to cooking.



Diversity and inclusion

Sonova is currently present in over 100 countries around the globe and has a workforce of over 14,000 dedicated employees with a broad mix of experiences and backgrounds. We consider this diversity to be key to our success, since it represents our global customer base and fosters innovation. All facets of diversity are important to us; we strive to create an inclusive environment where everyone – regardless of age, gender, language, ethnic origin, religion, culture, or health status – can contribute and realize their full potential. Our commitment to diversity is recorded in our Code of Conduct and is binding for all our employees.

As the world’s largest hearing care provider, Sonova is campaigning for equal opportunities and a better quality of life for people with hearing loss. It is our vision to create a world where everyone enjoys the delight of hearing and lives a life without limitations. By offering the most comprehensive range of solutions to treat all major forms of hearing loss, we aim for our customers to feel fully included in society. To help us reach this challenging goal, our workforce and work culture need to reflect the values of diversity and inclusion.

Building a diverse workforce

We realize that one of the most effective ways to understand and meet the needs and desires of our diverse customers is to have a workforce that reflects this diversity. We therefore make it a priority to recruit a wide range of people who share our passion and bring in new skills and experiences. To guarantee a balanced mix, we have a special focus on recruiting and promoting women in leadership and executive positions.

14,000

dedicated employees

We actively support the compatibility of having a career and a family by promoting flexible working models for both men and women, such as home office, flexible working hours, and part time work in leadership positions. Since April 2017, new terms of employment guarantee our employees a number of additional family related benefits, including 16 weeks of maternity leave, two weeks of paternity leave, and the possibility to purchase additional vacations. In all our production sites, where shift work is standard, employees returning from maternity leave can choose to work at between 50% and 100% of their previous level during their first year back. We operate our own day care center at our headquarters in Stäfa and financially support lower-salary employees, in our production center in Vietnam and in Stäfa, to help pay for day care. Thanks to various family policy measures and a commitment to promote equal opportunities, we are pleased to report that women now fill 46% of our leadership positions.

46%

women in leadership
positions

Sonova also provides reasonable accommodation in its job application procedures for qualified individuals with disabilities, or to enable otherwise qualified individuals with disabilities to perform essential job functions.

Advancing our culture of inclusion and innovation

Inclusion as a foundation of corporate culture is an integral part of how we benefit from the diversity of our workforce: by embracing the differences that makes each of our employees exceptional. We are committed to creating a safe, positive, and nurturing work environment where all people feel valued, respected, and heard. We are convinced that this promotes thoughtful and valuable dialog and fosters innovation. We actively include diversity topics in our employee communication and leadership programs to raise awareness and continuously advance our culture of inclusion.

Employment numbers by gender – Women

As percentage of employees

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|----------------------------|-----------|-----------|-----------|
| Share of total workforce | 66.0 | 63.5 | 63.0 |
| Full-time employees | 81.9 | 91.5 | 91.7 |
| Turnover rate ¹ | 10.3 | 12.1 | 12.5 |

¹ excluding former AudioNova employees

Employment numbers by gender – Men

As percentage of employees

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|----------------------------|-----------|-----------|-----------|
| Share of total workforce | 34.0 | 36.5 | 37 |
| Full-time employees | 95.1 | 97.3 | 96.8 |
| Turnover rate ¹ | 11.2 | 11.3 | 11.6 |

¹ excluding former AudioNova employees

Ratio women in leadership positions

As percentage of employees

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|--------------------------|-----------|-----------|-----------|
| Switzerland | 21.0 | 21.6 | 23.5 |
| EMEA (excl. Switzerland) | 50.6 | 37.4 | 38.6 |
| Americas | 45.0 | 45.0 | 43.9 |
| Asia / Pacific | 48.8 | 47.1 | 44.0 |
| Total | 46.0 | 39.0 | 38.8 |

Ratio women in executive positions

As percentage of employees

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|--------------------------|-----------|-----------|-----------|
| Switzerland | 11.5 | 10.0 | 14.4 |
| EMEA (excl. Switzerland) | 25.4 | 21.2 | 23.8 |
| Americas | 33.9 | 34.4 | 34.9 |
| Asia / Pacific | 26.8 | 23.2 | 17.9 |
| Total | 23.1 | 21.5 | 23.0 |

The ratio of women in executive positions is based on those positions eligible for the Executive Equity Award Plan

Employee wellbeing

Sonova group companies and operation centers take specific prevention and health promotion measures to help maintain and enhance each employee's capacity for productive and fulfilling work. In 2016, Sonova launched its global Body & Mind Initiative to align and support its various current prevention measures. This health initiative rests on four main pillars:

- Sound and well balanced nutrition
- Physical and mental harmony through exercise
- Re-energizing through active relaxation
- Medical care through regular check-ups and vaccinations.



Our group companies are responsible for implementing Body & Mind measures locally and for continuously refining programs in all four of its areas. Among examples of best practice are health coaches, who lead employees at our operation centers in three-minute break-time exercises to reduce muscle tension. Our Advanced Bionics site in California has been designated, for the third year in a row, as a Gold Fit-Friendly Worksite by the American Heart Association.



**Body & Mind at HQ
Stäfa**

Occupational health and safety

Sonova has established an effective occupational health and safety culture that supports and protects our employees. We regularly monitor and analyze the potential health and safety risks of our operations and implement both legally-required and voluntary occupational health and safety programs.

Sonova's operations have a relatively low exposure to health and safety risk, but we are committed to continuous improvement here as elsewhere. We therefore investigate each incident to determine its cause and to take steps to prevent any reoccurrence. Our low exposure to health and safety risk is once again reflected in the figures for this financial year. Any incident which requires external medical health care is considered as a work-related injury and is reported in the table below. In general, such injuries and lost work days are not caused by the manufacturing processes; they are more likely to be sustained during activities such as movement of goods. The injury rate (IR), which covers the Sonova headquarters in Stäfa and the manufacturing sites in Asia, is at the very low level of 0.44.

Injury and lost day rate

| | 2016 / 17 | 2015 / 16 | 2014 / 15 |
|---------------------|-----------|-----------|-----------|
| Injury rate (IR) | 0.44 | 0.43 | 0.68 |
| Lost day rate (LDR) | 1.45 | 1.45 | 2.95 |

The injury rate equals the total number of injuries / total hours worked x 200,000. The lost day rate equals the total number of lost days / total hours worked x 200,000.

Environment

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

Environmentally friendly practices

Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the entire lifecycle of its products and across all its business activities. We set the priorities and provide the resources needed to reduce our environmental impact through responsible, efficient management of our buildings and infrastructure, processes, products, and services. The environmental policy supports Sonova's commitment to behave proactively and describes the company's environmental performance management organization and responsibilities, along with their relevant environmental aspects and other management approaches.

Sonova's environmental program sets clearly defined targets, of which the three most important are: a 10% reduction from 2013/14 levels of production-related carbon emissions intensity by 2018/19, a 10% reduction from 2013/14 levels of air travel-related carbon emissions intensity by 2018/19, and ensuring that 100% of key suppliers are rated as having a qualified environmental management system in place by 2018/19. We continuously monitor and optimize environmental objectives and performance across the Group.



Environmental policy



Targets and Performance

As part of this continuous improvement in operations, Sonova has committed to establish ISO 14001-certified environmental management systems at all its key manufacturing and distribution centers; these require employees to make sound environmental decisions when designing, manufacturing, and servicing products. For non-manufacturing sites, Sonova has implemented an adapted environmental management system to ensure integration of environmental factors in decision-making and improvement in environmental performance. The following Sonova facilities are currently certified to the ISO 14001 standard: Sonova AG and Advanced Bionics AG (Stäfa, Switzerland), Phonak Communications AG (Murten, Switzerland), Advanced Bionics LLC (Valencia, USA), Phonak Operation Center Vietnam Co., Ltd (Binh Duong, Vietnam), and Unitron Hearing (Suzhou) Co., Ltd (Suzhou, China). Phonak LLC manufacturing and distribution centers in Warrentville / Aurora (USA) first achieved this certification in May 2016.

We insist on environmentally friendly business practices throughout our supply chain: we do not restrict our environmental standards to our own operations, but consider them equally crucial in selecting our suppliers. The Sonova Group Supplier Principles recommend that suppliers use the international ISO 14001 standard as the starting point and basis for their work. In 2016, 93.1% of key suppliers were rated as having a qualified environmental management system in place compliant with ISO 14001 or other recognized standards.

Thanks to Sonova's low risk exposure to environmental issues and its strict group-wide environmental management, no fines or non-monetary sanctions were levied against Sonova in 2016 (or in previous years) for noncompliance with environmental laws or regulations.

93.1%

key suppliers with
qualified
environmental
management system

Climate protection and energy reduction

Climate change is one of the biggest challenges of our time: it requires prompt, effective action from governments, industries, and individuals. Sonova is committed to reducing the carbon footprint attributable to its direct and indirect energy consumption, including energy used in transportation and distribution. The company's strategy requires a steady increase in the energy efficiency of its operations, integrating environmentally friendly energy purchase and generation, and optimizing transportation and distribution logistics. Sonova has set up implementation initiatives that concentrate on its most energy-intensive facilities, while considering other sites that show realistic potential for improvement. From a risk perspective, Sonova's business has a low exposure to climate change and hence has no financial implications for the organization's activities.

In 2016, the total energy consumption of the Sonova Group increased over the previous year by 12.3% to 39,161 megawatt-hours (MWh). This was mostly due to the electricity consumed in new buildings in China and Vietnam, along with the acquisition of Hansaton in Germany. In line with the increased energy consumption at Group level, Sonova Group's absolute carbon footprint grew by 10.6% to 24,799 tonnes of CO₂ equivalents (t CO₂eq). This increase stems from the Scope 2 emissions and is largely explained by increased electricity consumption due to a greater number of employees and increased production volume at the operation centers in China and Vietnam. A 5,000 square meter solar panel system in Suzhou, China, which was put into operation in 2015, will help us reduce our CO₂ footprint in upcoming years by substituting solar power for coal-derived electricity. In 2016, the new photovoltaic system produced 500,000 kWh of green energy.

Energy consumption

In MWh

| | 2016 | 2015 | 2014 |
|-------------|--------|--------|--------|
| Heating | 7,990 | 7,708 | 10,067 |
| Electricity | 31,171 | 26,875 | 27,566 |
| Total | 39,161 | 34,883 | 37,633 |

Greenhouse gas (GHG) emissions – Scope 1&2

In t CO₂ eq

| | 2016 | 2015 | 2014 |
|---------|--------|--------|--------|
| Scope 1 | 1,597 | 1,559 | 1,998 |
| Scope 2 | 23,202 | 20,866 | 19,855 |
| Total | 24,799 | 22,426 | 21,853 |

As mentioned above, Sonova aims to achieve a 10% reduction from 2013/14 levels of production-related carbon emissions intensity by 2018/19. One example of how we are working to achieve this goal comes from the Advanced Bionics operation center in Valencia, USA, where we replaced conventional lightning with LED technology to save energy, both in the building and in the parking area. Thanks to this measure, the operation center's electricity consumption dropped by 4%, saving 240 MWh of energy per year. Despite our efforts to improve energy efficiency in our infrastructure and production processes, the company recorded a higher CO₂eq emission value per unit produced. The increased production volume could not offset the additional CO₂eq emission caused by our new buildings in China and Vietnam.

Monitoring transportation and distribution

Sonova is a global company: business-related air travel is essential to maintain and improve operations, and to collaborate with internal and external stakeholders. We estimate, however, that we could reduce our carbon emissions by at least 10% by systematically using information and communications technology to substitute for air travel. In 2016, the carbon emissions from business-related air travel activities on a group-wide basis were 10,307 t CO₂eq, of which 33% originated from the flights of Sonova employees in Switzerland. Despite strict travel policies and the increased use of web-conferencing tools, carbon emissions from business flights increased in absolute terms by 13.6% compared to the previous year. Carbon emission intensity (expressed as t CO₂eq / million CHF sales) decreased by 10.7%.

Sonova also estimated the carbon footprint of its corporate car fleet in 2016. All vehicles purchased, leased, or rented by Sonova Group companies were taken into account. The estimated total carbon footprint of Sonova's corporate car fleet is around 5,049 tonnes per year. The average carbon emissions per single vehicle were evaluated at 139 grams CO₂/km. Sonova has therefore reached, for the first time, its long term goal to achieve average carbon emissions of 140 grams CO₂/km or below.

Because the availability of public transport differs across countries, Sonova's initiatives to promote environmentally friendly commuting are influenced by the local infrastructure. The headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns. This initiative increased the proportion of employees who commute using public transportation from 40% to 60% over the last 10 years.



In terms of product distribution, air freight is clearly the dominant contributor to Sonova's carbon footprint, accounting for around 97% of relevant CO₂ emissions. Based on a study conducted in 2014, the carbon emissions for the hearing instruments segment are estimated at 7,000 t CO₂eq in absolute terms and 0.85 kg CO₂eq per tonne-kilometer in relative terms; distribution from Group companies to retail shops was not taken into account. The equivalent carbon emissions for the cochlear implant segment were around 1,100 t CO₂eq and 0.98 kg CO₂eq per tonne-kilometer, respectively. The data analyzed for the cochlear implant segment cover around 80% of the total carbon footprint (in t CO₂eq) from transporting and distributing products, including distribution from Group companies to clinics.

Materials

As a medical device manufacturer, the Sonova Group takes a proactive approach to evaluating materials in its products and components to assess environmental, health, or safety risks. Sonova may restrict substances because of customer or legal requirements, or because the company believes it is appropriate, based on a precautionary approach. Evaluating alternative materials is a continuous process, relevant to all stages of the production.

The main materials used in Sonova products are polymers (e.g. nylon, silicone, acrylonitrile-butadiene-styrene, acrylic polymers), metals (steel, titanium, tin), and semimetals (e.g. silicon). Sonova complies with the EU directive on Restriction of Hazardous Substances (RoHS), which governs the use of heavy metals and halogenated compounds, and with the EU's Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) regulation for the safe manufacture and use of chemical substances. Sonova's suppliers are also required to prove their compliance with RoHS and REACH regulations in their respective processes and supply chains.



RoHS EU directive



REACH EU directive



In accordance with REACH regulation, Phonak continuously updates the list of substances of very high concern (SVHC) that may be present in its products above the threshold level of 0.1% by weight of the article. This list is made publicly available on the Phonak website. By the end of the 2016/17 financial year, DEHP was the only substance remaining on this list.

Other substances classified as hazardous – but excluded from the RoHS directive – include solder paste and wire, paint, organic solvents, oil emulsions, mineral oil, and water-based cleaning solution. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

Waste

For Sonova, dealing with materials sustainably means avoiding or reducing waste wherever possible, collecting recyclables separately and disposing of hazardous waste in environmentally compatible ways. Thanks to various initiatives in Group companies, such as double-sided printing by default, Sonova was able to increase its recycling rate by 184 tonnes to 46%. In the future, Sonova aims to further increase the recycling rate to 50%.

In the volume of solid waste sent to disposal, such as municipal solid waste or material left over from manufacturing processes, there was a slight increase to 1,142 tonnes.

Sonova complies with legal requirements to transport and dispose of hazardous waste solely through officially authorized disposal agents. The main categories of hazardous waste substances are solvents, oil emulsions, paints, adhesives, soldering paste, filters, petroleum, and washing fluids. In line with the increase in group-wide production volume in 2016, the amount of hazardous waste rose slightly to 36 tonnes.

Waste

In metric tons

| | 2016 | 2015 | 2014 |
|---------------|-------|-------|-------|
| Non-hazardous | 1,142 | 1,122 | 1,093 |
| Hazardous | 36 | 33 | 33 |
| Recycling | 1,018 | 834 | 609 |
| Total | 2,196 | 1,989 | 1,736 |

Product Stewardship

Sonova performs a Life Cycle Assessment (LCA) as part of each product’s research and development phase. The aim is to reduce the use of hazardous substances, avoid other environmental risks, minimize consumption of resources, and design for recycling and easy end-of-life treatment.

Sonova has been advancing the industrial use of 3D printing technology for many years: at the beginning of the millennium, Sonova was one of the very first companies to start digitally producing custom shells for in-the-ear hearing aids and earpieces. Today, the company “prints” hundreds of thousands of custom-made products every year. In 2016/17 Phonak introduced the Virto B-Titanium, combining the strength and lightness of titanium with the versatility of 3D printing to produce the smallest custom instrument in the company’s history, and saving material with a shell twice as thin as traditional custom shells.



Sonova's technology development aims to build improved energy efficiency into each new product. With the Phonak Audéo™ B-R, launched in June 2016, Phonak introduced the first ever hearing aid to feature a specifically designed built-in lithium-ion rechargeable battery, providing 24 hours of hearing with only one charge. During 2016/17, Phonak, Unitron and Hansaton completed Sonova's rechargeable portfolio with the launch of additional rechargeable hearing solutions; Advanced Bionics also offers rechargeable battery options for cochlear implant sound processors. We also made significant improvements in conventional battery systems: Phonak's new ITE Virto B-Titanium has a 20% longer battery life than its predecessor, the Virto V-nano. Advanced Bionics' HiRes™ Optima Sound Processing delivers the same high performance as its predecessor with a 55% average improvement in battery life.

Sonova complies with the EU directive on Waste Electrical and Electronic Equipment (WEEE), which requires such equipment to be returned to the manufacturer for recycling or environmentally friendly disposal. We provide a broad range of repair and refurbishment services to lengthen the life cycle of the products and their components.

Several Group companies also offer a battery collection program, in which customers take home the box, collect their hearing aid batteries and bring them back to the store for recycling. The batteries collected are forwarded and disposed of through officially authorized disposal agents. Thanks to such an initiative, Connect Hearing Canada for instance was able to collect more than half a tonne of batteries in 2016.

Air emissions

Sonova has low atmospheric pollutant emissions from volatile organic compounds (VOCs) in paints and adhesives, in coatings, and for surface cleaning. Group-wide levels of VOC evaporated to air increased in 2016 by 7.2% to 4,184 liters due to the increase in production volume.



Products Phonak



**Advanced Bionics
Optima**



WEEE EU directive



Sonova has experienced no spill-related atmospheric pollution. We have not used ozone-depleting chlorofluorocarbons (CFCs) in our production processes since 1992.

Volatile organic compound

In liters

| | 2016 | 2015 | 2014 |
|-----|-------|-------|-------|
| VOC | 4,184 | 3,893 | 4,493 |

Water

Sonova uses water provided by utilities primarily for sanitary services and kitchen and garden areas. Our manufacturing processes do not require significant amounts of water. In our environmental program we therefore mainly focus on conserving water in our office buildings, e.g. with low water equipment in restrooms. Despite this, water consumption at Group level increased by 7.7% to 133.972 cubic meters compared to the previous year. Relative water consumption, however, increased only slightly from 18.8 m³ to 19.7 m³ per employee. Sonova returns water to the sewage system without contamination. The company has experienced no spills from operating processes or other instances of water contamination.

Water withdrawal

In m³

| | 2016 | 2015 | 2014 |
|------------------------|---------|---------|---------|
| Municipal water supply | 133,972 | 124,451 | 124,162 |

Environmental reporting and system boundaries

Sonova's environmental data monitoring and reporting includes energy consumption, carbon footprint, materials, waste disposal, water consumption, and emissions of volatile organic compounds. The company reports and discusses environmental performance to the limits of the available data. Data from Hansaton Germany, which was acquired in April 2015, are included for the first time in the environmental reporting of this CSR report. The AudioNova group companies acquired in September 2016 are not yet included.

The tables above show environmental data from Sonova Group companies that operate as headquarters, manufacturing sites, or wholesale distributors, excluding Group companies with retail activities only. Scope 1 and Scope 2 energy consumption for Group companies with retail activities only, along with other environmental performance figures, is monitored only where feasible, given the decentralized organizational structure of these businesses and their small, often rented, facilities. It is not included in this report. Overall, the entities covered in the environmental data reporting account for 94.7% (2015: 95.5%) of Sonova's employees (excluding employees of Group companies with retail activities only).

Sonova's environmental management system monitors the greenhouse gas emissions due to its electricity, heating oil, and natural gas consumption. The company measures its carbon footprint using country-specific grid emission factors and, if available, specific emission factors provided by energy utilities. The measurement methodology and reporting format for the carbon footprint are based on the standards and guidance of the Greenhouse Gas Protocol.



GHG Protocol

Sonova differentiates between direct emissions (Scope 1) from sources such as burning natural gas, and indirect emissions (Scope 2) from sources such as using electricity. Since 2014, we have also investigated the environmental impact of our corporate car fleet – a further Scope 1 emission source. Scope 3 emissions from business-related air travel activities are reported, along with emissions resulting from transportation and distribution of products. For the car fleet and air flight data all Sonova Group companies were taken into account.

Sonova strives to be trustworthy and transparent with all its stakeholders; it therefore participates in the Carbon Disclosure Project and makes the results publicly available.



**CDP Climate Change
Feedback Chart**

Corporate governance



Structure

At Sonova, corporate governance is based upon and structured to conform with relevant international standards and practices. The company fulfils its legal duties under the relevant articles of 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. The present chapter describes the principles of corporate governance for the Sonova Group and provides background information with a special focus on CSR issues. Additional information can be accessed at the corporate governance section of the Sonova website.

Sonova's corporate structure includes a two-tier board consisting of the Board of Directors and the Management Board. In accordance with the Sonova Organizational Regulations (OrgR), the Board appoints an Audit Committee and a Nomination and Compensation Committee. In all respects not mentioned in the OrgR, or unless the law or the Articles of Association stipulate otherwise, the policy document 'Delegation of Authority of Sonova Holding AG' provides the basis for delegating authorities within the different levels of management in the Group.



**SIX Swiss Exchange
Directive**



**Economiesuisse Swiss
Code**



**Organizational
Regulations**

Composition of the highest governance body and its committees

The composition of the Board of Directors and its committees is described in detail in the Corporate Governance chapter of the Annual Report.

Diversity is a key topic in any discussion of board composition. The Board's aspiration is to have a diverse membership in all aspects, including nationality, gender, background and experience, age, tenure, viewpoints, interests, and technical and interpersonal skills.

The Articles of Association of Sonova Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The Board of Directors is chaired by Robert F. Spoerry and currently consists of eight non-executive members.



Corporate Governance Report



Board of Directors

Nomination and selection for the highest governance body and its committees

The processes for determining the composition of the Board of Directors and its committees, as well as the division of responsibility between the Board of Directors and Management Board, are set out in detail in the company's Organizational Regulations and Committee Charters.



Committee Charters



Corporate Governance Report

The members of the Board of Directors and of the Nomination and Compensation Committee of Sonova Holding AG are elected by the General Shareholders' Meeting for a term of office until completion of the next ordinary General Shareholders' Meeting. If a replacement is elected to the Board of Directors during a member's term, the newly elected member finishes the predecessor's term. The Audit Committee is elected by the Board of Directors according to Article 2 of the Committee Charters.



The members of the Management Board are proposed by the CEO and appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee.

Article 4 of the OrgR governs how Sonova deals with potential conflicts of interest. Cross-board memberships of the Board of Directors and significant shareholders (holding more than 3% of shares) are disclosed in the Corporate Governance chapter of the Annual Report. Related party transactions are disclosed in the Annual Report under note 29 to the Group Consolidated Financial Statement.

Roles, policy, and strategy

The Organizational Regulations and the Committee Charters define the roles and the duties of the highest governance bodies.

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. It approves policy and strategy.

The CEO has the duty and authority to link the company's strategy with its operational management by preparing the corporate strategy documents, policies, and procedures for submission to the Board of Directors' review and approval. The Management Board supports the CEO in his responsibility to direct the company's operations by actively participating in directing, planning, and executing the business strategy.

Competencies and performance evaluation

The Board of Directors conducts an annual self-assessment evaluating its efficiency, effectiveness, and internal cooperation. The purpose is to enhance the Board's understanding of the business and the company, evaluate and define its role, particularly in relation to management, and make best use of the human capital represented in the Board of Directors.

Consultation between stakeholders and the highest governance body

Sonova actively engages with a broad range of stakeholders as described in the "Stakeholder engagement" chapter of this report. Internal reporting procedures ensure consultation between stakeholders and the highest governance body on all topics deemed highly relevant.

Remuneration and incentives

The Compensation Report is an integral part of the Annual Report and covers the remuneration policies for the highest governance body and senior executives. Sonova complies with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Corporations. This stipulates an annual binding vote on the compensation of executives and board members.



Compensation Report

The variable cash compensation (VCC) of Sonova's executive members is based on financial KPI's on a group and business unit level and additionally reflects the achievement of individual objectives as defined in the annual performance review process. Individual objectives can also include non-financial targets (e.g. internal leadership recruitment rate, digitalization rate).

Risk management

The Group has implemented an efficient system to identify and assess strategic, operational, financial, legal, reputational 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.

CSR issues are an integrated part of Sonova's strategic risk management process. 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 Head of Internal Audit & Risk reports to the Chairman of the Audit Committee. 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 monitor the implementation by Group companies of any measures necessary to address findings from previous audits and regularly reports progress to the Audit Committee.

The Group has a comprehensive compliance program in place which is administered by the Group Compliance Manager and overseen by the General Counsel. Quarterly compliance reports are provided to the Audit Committee and an annual compliance report is addressed to the Board of Directors.

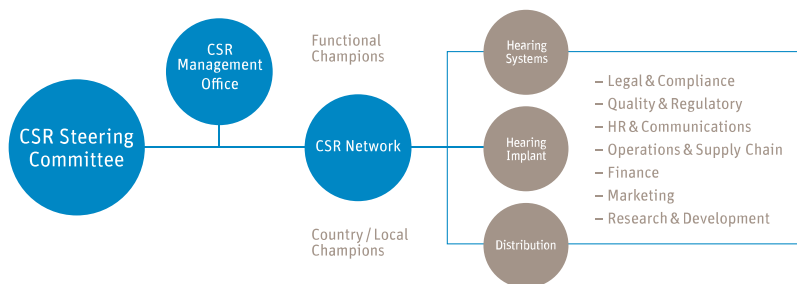
CSR organization

The CSR Management Office provides expertise and advice to the CSR Steering Committee. It implements the strategy approved by the committee and coordinates group-wide initiatives in close collaboration with experts from the CSR network.

CSR country champions represent one or all Sonova group companies in a given territory and are responsible for gathering data and implementing CSR initiatives locally.

CSR functional champions are linked to group-wide business functions; they report to the CSR Management Office on relevant functional issues.

CSR ORGANIZATION



Association membership

Sonova actively participates in associations to share its specialist knowledge and to ensure highest quality standards for hearing instruments and cochlear implants. We are a member of the European Hearing Instrument Manufacturing Association (EHIMA), the Hearing Instrument Manufacturers' Software Association (HIMSA), the Hearing Industries Association (HIA) and the Hearing Instrument Manufacturers' Patent Partnership (HIMPP).

Lukas Braunschweiler, CEO of the Sonova Group, is the acting board president of EHIMA. Founded in 1985, EHIMA represents the six major European hearing instrument manufacturers.

In 2016, Sonova became a signatory to the UN Global Compact, an initiative of the United Nations with a focus on corporate citizenship, dialogue with stakeholders, partnerships, and communication. Sonova is part of both the global and local Swiss networks of the UN Global Compact.

Sonova also joined the Work Smart Initiative, committing along with other Swiss employers to promote awareness of flexible forms of work (e.g. more flexible working hours, working from home, and work hubs)



EHIMA



UN Global Compact



Work Smart Initiative

Ethics & integrity



Values and principles

Our shared core values – innovation, engagement, and responsibility – shape the corporate culture that defines and unites us as a company across all brands and regions.

Our reputation for ethical behavior and integrity is one of our most valuable assets. It is the result of our daily actions and an integral part of our endeavor to create sustainable value and success.

Sonova's commitment to compliance promotes ethical conduct at all levels of the organization. Compliance means that we follow the laws of each country in which we operate while also abiding by our own Code of Conduct and internal regulations.

Code of Conduct and internal regulations

Sonova's Code of Conduct defines general principles for ethical behavior; it applies to all employees of the Sonova Group, its subsidiaries, and any contractors or vendors performing work for the Sonova Group or any of its subsidiaries. The Code of Conduct is available in 15 languages.



Code of Conduct

The entire workforce was trained on the Sonova Code of Conduct when it came into force; all new employees are trained on its principles as part of their initial orientation. Sonova's internal audit function performs independent performance assessments on ethical standards and reports these to the Audit Committee.

The principles of the Code of Conduct are further refined in various internal guidelines and policies, including – but not limited to – anti-bribery, interaction with healthcare professionals, competition law, trade compliance, and Swiss Stock Exchange reporting obligations. Non-compliance with the company's Code of Conduct or Sonova's internal policies and guidelines triggers disciplinary action, including – where appropriate – dismissal and prosecution.

Human rights and labor standards

Sonova supports and respect human rights as an integral part of our business. This commitment is reflected in our Code of Conduct and Group Supplier Principles (SGSP) and embedded throughout the company. We believe in treating everyone with respect and fairness at all times. We value the varied experience of diverse individuals from around the world. We are committed to conducting business and to aligning our codes and principles according to internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic Cooperation and Development (OECD). As a sign of this commitment, Sonova became a signatory to the UN Global Compact in 2016, endorsing its ten principles in the areas of human rights, labor, the environment, and anti-corruption. All employees of the Sonova Group, as well as its business partners, are expected to comply with these principles.



UN Global Compact

Human rights as understood by the Sonova Group include the following principles:

- Ensuring that there are no child, forced, or illegal workers at any point in our supply chain.
- Never tolerating harassment or discrimination on the basis of sex, race, color, religion, age, ethnic or national origin, marital / parental status, or sexual orientation.
- Providing a fair remuneration that ensures for all employees and their families an existence worthy of human dignity.
- Limiting the working time of our employees according to local law.
- Protecting the privacy of our employees, customers, and their patients.
- Ensuring that there are grievance mechanisms for employees and other parties to file complaints in a safe and anonymous environment.
- Respecting the legal rights of employees to join or to refrain from joining worker organizations, including trade unions.
- Strengthening access to hearing care, including those currently

underserved by the healthcare system.

Sonova operates within a highly integrated business model: all manufacturing centers are owned by Sonova Holding AG. Thanks to its ownership and financial control over its manufacturing sites, Sonova is able to enforce strong ethical business practices even in countries with higher risk of human rights concerns. Sonova's local management teams and the corporate procurement team are permanently on the alert to prevent any breaches of such human rights principles as nondiscrimination, child and forced labor, or freedom of association and collective bargaining.

In the 2016/17 financial year, no concerns were raised relating to human rights violations. Sonova's internal audits and supplier assessments found no operations or supplier businesses in which the right to exercise freedom of association and collective bargaining may have been violated or put at significant risk. No operations or suppliers were identified as posing a significant risk for incidents of child, forced, or illegal labor.

Anti-corruption

Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws, including the Swiss Criminal Code, the UK Bribery Act, and the US Foreign Corrupt Practices Act. Sonova's Anti-Bribery Policy refines the rules of the Code of Conduct and prohibits all forms of corruption. The Policy, like the Code of Conduct, is available in 15 languages.

As a global healthcare company, we also recognize that many countries have specific regulations governing interactions with healthcare professionals. These impose further obligations which the company has translated into country-specific guidelines detailing what is permissible and what is not.

As a general rule, Sonova does not make donations to political parties. Sonova, its employees, and representatives may make contributions to support charitable causes, subject to appropriate due diligence (including the amount contributed, and the nature and purpose of the charity's activities). Contributions should be made for bona fide purposes and only where permitted by local law.

The Anti-Bribery Policy has been communicated to all governance body members and employees worldwide. The Sonova Group Supplier Principles cover ethical standards such as compliance with all laws and regulations on bribery, corruption, and prohibited business practices. These have been communicated to all our suppliers (see Continuous supplier management).

As a matter of principle, Sonova avoids dealing with third parties known or reasonably expected to be paying bribes. Potential bribery / corruption risks are therefore an integral component of our business partner due diligence, which is performed not only before entering a business relationship but also regularly thereafter, following a pre-defined process.

During the 2016/17 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on training sessions and process enhancements in ethics and anti-bribery compliance. Our continuing compliance efforts help us live our values of ethical behavior and unquestionable integrity. No fines or non-monetary sanctions for non-compliance with laws and regulations were levied against the company in the 2016/17 financial year.

Anti-competitive behavior

Sonova's Competition Law Policy provides the basic principles of fair competition in doing business. The existing Policy was updated in 2016/17 and rolled out globally to further strengthen employee awareness of competition law matters.

In the 2016/17 financial year, Sonova neither engaged in, nor faced legal actions regarding, anti-competitive behavior or violations of anti-trust and monopoly legislation.

Compliance Program

Compliance is a shared responsibility at Sonova. Ultimate responsibility and oversight lie with the Board of Directors. The Management Board is expected to lead by example. Local Compliance Champions ensure implementation of the group compliance program within each group company.

During the 2016/17 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on training sessions and process enhancements in ethics and anti-bribery compliance. Our continuing compliance efforts help us live our values of ethical behavior and unquestionable integrity. No fines or non-monetary sanctions for non-compliance with laws and regulations were levied against the company in the 2016/17 financial year.

Internal grievance procedures

Sonova maintains an internal compliance helpdesk for general questions and advice regarding Sonova Group policies. We also maintain a compliance hotline. This is operated by an independent, qualified service partner and allows employees to raise concerns anonymously. All reports to the compliance hotline are forwarded to the appropriate function in the Sonova Group and followed up in a timely manner for further investigation and clarification. The Audit Committee is updated quarterly on any concerns received through the hotline and the measures taken.



Compliance Hotline

Data privacy

Sonova protects confidentiality and integrity of data, including the data of employees and customers, by technical and organizational means. We adhere to applicable data protection regulations. We closely monitor developments in data protection law and incorporate its principles into our business processes and product design. We are currently working on a new program on data protection to meet the changing demands of the digital environment.

Continuous supplier management

Our suppliers are an integral part of our international value chain: a risk to them is also a risk to our company and our customers. Sonova requires that all our suppliers be as committed to sustainable development as we are. Sonova's Group Supplier Principles (SGSP) are based on a range of international standards, customer requirements, and industry characteristics. These principles are non-negotiable; they are the first basis of contact with possible suppliers. Once a supplier has been approved as a Sonova partner, the SGSP is incorporated into all development and supply agreements. The SGSP requires suppliers to put in place and maintain systems that ensure:

- Healthy and safe working environments
- Respectful and dignified working conditions;
- Environmentally friendly production; and
- Legal and ethical behavior.

In 2015 the Group Supplier Principles were revised and the updated version was published on the Sonova website. All existing suppliers were contacted to secure their agreement with the updated version of the principles and general conditions of purchase.



**Sonova Supplier
Principles**

The procurement department actively participates in the process of design and definition of Sonova products, solutions, and services and makes sure from the early development stages that for all selected parts or components a risk assessment is done according to the “Risk and Risk Mitigation Matrix” defined by the procurement department. The main criteria for qualification of a critical supplier are derived from dependency (critical components, technology, sustainability, quality, regulatory) but other criteria, such as high volumes, are also considered.

Sonova assesses all new suppliers on their management systems, including their compliance and management procedures, as well as on environmental, human rights, and labor practices. Our personnel audit and / or visit potential supplier sites and inspect their management capabilities – through employee interviews, document reviews, on-site inspections, and third-party information searches – to assess potential risks and identify opportunities for improvement. If deficiencies are found, we require the suppliers to take corrective and preventive actions before we begin any active business relationship. A candidate that fails to meet the requirements will not be accepted as a supplier.

Even after careful supplier selection, we maintain a continuous supplier management process. We annually assess supplier CSR risks and identify the risk level for each supplier. We manage our suppliers based on their risk level, regularly risk-auditing supplier sites. If a problem occurs, we require the suppliers to take preventive and corrective measures, and follow up on their progress until the issue is resolved.

In the 2016/17 financial year, we had 11 critical suppliers; we conducted two audits and a further three were certified or recertified by a notified body. The other critical suppliers were visited once or more times in the year, in a less formal manner, but with the Group Supplier Principles always an Important topic. No significant actual or potential negative impacts related to environmental issues, labor practices, or human rights matters occurred in Sonova’s supply chain.

Taxes

Sonova is a Swiss-based multinational enterprise, with operations headquartered mainly in the canton of Zurich where the Group develops, manufactures, and distributes products marketed under multiple brands. Sonova operates in more than 100 countries and owns local wholesale and retail distribution subsidiaries in over 30 countries. With this business structure, Sonova's tax contribution encompasses various direct and indirect, corporate, and employee taxes, as well as customs duties, that make a significant contribution to societies around the world. Sonova's tax approach is fully compliant with local law and regulations as well as in complete alignment with relevant international standards.

Sonova's approach to taxes is based on the following principles:

a) Taxes follow the business: Sonova does not use off-shores structures, nor does the Group allocate functions or risks to international structures purely for tax reasons. Sonova avoids the acquisition of non-business related offshore structures. An important step during the integration process for newly acquired companies is to unwind acquired tax schemes and bring the tax structure of the new business fully in line with Sonova's tax policy and BEPS principles.

b) Full compliance of all taxes with local laws, regulations and alignment with such internationally recognized standards as the OECD guidelines. Sonova's complex cross-border operations and supply chains are subject to yearly reviews using Sonova's Transfer Pricing Documentation and multiple benchmarking analysis. Inter-company transactions are regularly monitored to ensure complete alignment with international standards and Sonova's internal Transfer Pricing Policy.



OECD BEPS Reports

The responsibility for tax compliance lies with the Corporate Tax team, located in Switzerland and in the US. The team reports directly to the Group CFO. This function coordinates, educates, and supports local controllers in all Group companies to ensure that they achieve tax compliance in line with Sonova's standards and policies. A Master Transfer Pricing file is prepared, along with local files that are coordinated with the local organizations according to the OECD guidelines and Sonova's Transfer Pricing Policy. Sonova has been fully prepared since 2016 to implement external country-by-country reporting when this becomes mandatory for Swiss multinational enterprises.

As part of our proactive tax compliance policy, we continuously engage in open and constructive dialogue with tax administrations worldwide.

Bioethics

As a manufacturer of medical devices, Sonova is required by regulatory authorities to demonstrate the biological safety of any product with body contact by complying with the international standard ISO 10993-1:2009.

According to this standard, animal tests need to be considered in biological safety evaluations; in some cases, they cannot be completely avoided. However, we are committed to the "Three Rs" principle – replacement, reduction, and refinement – to limit such testing as far as possible:

Replacement

- We use non-animal testing methods (in particular testing with cell cultures) or chemical constituent testing in situations where these methods are accepted by the respective regulatory bodies and yield information as relevant as that obtained from in vivo models.
- We monitor the development and regulatory acceptance of new in vitro methods.

Reduction

- We apply strategies to reduce the number of animals used in testing, e.g.:
- We use previously evaluated or historically established biologically safe materials whenever possible, by taking advantage of shared research between the different Sonova companies around the world. We strive to avoid completely any unnecessary or duplicated testing.
- We emphasize risk assessment to evaluate clearly any need for animal testing.

Refinement

- We select those test methods that cause the least distress to animals.
- We conduct all animal testing through appropriately accredited testing laboratories. All tests are conducted according to recognized valid and current best laboratory and quality practices, such as the OECD Principles of Good Laboratory Practice.



**OECD Principles of
Good Laboratory
Practice**

Reporting profile

Report

Sonova reports in an annual cycle: the most recent previous Annual Report and Corporate Social Responsibility Report were released on May 18, 2016. The 2016/17 reporting period covers the financial year from April 1, 2016 to March 31, 2017.

The Sonova CSR Report for 2016/17, when combined with the Annual Report for 2016/17, complies with the G4 Guidelines of the Global Reporting Initiative (GRI) and forms an integral part of Sonova's UN Global Compact Communication on Progress. See our GRI Content index for details on how the report content maps against the UNGC principles. The index refers to the content of the online CSR Report. Additional relevant information about economic performance and remuneration is provided in the Compensation Report, Governance Report, and Financial Review chapters of the Annual Report.



**Annual Report
2016/17**

Entities

The information and data provided relate to the entire Sonova Holding AG Group, including its group companies, unless explicitly noted. Some environmental data are limited to those Sonova Group companies that operate as headquarters, manufacturing sites, or wholesale distributors; group companies restricted to retail activities are, by necessity, partly excluded. Whenever applicable, the exclusion of these group companies is stated in the respective sections.

G4-17

Restatements and significant changes

In September 2016, Sonova acquired AudioNova and notably expanded its hearing aid retail service networks in Europe. More details about the organization changes during the 2016/17 financial year are reported in the Annual Report. There were no significant changes during 2015/16 in the scope, boundary, or measurement methods applied in the report. Nothing significant has arisen during 2016/17 that would require a restatement of information provided in earlier Sonova CSR Reports.

G4-22, G4-23

Declaration and assurance

The report has successfully completed review by the GRI Materiality Disclosures Service on the 'in accordance' option 'core'. External assurance for the 2016/17 CSR Report has not been conducted, due to cost-benefit considerations.



**GRI Materiality
Disclosure Service**

The compensation report, the consolidated financial statement, and the financial statement of Sonova Holding AG in the 2016/17 Annual Report have been audited by a statutory external auditor.

Imprint



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GRI Index



GRI content index



| GRI Index | Profile disclosure | UNGC | Reference CSR Report | External assurance |
|-------------------------------|---|------|--|--------------------|
| Strategy and analysis | | | | |
| G4-1 | Message from the CEO | | Message from the CEO | No |
| G4-2 | Key impacts, risks and opportunities | | Hearing care market | No |
| Organizational profile | | | | |
| G4-3 | Name of the organization | | This is Sonova | No |
| G4-4 | Primary brands | | Hearing care market | No |
| G4-5 | Location of organizations headquarters | | This is Sonova | No |
| G4-6 | Number of countries where the organization operates | | This is Sonova | No |
| G4-7 | Nature of ownership and legal form | | Organizational structure | No |
| G4-8 | Markets served | | Hearing care market | No |
| G4-9 | Scale of the reporting organization | | Reporting profile | No |
| G4-10 | Employment | 6 | Investment in people | No |
| G4-11 | Coverage collective bargaining agreements | 3 | Investment in people | No |
| G4-12 | Organization's supply chain | | Hearing care market | No |
| G4-13 | Significant changes during the reporting period | | Reporting profile | No |
| G4-14 | Precautionary approach or principle | | Message from the CEO | No |
| G4-15 | External charters, principles, and | | Ethics and integrity | No |

| | | | |
|---|---|---|----------|
| | initiatives | | |
| G4-16 | Membership of organizations | Corporate Governance | No |
| Identified material aspects and boundaries | | | |
| G4-17 | Entities included | Reporting profile: Entities | No |
| G4-18 | Process for defining the report content and aspect boundaries | Sustainability program: Identification and Prioritization | No |
| G4-19 | Material aspects identified | Sustainability program: Sustainability Landscape | No |
| G4-20 | Aspects boundaries inside the organization | Sustainability program: Aspect boundaries | No |
| G4-21 | Aspects boundaries outside the organization | Sustainability program: Aspect boundaries | No |
| G4-22 | Restatements of information | Reporting profile: Restatements and significant changes | No |
| G4-23 | Significant changes | Reporting profile: Restatements and significant changes | No |
| Stakeholder engagement | | | |
| G4-24 | List of stakeholder groups | Stakeholder engagement: Open Dialog | No |
| G4-25 | Identification | Stakeholder engagement: Open Dialog | No |
| G4-26 | Engagement approach | Stakeholder engagement: Customers | No |
| G4-27 | Key topics and concerns | Sustainability program: Identification and Prioritization | No |
| Report profile | | | |
| G4-28 – 31 | Report profile | Reporting profile | No |
| GRI content index | | | |
| G4-32 | GRI content index | GRI content index | No |
| Assurance | | | |
| G4-33 | Assurance | Reporting profile | No |
| Governance structure and composition | | | |
| G4-34 – 41 | Governance structure and composition | Corporate Governance | No |
| Highest governance body's role in setting purpose, value, and strategy | | | |
| G4-42 | Highest governance body's and senior executives' roles | Corporate Governance | No |
| G4-43 – 47 | Competencies and performance evaluation / risk management | Corporate Governance | No |
| Highest governance body's role in sustainability reporting | | | |
| G4-48 | Highest committee or position | Corporate Governance | No |
| Remuneration and incentives | | | |
| G4-51 – 53 | Remuneration and incentives | Compensation Report | Yes (AR) |

| Ethics and integrity | | | | |
|---|--|------|------------------------------|------------------|
| G4-56 – 58 | Ethics and integrity | 1 | Corporate Governance | No |
| Economic | | | | |
| G4-EC1, 3 | Economic performance | | Financial Report | Yes (AR 132-138) |
| G4-EC8 | Indirect economic impacts | | Hearing care market | No |
| G4-EC9 | Procurement practices | | Hearing care market | No |
| Environmental | | | | |
| G4-EN3 – 4, 6 – 7 | Energy | 7, 9 | Safeguarding the environment | No |
| G4-EN8 – 9 | Water | 7 | Safeguarding the environment | No |
| G4-EN15 – 19, 20 – 21 | Emissions | 7, 9 | Safeguarding the environment | No |
| G4-EN23 – 24 | Effluents and waste | 8 | Safeguarding the environment | No |
| G4-EN29 | Compliance | 8 | Safeguarding the environment | No |
| G4-EN30 | Transport | 8 | Safeguarding the environment | No |
| G4-EN32 – 33 | Supplier environmental assessment | 8 | Safeguarding the environment | No |
| Social – Labor Practices and Decent Work | | | | |
| G4-LA1 | Employment | 6 | Investment in people | No |
| G4-LA4 | Labor / management relations | 3 | Investment in people | No |
| G4-LA6 | Occupational health and safety | | Investment in people | No |
| G4-LA10 – 11 | Training and education | 6 | Investment in people | No |
| G4-LA12 | Diversity and equal opportunities | 1 | Investment in people | No |
| G4-LA14 – 15 | Supplier assessment for labor practices | 2 | Ethics and integrity | No |
| Social – Human Rights | | | | |
| G4-HR4 | Freedom of association and collective bargaining | 3 | Ethics and integrity | No |
| G4-HR5 – 6 | Child labor / forced or compulsory labor | 4, 5 | Ethics and integrity | No |
| G4-HR9 – 11 | Supplier human rights assessment | 1, 2 | Ethics and integrity | No |
| Social – Society | | | | |
| G4-S01 | Local communities | 1 | Access to hearing care | No |
| G4-S03 – 4 | Anti-corruption | | Ethics and integrity | No |
| G4-S06 | Public policy | | Ethics and integrity | No |
| G4-S07 | Anti-competitive behavior | | Ethics and integrity | No |
| G4-S08 | Compliance | | Ethics and integrity | No |

| | | | |
|-------------------------------|--|----------------------------|----|
| G4-S09 | Supplier assessment for impacts on society | Ethics and integrity | No |
| Product Responsibility | | | |
| G4-PR1 | Customer health and safety | Investment in people | No |
| G4-PR3, 5 | Product and service labeling | Customer focused solutions | No |
| G4-PR8 | Customer privacy | Ethics and integrity | No |

UNCG = UN Global Compact Principle; AR = Annual Report