sonova
HEAR THE WORLD

FINANCIAL REPORT

Annual Report 2017/18

Table of content

Dear shareholders,

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

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

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

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

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

Hearing instruments segment

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

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

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

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

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

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

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

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

Cochlear implants segment

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

Financial highlights

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

Use of cash

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

Corporate social responsibility

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

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

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

Leadership succession

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

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

Our thanks

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

In memory of Andy Rihs – Pioneer and visionary

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

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

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

Outlook 2018/19

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

Robert Spoerry
Chairman of the
Board of Directors

Lukas Braunschweiler
Former CEO

Arnd Kaldowski
New CEO

Our thanks to Lukas Braunschweiler

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

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

Robert Spoerry
Chairman of the
Board of Directors

Our product and service offering

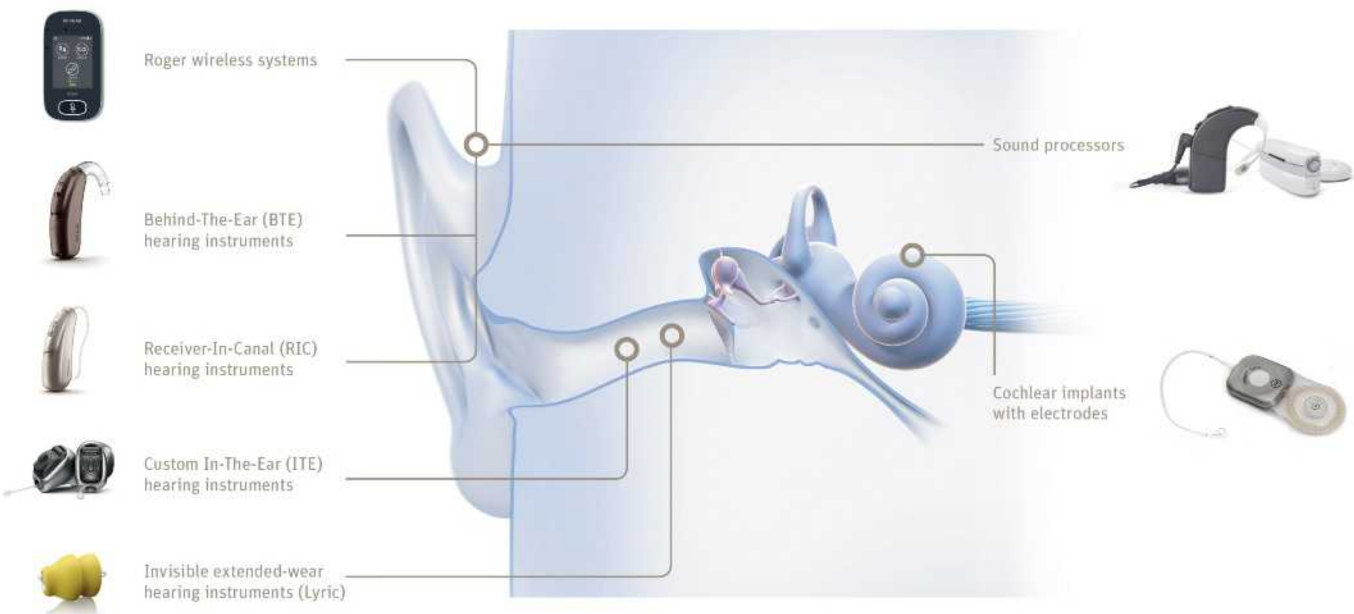
The Sonova Group is the world's largest hearing care provider, committed to offering the most comprehensive range of industry-leading solutions. Our product brands – Phonak, Unitron, Hansaton and Advanced Bionics – create compelling new products to offer the optimal solution for every user, provided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

Hearing Instruments Business

PHONAK unitron. HANSATON

Cochlear Implants Business

Advanced Bionics



Retail business – Professional audiological services




Phonak

Audéo™ B-Direct

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

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

Virto B-Titanium

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

Unitron

Moxi™ All

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

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

Hansaton

sound SHD stream

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

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

Advanced Bionics

HiFocus™ SlimJ electrode

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

Naída CROS

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

Strategy and businesses

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

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

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

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

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

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

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

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

Key areas of activity

New products and services

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

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

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

Market access

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

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

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

eSolutions

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

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

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

Feature story

Scaling the heights of innovation

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

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

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

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

Switzerland & Austria Facts & figures:

Area:
Switzerland: 41,285 km^2
Austria: 83,879 km^2

Population:
Switzerland: 8.48 million (2017)
Austria: 8.82 million (2018)

GDP:
Switzerland:
CHF 659 billion (2016)
Growth: +1.0% (2017)
Per capita: CHF 78,700 (2016)

Austria:
EUR 369 billion (2017)
Growth: +2.9% (2017)
Per capita: EUR 37,826 (2017)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Hearing instruments business

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

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

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

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

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

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

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

Key areas of activity

New products and services

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

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

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

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

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

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

Market access

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

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

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

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

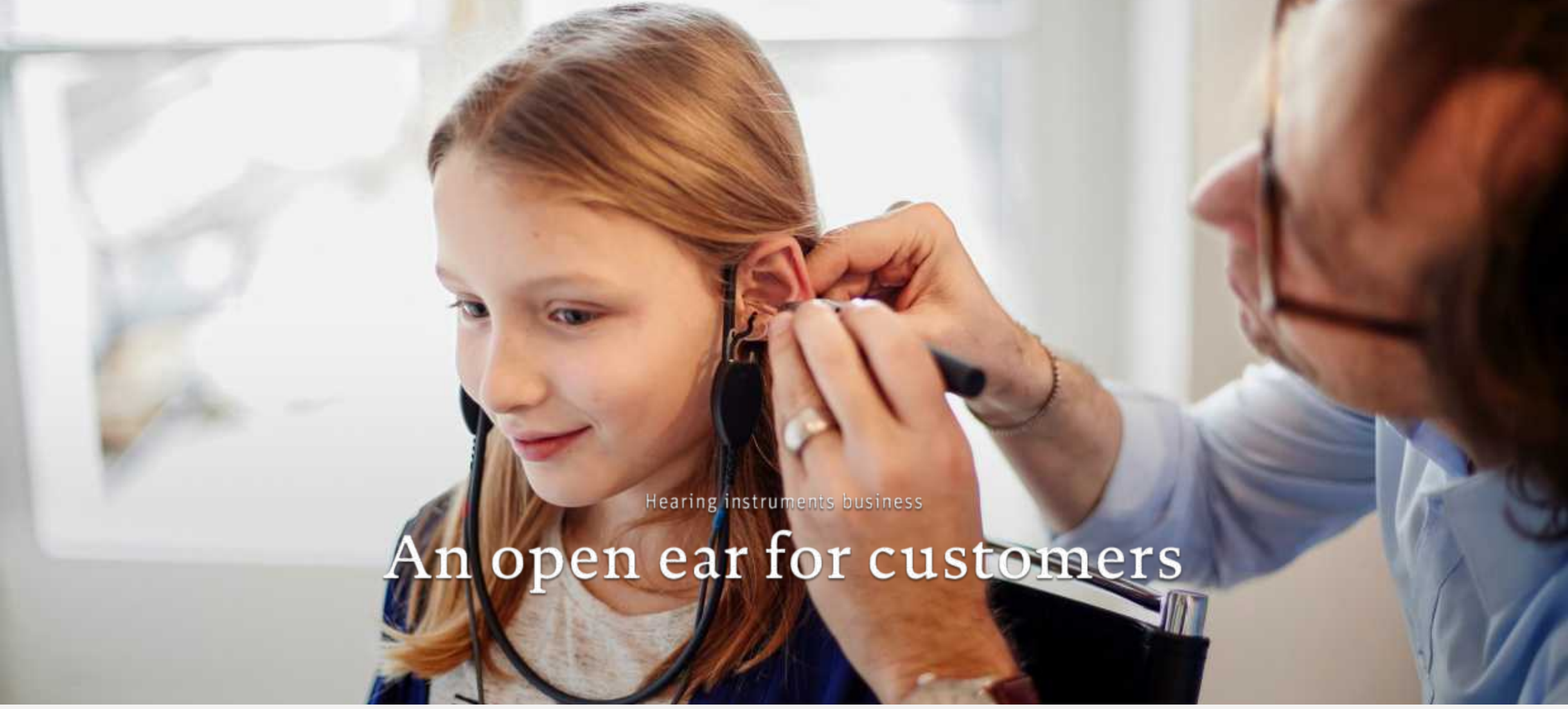
Globally, we hold a leading position in the government healthcare agency market. Sonova has reached around 40% market share in the key US Veterans Administration channel thanks to its exceptional service and product offering, such as rechargeable hearing aids. We have also established a solid standing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

eSolutions

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

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

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



Hearing instruments business

An open ear for customers

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

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

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

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

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

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

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

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

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

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

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

Retail business

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

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

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

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

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

Key areas of activity

New products and services

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

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

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

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

Market access

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

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

eSolutions

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

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

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

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

Retail business

A training with a future

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

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

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

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

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

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

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

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

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

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

Strategy and businesses

Cochlear implants business

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

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

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

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

Key areas of activity

New products and services

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

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

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

Market access

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

We are keenly aware of how our market is transforming, as the "baby boomer" generation approaches an age when hearing may deteriorate beyond the point that a hearing aid alone can correct. Many of these adults – around two million – already use a Naída or other Phonak high-power hearing aid. They are familiar with how the sophisticated programs in these advanced processors can help to deliver a natural hearing experience, how easy they are to use, and how they link wirelessly with other technology such as telephones, televisions, and remote microphones. Advanced Bionics is therefore in a uniquely advantageous position: we can offer the full spectrum of solutions to these potential recipients, using the advanced sound processing technology with which they are already familiar. We have therefore established a Partner Program in several countries around the world that link hearing care retailers and cochlear implant clinics to manage the transition for potential consumers from their familiar hearing aids to the new experience of an implant.

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

eSolutions

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

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

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

Cochlear implants business

Partnerships for comprehensive hearing care

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

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

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

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

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

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

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

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

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

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

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

Compliance is an integral element of our corporate culture and embedded in our core values. We therefore continued to strengthen the Sonova Group compliance program during the 2017/18 financial year, putting particular emphasis on integrating our acquired businesses into our compliance culture, designing new global compliance training, and updating our antibribery policy. Our continuing compliance efforts help us to live our values of ethical behavior and unquestionable integrity.

At Sonova, corporate governance is based upon, and structured to conform with, relevant standards and practices. The company fulfils its legal duties under the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. This report describes the principles of corporate governance for the Sonova Group and provides background information on the Group’s executive officers and bodies as of March 31, 2018. All relevant documents can be accessed at the corporate governance section of the Sonova website: www.sonova.com/en/commitments/corporategovernance. For clarity and transparency, the compensation report is presented as a separate chapter of the annual report.

Group structure

Operational group structure

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

Listed companies

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

Key data for the shares of Sonova Holding AG as of March 31, 2018:

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

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

Non-listed companies

A list of the significant companies of the Sonova Group as of March 31, 2018, can be found in Note 34 to the consolidated financial statements

Shareholders

Registered shareholders

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

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

Significant shareholders

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

	2018	2018	2017	2017
	No. of shares	In %	No. of shares	In %
Beda Diethelm[1)]	6,657,509	10.19	6,656,009	10.17
Chase Nominees Ltd.[2)]	5,610,620	8.59	5,586,951	8.54
Hans-Ueli Rihs[1)]	3,733,000	5.71	3,819,000	5.84
Nortrust Nominees Ltd.[2)]	2,878,139	4.41	3,030,549	4.63
Andy Rihs[1)]	2,009,979	3.08	2,064,979	3.16
Registered shareholders with less than 3% of shares	23,475,488	35.93	23,170,979	35.42
Not registered	20,966,152	32.09	21,094,420	32.24
Total shares	**65,330,887**	**100.00**	**65,422,887**	**100.00**

1) The founding shareholders Andy Rihs, Beda Diethelm and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders’ agreements among these individuals and they can trade freely.
2) Registered without voting rights.

For information on shareholders of Sonova Holding AG that have reported shareholdings of over 3% or a reduction of shareholdings below 3% in the financial year (FY) 2017/18, please refer to the website of the Disclosure Office of the SIX Swiss Exchange www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Cross-shareholdings

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

Articles of Association

The Articles of Association of Sonova Holding AG remained unchanged in FY 2017/18 except for article 3: The share capital as stipulated by the previous version of article 3 was reduced according to the resolution of the 2017 General Shareholders’ Meeting (see section capital structure below; the Articles of Association are available at www.sonova.com/en/investors/articles-association).

Capital structure

Share capital

As of March 31, 2018, the ordinary share capital of Sonova Holding AG was CHF 3,266,544.35 fully paid up and divided into 65,330,887 registered shares with a par value of CHF 0.05 each.

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

With the exception of the treasury shares held by the company itself, each share represents one vote at the General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2018, the company held 3,622 treasury shares (100,190 in the previous year).

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

Authorized and conditional capital

Authorized capital

Sonova Holding AG has no authorized capital.

Conditional capital

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

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

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

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

Options

In FY 2017/18, a total of 389,358 options including performance options and Stock Option Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2016/17 and FY 2015/16, the number of options granted totaled 378,652 and 298,520 respectively. As of March 31, 2018, there were 1,299,812 options and SARs outstanding (compared with 1,226,072 in the previous year). Each of these options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05. The EEAP is described in greater detail in the compensation report and in Note 30 to the consolidated financial statements.

Convertible bonds

Sonova Holding AG has not issued any convertible bonds.

Changes in capital

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

	2018	2017	2016
Ordinary capital (in CHF)	3,266,544	3,271,144	3,331,319
Total shares	65,330,887	65,422,887	66,626,387
Conditional capital (in CHF)	266,107	266,107	266,107
Conditional shares	5,322,133	5,322,133	5,322,133

Of the 8,000,000 maximum approved conditional shares, a total of 5,978,987 shares with a par value of CHF 0.05 each was issued prior to FY 2017/18. Starting in FY 2014/15 Sonova decided to purchase shares on the market to fulfill its obligations under the long-term incentive plans and not to issue shares out of the conditional share capital. The maximum conditional share capital reserved for long-term incentive plans therefore remained unchanged at 2,021,013 shares.

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

The AGM 2017 approved a reduction of the share capital by CHF 4,600 through cancellation of 92,000 registered shares. This capital reduction was the result of the share buyback program as further outlined below, in which the Company repurchased 92,000 registered shares between April 1, 2015 to March 31, 2016.

Share buyback program

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

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

The transactions conducted as part of the share buyback program are available at https://www.sonova.com/sites/default/files/sonovatransaction_reporting_0.pdf.

Limitations on transferability and nominee registrations

Limitations on transferability for each share category

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

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

Exceptions granted in the year under review

No exceptions were granted by the Board of Directors during the reporting period.

Admissibility of nominee registrations

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

Procedure and conditions for cancelling statutory privileges and limitations on transferability

A resolution of the General Shareholders' Meeting approved by a relative majority of the votes cast is sufficient for cancellation (Art. 15 para. 4 no. 3 of the Articles of Association, available at www.sonova.com/en/investors/articles-association).

Board of Directors

Introduction

The Board of Directors of Sonova Holding AG sets the overall direction and supervision of the management (see Art. 716a para. 1 of the Swiss Code of Obligations). Its organization is reflected in the Organizational Rules (available at www.sonova.com/en/investors/organizational-regulations) and the Board Committee Charters (available at https://www.sonova.com/en/investors/committee-charters).

Board of Directors independence

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

Executive management positions

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

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

In the 2017/18 financial year, there were no business connections between individual Board members, including companies or organizations represented by them, and Sonova Holding AG.

Other activities and vested interests

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

Mandates outside Sonova Holding AG

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

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

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

Board of Directors competence and evaluation

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

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

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

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

The Chairman of the Board of Directors initiates the annual Board of Directors self-assessment by distributing an evaluation questionnaire, which has previously been approved by the Board of Directors. The Chairman of the Board of Directors is responsible for collecting the assessments and for initiating the review of the consolidated results by the Nomination and Compensation Committee and subsequently the Board of Directors.

Elections and terms of office

Election procedure and limits on the terms of office

Art. 16 para. 1 of the Articles of Association of Sonova Holding AG states that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors are elected by the shareholders at the General Shareholders' Meeting (Art. 10 no. 2 of the Articles of Association, available at www.sonova.com/en/investors/articles-association).

Re-elections for successive terms are possible. Members of the Board of Directors shall retire automatically at the first General Shareholders' Meeting following their seventieth birthday. In exceptional cases, the Board of Directors may make an exemption. For further details please see Art. 16 of the Articles of Association, available at www.sonova.com/en/investors/articles-association and Art. 6 of the Organizational Regulations, available at https://www.sonova.com/en/investors/organizational-regulations.

First election and remaining term of office

The following table shows the date of first election for each member of the Board of Directors. The Articles of Association require that the term of office of a Board member ends after completion of the next ordinary General Shareholders' Meeting. As a consequence, each Board member will have to be re-elected annually at the General Shareholders' Meeting. All previous Board members were re-elected by the 2017 General Shareholders' Meeting (the Articles of Association are available at www.sonova.com/en/investors/articles-association).

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

Robert F. Spoerry

(born 1955, Swiss citizen) has been Chairman of the Board of Sonova Holding AG since March 30, 2011, and a non-executive member of the Board since 2003. He also serves as Chairman of the Nomination and Compensation Committee.

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

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

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

Other activities:

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

Beat Hess

(born 1949, Swiss citizen) has been Vice Chairman and a non-executive member of the Board of Sonova Holding AG since June 19, 2012. He serves on the Nomination and Compensation Committee.

From 1988 to 2003, he served as General Counsel of ABB Group and, from 2003 to 2011, as Group Legal Director and member of the Group Executive Committee of Royal Dutch Shell plc. With his broad international and legal experience, including in the areas of compensation, corporate governance, compliance and risk management, Dr. Beat Hess adds substantial insight into these topics.

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

Other activities:

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

Lynn Dorsey Bleil

(born in 1963, US citizen) has been a non-executive member of the Board since 2016. She retired as Senior Partner (Director) from McKinsey&Company in the US in 2013 after more than 25 years of advising senior management and boards of leading healthcare companies on corporate and business unit strategy, mergers and acquisitions, and public policy across all segments of the healthcare value chain. She was also a member of Board of Directors of Auspex Pharmaceuticals until May 2015.

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

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

Other activities

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

Michael Jacobi

(born 1953, Swiss and German citizen) has been a non-executive member of the Board since 2003 and serves as the Chairman of the Audit Committee. Michael Jacobi has worked as an independent consultant since 2007.

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

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

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

Other activities:

- Member of the Board of Hilti AG
- Member of the Board of Trustees of Martin Hilti Family Trust

Stacy Enxing Seng

(born 1964, US citizen) has been a non-executive member of the Board since 2014 and serves on the Nomination and Compensation Committee. She previously served as an Executive in Residence for Covidien, as well as President of Covidien's Vascular Therapies division. Stacy Enxing Seng joined Covidien in July 2010 through its acquisition of ev3 where she was a founding member and executive officer responsible for leading ev3's Peripheral Vascular Division from inception. She has also held various positions at Boston Scientific, SCIMED Life Systems Inc., Baxter Healthcare, and American Hospital Supply.

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

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

Other activities:

- Member of the Board of Directors of Solace Therapeutics, Inc.
- Member of the Board of Directors of Hill-Rom Holdings, Inc.
- Member of the Board of Directors of Claret, Inc.
- Venture Partner, Lightstone Ventures

Ronald van der Vis

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

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

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

Other activities:

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

Anssi Vanjoki

(born 1956, Finnish citizen) has been a non-executive member of the Board since 2009 and serves on the Audit Committee. Anssi Vanjoki is Professor at Lappeenranta University of Technology and Individual Multicontributor of RKBS Oy, a technology start-up investment company. He was Executive Vice President and General Manager of Nokia until March 2011 and member of the Nokia Group Executive Board from 1998 to 2011.

He has wide knowledge in the area of new technologies, including software, wireless communication and eSolutions. Together with his broad international management experience, he provides a valuable contribution to the Board.

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

Other activities:

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

Jinlong Wang

(born 1957, US citizen) has been a non-executive member of the Board since 2013. He currently serves as chairman and CEO at PizzaExpress Group Holdings Limited and as managing director/operating partner at Hony Capital. Previously, he held a number of senior positions at Starbucks including Senior Vice President of Starbucks Corp., President of Starbucks Asia Pacific Region, Chairman and President of Starbucks Greater China Region, Head of the Law & Corporate Affairs department and Vice President International Business Development. He started his career as a government official in the Ministry of Foreign Economic Relations and Trade in China.

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

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

Internal organizational structure

Allocation of tasks within the Board of Directors

As specified in Art. 17 para. 1 of the Articles of Association, the Board of Directors constitutes itself, except for the Chairman and the members of the Compensation Committee, who must be elected by the shareholders. If the office of the Chairman or a member of the Compensation Committee is vacant, pursuant to Art. 16 para. 4 of the Articles of Association the Board of Directors appoints a replacement from among its members for the remaining term of office (the Articles of Association are available at www.sonova.com/en/investors/articles-association).

In accordance with Art. 13 para. a) the Organizational Regulations which supplement the Articles of Association, the Board appoints an Audit Committee (the Organizational Regulations are available at www.sonova.com/en/investors/organizational-regulations).

Tasks and areas of responsibility of Board of Directors’ committees

The duties and authorities of the committees are defined in the Articles of Association (solely for the Compensation Committee), the Organizational Regulations, and the Committee Charters of the Board of Directors (all available at http://www.sonova.com/en/investors/articles-association). The committees usually meet before the Board of Directors meetings and report regularly to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

Audit Committee

The members of the Audit Committee are Michael Jacobi (Chairman), Ronald van der Vis, and Anssi Vanjoki.

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audit on behalf of the entire Board of Directors; evaluating the company’s financial control systems, financial structure, and risk management control mechanisms; and verifying the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee is also kept regularly informed on the company’s compliance program. The Audit Committee Charter is available at: www.sonova.com/en/investors/committee-charters.

The Audit Committee meets as often as required and no fewer than four times per year. During the reporting period, the committee met four times. The Chairman of the Board of Directors was invited to, and attended, every Audit Committee meeting as a guest.

Nomination and Compensation Committee

The members of the Nomination and Compensation Committee are Robert F. Spoerry (Chairman), Beat Hess and Stacy Enxing Seng.

The Nomination and Compensation Committee supports the mission of the Board of Directors to attract, retain and motivate people with outstanding professional and human capabilities at the Board of Directors and top management levels. The Nomination and Compensation Committee also supports the Board of Directors in preparing the compensation report, establishing and reviewing the Company's compensation principles, guidelines, and performance metrics, and preparing proposals to the General Shareholders' Meeting on the compensation of the Board of Directors and Management Board. The committee may also submit proposals and recommendations to the Board of Directors on other compensation-related issues. The Nomination and Compensation Committee Charter is available at: www.sonova.com/en/investors/committee-charters.

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

Working methods of the Board of Directors and its committees

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

	BoD [1]	**AC** [2]	**NCC** [3]
No. of meetings in 2017/18	5	4	4
Robert F. Spoerry	5	4 [4]	4
Beat Hess	5	–	4
Lynn Dorsey Bleil	5	–	–
Michael Jacobi	5	4	–
Stacy Enxing Seng	5	–	4
Anssi Vanjoki	5	4	–
Ronald van der Vis	5	4	–
Jinlong Wang	5	–	–
Average meeting length	8 h [5]	3 h	3 h

1) Board of Directors
2) Audit Committee
3) Nomination and Compensation Committee
4) As guest
5) Excluding telephone conferences

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

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

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

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

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

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

Definition of areas of responsibility

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

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

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

Internal audit, risk and compliance

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

The Group has implemented an efficient system to identify and assess strategic, operational, financial, legal, and compliance risks related to the Group's business activities. Risk management and mitigation proposals are prepared by the Audit Committee and reviewed by the full Board of Directors. In addition, the Chairman of the Board of Directors is invited to the Audit Committee as a guest, and is thus kept fully informed. As a guest, the Chairman of the Board of Directors has no voting rights. The risk management function categorizes risks by severity and probability and supports the Management Board in determining the measures necessary to address or mitigate them.

In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk assessment prepared by Risk Management before it is presented to the Board of Directors. The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis.

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

The Group compliance program supports Sonova's core values of ethical behavior and unquestionable integrity. The program is administered by the Head Group Compliance Program and ultimately overseen by the Group General Counsel. Amongst other things, the program administers the Ethics Hotline and ensures that reports are adequately addressed; structures the policy framework for ethical business conduct and trains the businesses on it; counsels and advises on proposed business approaches; and supports the businesses in their vetting of business partners. Quarterly compliance reports are provided to the Audit Committee and an annual compliance report is addressed to the Board of Directors. With respect to her Compliance responsibilities, the Group General Counsel has a dotted reporting line to the Chairman of the Audit Committee.

Corporate Social Responsibility

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

Diversity

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

Management Board

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

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

Lukas Braunschweiler

(born 1956, Swiss citizen) has been the CEO of the Sonova Group from November 2011 until March 31, 2018. During a transition period, he step-by-step transferred his position to Arnd Kaldowski who joined the Sonova Group in October 2017 as Chief Operating Officer. Before joining the company, Lukas Braunschweiler was CEO of the Swiss technology group RUAG. From 2002 to 2009, as President & CEO, he headed the Dionex Corporation. The California-based company, active in the life sciences industry, was listed on the Nasdaq stock exchange. Previously, he worked from 1995 to 2002 in various group executive positions in Switzerland and the US for Mettler Toledo, a precision instruments manufacturer.

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

Lukas Braunschweiler is a member of the Board of Directors of the Schweiter Technology Group and, as of April 2018, Chairman of the Board of Directors of Tecan Group AG and member of the Board of Directors of Sulzer Ltd.

Arnd Kaldowski

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

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

Hartwig Grevener

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

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

Claudio Bartesaghi

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

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

Claude Diversi

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

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

Hansjürg Emch

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

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

Christophe Fond

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

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

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

Martin Grieder

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

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

Hans Mehl

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

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

Hans Mehl completed his education in business administration in Germany.

Andi Vonlanthen

(born 1961, Swiss citizen) has been Group Vice President Research & Development since April 2012. He started his professional career at Phonak in 1984 in the area of product development, where he contributed significantly to a large number of technological innovations and product launches. As one of many innovations, he developed the first ever multi-microphone system for hearing instruments, which revolutionized the entire industry. From 2002 to 2004, he was Vice President R&D at Unitron. As of 2004 he was responsible for the Group System Integration function.

Andi Vonlanthen received a degree in electronic engineering at the School of Engineering (HTL) Brugg Windisch, Switzerland in 1984.

Other activities and vested interests

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

Mandates outside Sonova Holding AG

According to Art. 30 of the Articles of Association, no member of the Management Board may hold more than one additional mandate in a listed company and in total no more than five additional mandates (all such mandates are subject to approval by the Board of Directors). Just as stipulated for the Board of Directors, some mandates are not subject to these limitations. The Articles of Association are available at http://www.sonova.com/en/investors/articles-association.

Management contracts

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

Compensation, shareholdings and loans

Details of Board and Management compensation are contained in the compensation report.

Shareholders' participation rights

Voting rights and representation restrictions

Voting rights restrictions

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

Exceptions granted in the year under review

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

Statutory rules on participation in the General Shareholders' Meeting

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

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

Independent Proxy and electronic voting

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

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

Statutory quorums

According to Art. 15 of the Articles of Association, resolutions and elections by the General Shareholders' Meeting require the approval of a relative majority of the votes cast, taking voting right restrictions into account, except as otherwise provided by law or the Articles of Association (available at http://www.sonova.com/en/investors/articles-association).

Convocation of the General Shareholders' Meeting

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

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

General Shareholders' Meetings are convened by the Board of Directors and, if necessary, by the auditors. Shareholders with voting rights, who together represent at least 10% of the share capital, may request that the Board of Directors convene an Extraordinary General Shareholders' Meeting, provided that they do so in writing and set forth the reason for the meeting (Art. 11 of the Articles of Association; http://www.sonova.com/en/investors/articles-association).

Inclusion of items on the agenda

According to Art. 12 para. 3 of the Articles of Association (available at http://www.sonova.com/en/investors/articles-association) Shareholders with voting rights who represent at least 1% of the share capital may request that an item be put on the agenda for discussion by indicating the proposal or motion. Such requests must be addressed in writing to the Chairman of the Board of Directors no later than 60 days before the meeting.

Registration in the share register

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

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

Securities trading policy

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

Auditors

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

At the AGM on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the AGM 2017, PricewaterhouseCoopers AG was re-elected for another one-year term. Sandra Boehm has served as lead auditor for the existing auditing mandate since June 18, 2013.

Fees

PricewaterhouseCoopers charged the following fees during FY 2017/18 and 2016/17:

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

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

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

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

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

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

Informational instruments pertaining to the external audit

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In FY 2017/18, the external auditors attended 3 out of 4 Audit Committee meetings physically or by telephone conference. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

Information policy

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

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

The website of the Sonova Group www.sonova.com contains information on the company results and the financial calendar as well as current investor presentations. The Investor Relations function includes presentations of annual and interim results, investor presentations, and presentations held at other events.

On the www.sonova.com/en/registration website, it is possible to subscribe to news alerts about Sonova via email. Messages are sent in English and German, and it is possible to state theme preferences for the alerts received. All Sonova media releases can be found at www.sonova.com/en/media/news.

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

Compensation report

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

The compensation report describes Sonova's principles and system of compensation with its key components, as well as providing information about the method of determining the compensation of members of the Board of Directors and the Management Board. It also describes which bodies are responsible for the design of compensation plans, the approval framework, and the implementation process. Furthermore, it includes information on the Board of Directors' organization and regulation. More information on topics, such as Board composition and evaluation, risk and compliance management, diversity, and corporate social responsibility to the Board of Directors can be found in the corporate governance report. The compensation report provides important information to be considered by the shareholders when voting on the proposed maximum aggregate total compensation of the Board of Directors and the Management Board, submitted for approval by the 2018 Annual General Shareholders' Meeting. The abbreviations are summarized in a glossary at the end of this report.

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

Dear Shareholders

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

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

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

As part of this review, and as indicated in the 2016/17 compensation report, we implemented changes to the EEAP for the 2017/18 financial year. We amended the EEAP for members of the Management Board, reflecting best practice principles and long-term trends in the market. Up to this year the EEAP equity split has been based on a mix of performance options (options) and restricted share units (RSUs) with a performance target. As of this financial year the equity grant consists of options and performance share units (PSUs). The PSUs are measured on relative Total Shareholder Return (rTSR) against a recognized index. More details on the structure of PSUs is provided later in the report. The revision of the EEAP was developed and designed in close cooperation with an external consultant, one of the leading international firms in the areas of compensation and value-based management. This external consultant is independent, was systematically evaluated, and holds no other mandate with Sonova.

In addition, the Sonova share ownership guidelines have been reviewed and are now based on holding a defined value of shares rather than a fixed number of shares.

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

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

Regarding compensation levels, there were:

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

At the 2018 Annual General Shareholders' Meeting, you will have the opportunity to express your opinion on our compensation principles and system by way of a consultative vote on this compensation report. We will also ask for your approval on the maximum aggregate total compensation amounts to be awarded to the Board of Directors for the period from the 2018 Annual General Shareholders' Meeting until the 2019 Annual General Shareholders' Meeting, and to the Management Board for the 2019/20 financial year.

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

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

Yours sincerely,

Robert Spoerry
Chairman of the Nomination and
Compensation Committee

2. Compensation policy and principles

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

Sonova's compensation principles

Market competitiveness

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

Pay for performance

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

Alignment with shareholders' interests

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

Alignment with company's values

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

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

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

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

- The short-term cash incentive award is awarded under Sonova's Variable Cash Compensation plan. Payout under the VCC is based on Sonova's growth targets related to key performance indicators (KPIs), such as sales, earnings before interest, taxes and amortization/operating profit before acquisition-related amortization (EBITA), free cash flow (FCF), earnings per share (EPS), average sales price (ASP), and operating expenses (OPEX) at Group and/or business unit level. It additionally reflects the achievement of individual objectives that are defined in the annual performance review process. Therefore, the VCC rewards both the company's success and individual performance over a one-year period.
- The revised long-term equity incentive award under the EEAP includes the grant of options and PSUs. The vesting of the options is dependent on the return on capital employed (ROCE) performance and for the PSUs on relative Total Shareholder Return (rTSR). The EEAP reinforces the alignment between compensation and the company's long-term performance. Moreover, it aligns the interests of the Management Board with those of Sonova's shareholders, and fosters long-term retention of the Management Board (see section 4.3 for more information related to implementation of the revised EEAP for the 2017/18 financial year).

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

3. Compensation governance

3.1 Board of Directors composition, competence and independence

Board of Directors composition

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

The current composition of the Board of Directors represents a good mix of competencies, age, and diversity. The average age is 60 years and the average length of service is 7.9 years. As a general rule, the Board of Directors shall not nominate for re-election a candidate for the Board of Directors who has completed his or her 70^{th} year of age, although in justified individual cases the Board of Directors can make an exception.

Board of Directors competence

The Board of Directors competence process evaluates each member of the Board of Directors against a set of pre-defined competencies and skills. The competencies relate to specific requirements which are relevant for Sonova and are compiled in the Board of Directors competence matrix. More information on the Board of Directors' competences can be found in the corporate governance report.

Board of Directors independence

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

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

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

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

3.2 Nomination and Compensation Committee

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

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

Approval and authority levels on compensation matters:

Decision on	CEO	NCC	Board of Directors	AGM
Compensation principles and system for the Board of Directors and Management Board within the framework of the Articles of Association		proposes	approves	
Maximum aggregate amount of compensation for the Board of Directors and the Management Board to be submitted to shareholders' vote		proposes	reviews and proposes to AGM	binding vote
Individual compensation, including cash components and shares, to be granted to the members of the Board of Directors[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the CEO[1]		proposes	approves	
Employment terms of the CEO[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the Management Board (excluding CEO)[1]	recommends	proposes	approves	
Annual total aggregate amount of long-term equity incentives to be granted to all other eligible employees		proposes	approves	
Compensation report		proposes	approves	consultative vote

[1] Within the framework of the Articles of Association and/or maximum aggregate amount of compensation approved by the AGM.

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

The NCC meets as often as business requires but at least three times per year. In the 2017/18 financial year, it held four meetings covering, among others, the following pre-defined recurring agenda items:

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

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

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

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

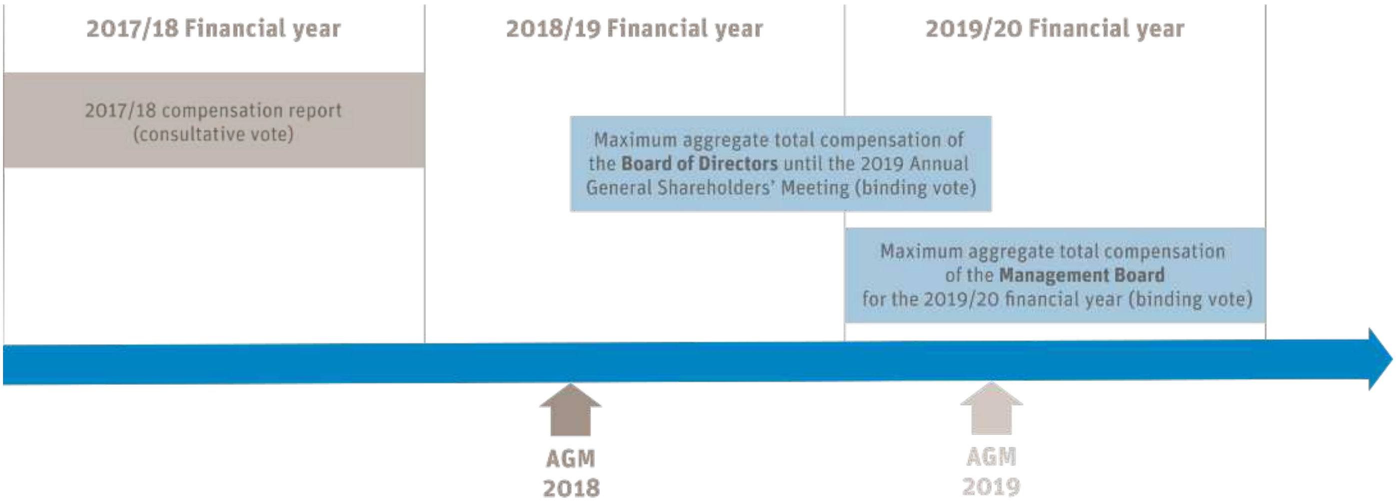
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors

3.3 Governance and shareholders' involvement

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

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

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



Matters to be voted on at the 2018 Annual General Shareholders' Meeting:
The maximum aggregate total compensation amount for the Board of Directors comprises fixed compensation components, including a cash retainer and restricted shares as well as committee fees and additional meeting attendance fees and travel allowance (as applicable).

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

Fixed compensation components:
- Fixed base salary, value of benefits, employer's contributions into Sonova's pension plan.

Variable compensation components:
- Short-term cash incentive award (VCC): maximum possible payout under the VCC should the achievement of all performance objectives reach the cap.
- Long-term equity incentive award (EEAP): fair value of the equity awards at grant (options and PSUs, as well as the last RSU grant for the CEO).

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

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

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

Articles of Association

With regard to the compensation of the members of the Board of Directors and the Management Board, the Articles of Association were revised in 2014 and approved by the shareholders at the 2014 Annual General Shareholder' Meeting. The Articles of Association include the following provisions on compensation:

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

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

3.4 Process of determining compensation

Benchmarks and external consultants

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

Performance management

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

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

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

Determination of Compensation
(May) following year
Determination of payouts and vestings

4. Compensation components and system

4.1 Overview of compensation components

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

[1] In addition, mandatory social security contributions (AHV/ALV) are paid by Sonova.
[2] MB members under a foreign employment contract receive benefits in line with local practice.
[3] Only for MB members with a Swiss employment contract.
[4] Flat rate car allowance
[5] If applicable

4.2 Board of Directors compensation system

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

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

Annual fees in Cash in CHF	Chairman[1]	Board members excl. Chairman
Cash retainer	500,000	100,000
Vice-Chairman	n.a.	15,000
Chairman of Audit Committee	n.a.	25,000
Chairman of NCC	Included in cash retainer	15,000
Member of NCC/Audit Committee	n.a.	7,500
Meeting attendance fee[2]	Included in cash retainer	500
Travel allowance[2]	500	500

Restricted Shares in CHF	Chairman	Board members excl. Chairman
Fair value at grant[3]	400,000	200,000

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

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

To further align the interests of the Board of Directors with those of Sonova's shareholders, the Sonova share ownership guidelines require them to hold a specified number of Sonova shares (see section 6.1 for more information).

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

4.3 Management Board compensation system

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

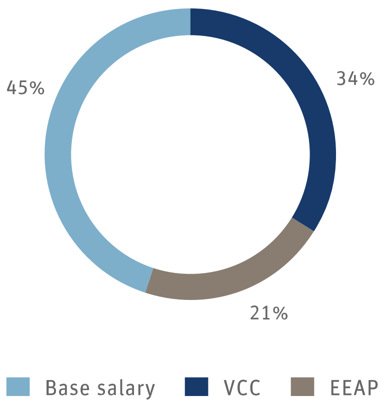
- Fixed base salary
- Employee benefits, such as pension benefits, flat rate car allowance, expense allowance, and relocation benefits for certain affected members
- Short-term cash incentive award (VCC)
- Long-term equity incentive award (EEAP)

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

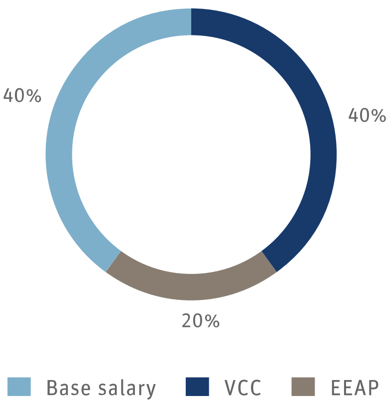
The entire section describes the compensation system for the CEO and the Management Board. Compensation of the COO is excluded and is further described in detailed in section 5.2.

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

Compensation mix of the CEO, Lukas Braunschweiler



Compensation mix of the other members of the Management Board



The fixed base salary and benefits form the fixed compensation component and are based on current market practice. The variable compensation component consists of a short-term cash incentive award, the VCC, and a long-term equity incentive award in the form of options and PSUs awarded under the revised EEAP. Both short and long-term components are performance-based and payout or vest only if multiple challenging performance targets are achieved.

	Fixed compensation components		Variable compensation components		
	Fixed base salary	**Benefits**	**Short-term cash incentive award**	**Long-term equity incentive award**	
Purpose	Ensures predictable salary, depends upon the market value of the role and the profile of the incumbents	Establishes level of security in line with local market practice Mandatory and voluntary benefits plans offered by the employer	Rewards performance against KPIs at Group and business unit level as well as the achievement of individual objectives	Rewards long-term value creation and reinforces alignment to shareholder interests	
Vesting Period	n.a.	n.a.	financial year	Options 16–52 months	PSUs 40 months
KPIs	n.a.	n.a.	**A – Group** Sales, EBITA, FCF, EPS **B – Business Unit** Sales, EBITA, ASP, OPEX **C – Individual objectives**	ROCE	rTSR
Delivery	Cash, regularly	Country specific	Cash	Options	PSUs
CEO Ratio in % of fixed base salary:	n.a.	n.a.	**Target of fixed base salary: 62.5%** **Range of fixed base salary: 0%–125%**	**Target of fixed base salary: 131%** **Range of fixed base salary: 0%–131%**	
MB (excl. CEO and COO) Ratio in % of fixed base salary:	n.a.	n.a.	**Target of fixed base salary: 50%** **Range of fixed base salary: 0%–100%**	**Target of fixed base salary: 105%** **Range of fixed base salary: 0%–105%**	

Fixed base salary

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

Short-term cash incentive award (Variable Cash Compensation)

Sonova's Variable Cash Compensation (VCC) aims to align a significant part of compensation to budget achievements in a given financial year.

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

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

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

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

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

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

Ranges of performance objectives for members of the Management Board

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

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

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

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

The EEAP is offered annually to the members of the Management Board. The Board of Directors determines the individual grant level to the Management Board based on the recommendation of the CEO, and to the CEO based on the recommendation of the NCC. Generally, the grant date is on February 1st each year.

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

Options

Options granted under the EEAP continue to vest in four equal annual installments over a period of 16–52 months depending on ROCE achievement. The first tranche vests on June 1 of the year following the grant year (16 months after grant date). The exercise price of the options is the closing price of the Sonova share on the Swiss Stock Exchange (SIX Swiss Exchange) at the grant date. The life of the options has been increased from 7 to 10 years to further incentivize participants to extended time to exercise.

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

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

Vesting of option grants made under the EEAP to members of the Management Board includes ROCE as performance criterion. Based on the EEAP review and feedback of shareholders, we concluded that ROCE continues to be a very appropriate KPI to incentivize long-term value creation as it combines multiple KPIs namely both the profitability of the company and the efficiency with which Sonova's capital is being employed. The Board of Directors determines the target level of performance at which the options will vest in full and a minimum performance threshold below which there is no vesting. The target is ambitious, representing a multiple of the weighted average cost of capital. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation. There is no provision for over-achievement in the EEAP; the proportion of options that can vest ranges from 0% to 100%.

Performance Share Units

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

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

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

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

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

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

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

Transition arrangement under the previous EEAP

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

Summary of the EEAP instruments

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

1) PSUs applicable to all members of the Management Board excluding the CEO
2) RSU's applicable only to the CEO

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

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

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

Disclosure of targets

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

As a general rule, on a comparable basis, substantial improvements against the previous year's achievements are required in order to meet the growth targets, in line with the company's ambitious financial plan (see section 5.2 for more information related to the overall quantitative and qualitative regional and segmental achievements for the 2017/18 financial year).

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

Sonova Share Ownership Guidelines

To further align the interests of the Management Board with those of Sonova's shareholders, Sonova's share ownership guidelines require the members to hold a specified number of Sonova shares in order to be eligible to participate in the EEAP (see section 6.1 for more information).

Benefits

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

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

Employment terms and conditions

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

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

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

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

5. Compensation for the financial year

5.1 Board of Directors compensation

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

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

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

No other compensation was paid for additional services beyond the total compensation disclosed in the tables below. No loans were granted by Sonova or any other Group company to present or former members of the Board of Directors in the 2017/18 financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of Board of Directors.

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

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

in CHF	2017/18					
	Cash retainer (fixed fee)	Meeting attendance fee/ expenses[1]	Total cash compensation	Value of restricted shares[2]	Total compensation	Employer's social insurance contribution (AHV/ALV)[3]
Robert F. Spoerry[4] Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	502,500	295,212	797,712	54,572
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	8,000	130,500	156,406	286,906	16,912
Stacy Enxing Seng Member of the Nomination and Compensation Committee	107,500	8,000	115,500	156,406	271,906	19,076
Michael Jacobi Chairman of the Audit Committee	125,000	8,000	133,000	156,406	289,406	42,408
Anssi Vanjoki Member of the Audit Committee	107,500	8,000	115,500	156,406	271,906	19,076
Ronald van der Vis Member of the Audit Committee	107,500	7,500	115,000	156,406	271,406	39,245
Jinlong Wang	100,000	6,000	106,000	156,406	262,406	18,434
Lynn Dorsey Bleil	100,000	5,500	105,500	156,406	261,906	18,434
Total (active members)	**1,270,000**	**53,500**	**1,323,500**	**1,390,054**	**2,713,554**	**228,157**

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

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

2) The tax value at grant differs from the value at grant by reduction of 6% per year of restriction and reflects that once the restricted shares have been granted, they are then blocked over a restriction period of five years and four months for the Chairman of the Board of Directors and four years and four months for the other members of the Board of Directors. The discount, which reflects the practice of the Swiss tax authorities, also takes account of the fact that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period. In addition, for tax purposes the volume-weighted average price on grant date was used whereas the fair value per share corresponds to the closing price at grant date. Calculation of the value of restricted shares: Tax discounted value per restricted share at grant date for the Chairman of the Board of Directors was CHF 109.14, and for the other members of the Board of Directors CHF 115.68.

3) Employer social security contributions on the cash retainer and the tax value of options exercised and restricted shares granted during the financial year. The total compensation including the employer social security contributions in the financial year, amounts to CHF 2,941,711 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).

4) Including work and attendance in the Nomination and Compensation Committee and Audit Committee.

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

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

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

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

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

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

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

5.1.1 Historical compensation for the members of the Board of Directors

After the reduction of the total compensation in 2011, no changes have been made over the last six years, and in consequence the structure and individual levels of total compensation for the Board of Directors have not changed during that entire period. The current total compensation is in line with the respective benchmark and publicly available surveys for members, the Vice Chairman, and the Chairman of the Board of Directors. The current structure of the total compensation of the Board of Directors shows a slightly higher fixed compensation (cash retainer and restricted shares) than the market norm, but substantially lower committee fees. This reflects current working practice according to the organizational rules and is determined and supported by benchmarks and publicly available surveys.

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

For the period from the 2017 Annual General Shareholders' Meeting to the 2018 Annual General Shareholders' Meeting, the total compensation paid to the Board of Directors is expected to be CHF 2.9 million. This is within the limit of CHF 3.0 million as approved by the AGM 2017.

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

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

5.2 Management Board compensation

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

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

The system of Variable Cash Compensation is outlined in more detail in section 4.3 of this report. The following key performance indicators are used to assess the performance of the management in addition to individual qualitative targets: at the Group level, sales, EBITA, EPS and FCF; and on business level in addition ASP and Opex. The overall payout ratio of the target Variable Cash Compensation was 119.3%, above previous year with 116.3%.

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

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

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

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

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

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

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

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

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

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

In addition, a regular equity grant (EEAP) with an equity compensation mix of 62.5% in options and 37.5% in PSUs was granted to Arnd Kaldowski with a 2018 fair value of CHF 1,300,000 (full year). His compensation also includes an employer's social security contribution (AHV/ALV) of CHF 62,511, employer's pension contributions of CHF 56,363, and other fringe benefits such as expenses and housing.
The reported total compensation for the COO, Arnd Kaldowski, is higher than that of the CEO, Lukas Braunschweiler. This is due to a combination of factors including:

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

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

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

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

No other compensation was paid for additional services beyond the total compensation disclosed in the tables below. No loans were granted by Sonova or any other Group company to present or former members of the Management Board in the 2017/18 financial year, and no such loans were outstanding as of March 31, 2018. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board.

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

in CHF									**2017/18**
	Fixed base salary	Variable salary[1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs (RSUs)[2]	Value of options[3]	Total compensation	Employer's social security contribution[4]
Lukas Braunschweiler, CEO	600,000	472,293	60,630	123,712	1,256,635	393,736	656,236	2,306,607	109,159
Arnd Kaldowski, COO[5]	447,092	499,488	61,886	56,363	1,064,829	487,451	1,812,475	3,364,755	62,511
Other members of the MB[6]	3,486,080	2,137,192	397,152	703,281	6,723,705	1,648,008	1,648,390	10,020,103	975,336
Total	**4,533,172**	**3,108,973**	**519,668**	**883,356**	**9,045,169**	**2,529,195**	**4,117,101**	**15,691,465**	**1,147,006**

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

1) The variable salary will be paid out only when the Group's audited financial statements for the fiscal year have been publicly disclosed by Sonova Group HQ and publicly disclosed by the Group in its consolidated financial statements.

2) Fair value per PSU at grant date CHF 118.63. Fair Value on PSUs is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. RSUs granted only to Lukas Braunschweiler. Fair value per RSU at grant date CHF 140.62.

3) Fair value per option at grant date CHF 20.77. For Arnd Kaldowski this also includes the one-time, non-recurring performance option grant with a value of CHF 21.09.

4) Employer social security contributions including the tax value of options exercised and RSU's vested during the financial year. The total compensation including the employer social security contributions in the financial year amounts to CHF 16,838,471 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).

5) Member of the Management Board since October 1, 2017 in the role of COO and to transition to the role of CEO as of April 1, 2018. Total compensation for the period from October 1, 2017 until March 31, 2018.

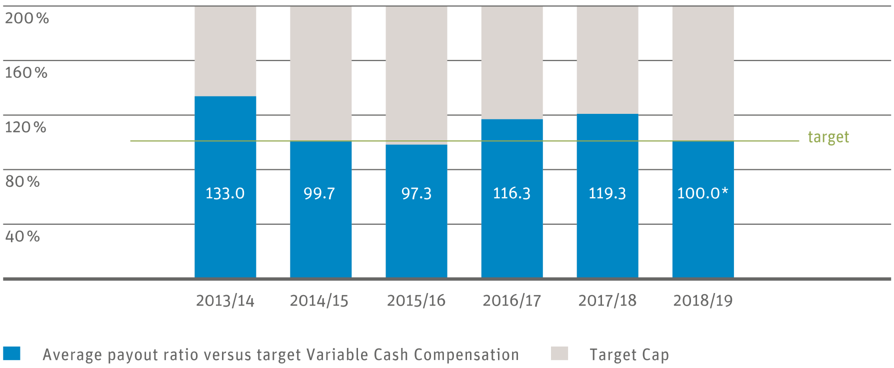
6) Including Sarah Kreienbühl and Franz Petermann for the full 2017/18 until contractual end date.

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

The compensation shown in the table above is gross and based on the accrual principle.
The total compensation of CHF 14,090,652 reported in the 2016/17 compensation report corresponds to the sum of total compensation plus employer's social insurance contribution (ALV/ALV).

1) The variable salary will be paid out after the end of the financial year.
2) Fair value per RSU at grant date CHF 125.68.
3) Fair value per option at grant date CHF 16.99.
4) Employer social security contributions (AHV/ALV) on the tax value of RSUs vested and options exercised during the financial year.
5) Including Jan Metzdorff for the full 2016/17 financial year as member of the Management Board as well as in his new role as President HI Wholesale US.

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



* Payout ratio at 100% estimate for 2017/2018

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

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

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

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

In the past, the maximum aggregate total compensation amount available for the members of the Management Board included mandatory employer's social security contributions in line with the respective AGM compensation approvals. For the 2018 AGM and future AGMs, these contributions will not be included in the votes on the maximum aggregate total compensation amount of the Management Board. Sonova will continue to report employer's social security contributions in the respective compensation tables.

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

6. Share ownership information

6.1 Share ownership guidelines

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

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

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

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

6.2 Shareholdings of members of the Board of Directors

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

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

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

1) These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.
2) New member of the Board of Directors since June 2016.
For further details see also Note 30 in the consolidated financial statements.

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

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

	31.3.2018	31.3.2017
	Options EEAP 12[1]	Options EEAP 12[1]
Michael Jacobi		5,115
Anssi Vanjoki	2,558	2,558
Ronald van der Vis		5,115
Total (active members)	**2,558**	**12,788**

EEAP 2017 and 2018, no options or warrants were granted – 100 % restricted shares.
1) Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

6.3 Shareholdings of members of the Management Board

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

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

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

1) Shares are dividend entitled with full voting rights.
2) Member of the Management Board since October 1, 2017.
3) Member of the Management Board since October 1, 2017.
4) Member of the Management Board since January 23, 2017.
5) Member of the Management Board until September 30, 2017.
6) Member of the Management Board until July 31, 2017.
7) includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares). For further details see also Note 30 in the consolidated financial statements.

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

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

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

1) Share requirements to be achieved after 17 months for the CEO and COO and for other members of the MB after 41 months.
2) Calculated with Sonova closing share price of March 29, 2018 (CHF 151.80).
3) Average of other members of the Management Board with shareholding requirements.
The calculation to the fulfillment and the ratio to base salary of the share ownership shown above are included for illustration purposes only.

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

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

1) Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.
2) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
3) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
4) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
5) Exercise price CHF 124.60, vesting period 1.2.2014–1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015–31.1.2021.
6) Exercise price CHF 109.10, vesting period 1.2.2013–1.6.2017 whereas one tranche being vested each year, exercise period 1.6.2014–31.1.2020.
7) Exercise price CHF 95.85, vesting period 1.2.2012–1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013–31.1.2019.
8) Member of the Management Board since October 1, 2017.
9) Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.
10) SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

							31.3.2017
	Options EEAP 17[1]	Options EEAP 16[2]	Options EEAP 15[3]	Options EEAP 14[4]	Options EEAP 13[5]	Options EEAP 12[6]	Total options
Lukas Braunschweiler	38,625	25,788	27,173	21,719	20,669	25,575	159,549
Claude Diversi	12,507	10,315	5,754	3,066	1,111		32,753
Hansjürg Emch	12,948	10,315	10,869	8,687	8,267	8,230	59,316
Hartwig Grevener	12,948	10,315	10,869	8,687	8,267		51,086
Martin Grieder	12,948	10,315	10,869				34,132
Sarah Kreienbühl	12,948	10,315	10,869	8,687	8,267	10,230	61,316
Hans Mehl	12,948	10,315	10,869	8,687	2,067		44,886
Franz Petermann	5,885	4,854	3,837	2,044	827		17,447
Andi Vonlanthen	12,948	10,315	10,869	8,687	8,267	8,951	60,037
Christophe Fond[7]	13,243						13,243
Total	**147,948**	**102,847**	**101,978**	**70,264**	**57,742**	**52,986**	**533,765**

1) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
2) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
3) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
4) Exercise price CHF 124.60, vesting period 1.2.2014–1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015–31.1.2021.
5) Exercise price CHF 109.10, vesting period 1.2.2013–1.6.2017 whereas one tranche being vested each year, exercise period 1.6.2014–31.1.2020.
6) Exercise price CHF 95.85, vesting period 1.2.2012–1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013–31.1.2019.
7) Member of the Management Board since January 23, 2017.

Glossary

AGM Annual General Shareholders' Meeting
AHV Old Age and Survivors' Insurance
ALV Unemployment Insurance
Articles of Association Articles of Association of Sonova Holding AG
ASP Average Sales Price
BoD Board of Directors
CAGR Compound Annual Growth Rate
CEO Chief Executive Officer
CFO Chief Financial Officer
CHF Swiss Francs
COO Chief Operating Officer
EBITA Earnings Before Interest, Taxes and Amortization/Operating profit before acquisition-related amortization
EEAP Employee Equity Award Plan
EPS Earnings Per Share
FCF Free Cash Flow
GVP Group Vice President
KPIs Key Performance Indicators
MB Management Board
n.a. Not applicable
NCC Nomination and Compensation Committee
OPEX Operating Expenses
PSU Performance Share Unit
ROCE Return on capital employed
RSU Restricted Share Unit
rTSR relative Total Shareholder Return
SLI Swiss Leaders Index
VCC Variable Cash Compensation

Report of the statutory auditor on the compensation report

Report of the statutory auditor
to the General Meeting of Sonova Holding AG
Staefa

We have audited the accompanying remuneration report of Sonova Holding AG for the year ended 31 March 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables of sections 5.1, 5.2, 6.2 and 6.3 excluding tables: 5.1.2 and 5.2.1.

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

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

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

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

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

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

PricewaterhouseCoopers AG

Sandra Böhm
Audit expert
Auditor in charge

Claudio Berchtold
Audit expert

Zürich, 16 May 2018

Enclosure:
- Remuneration report

3

Financial reporting

Financial report

Financial review

In the 2017/18 financial year, Sonova generated sales of CHF 2,645.9 million, an increase of 10.4% in Swiss francs or 9.0% in local currencies. Normalized for one-time costs, Group EBITA reached CHF 551.6 million, up 14.6% in Swiss francs or 12.3% in local currencies.

Sales driven by acquisitions and organic growth

In the 2017/18 fiscal year Sonova Group sales reached CHF 2,645.9 million, an increase of 10.4% in Swiss francs. In local currencies sales increased by 9.0%, representing an organic growth of 3.8% plus 6.0% growth from acquisitions, including those made in this reporting period and the full-year effect of prior year acquisitions. The full-year effect mainly consists of five additional months of AudioNova, acquired as of September 2016. Disposals reduced sales growth by 0.8%. Exchange rate fluctuations had a positive impact, and contributed 1.4% to the reported growth in Swiss francs, due to the strength of the Euro.

Strong momentum in the EMEA and APAC regions

Europe, Middle East and Africa (EMEA), the Group's largest region, provided a strong increase in sales of 16.3% in local currencies. We achieved solid organic growth in most markets within the region, supplemented by the full-year effect of the AudioNova acquisition and a further expansion of our retail footprint. This was partially offset by the effects of a difficult market environment in Germany and the Netherlands. The EMEA share of Group sales increased from 48% in 2016/17 to 53% in the period under review.

Sales in the United States declined by 1.8% in local currency from the prior year. Low single-digit growth in the hearing instruments and cochlear implants businesses was more than offset by a lower sales level in the retail network; our project to streamline and reposition this business, which had taken up a significant amount of management attention, is now well advanced. The region accounted for 28% of Group sales in 2017/18, down from 33% in the prior year. The rest of the Americas (excluding the US) achieved a 9.0% sales increase in local currencies, with accelerating growth in the second half year. The strong growth in this region was carried by all three businesses.

Sales in the Asia/Pacific (APAC) region rose by 9.4% in local currencies. Strong growth in Japan and China was partially offset by a weaker development in Australia. The cochlear implants business in China benefited from sales worth CHF 7.7 million made through a central government tender.

Sales by regions

in CHF m	2017/18			2016/17	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,398.8	53%	16.3%	1,162.2	48%
USA	759.6	28%	(1.8%)	787.3	33%
Americas (excl. USA)	230.8	9%	9.0%	210.9	9%
Asia/Pacific	256.7	10%	9.4%	235.3	10%
Total sales	**2,645.9**	**100%**	**9.0%**	**2,395.7**	**100%**

Solid gross margin development driven by the hearing instruments segment

Gross profit reached CHF 1,868.2 million, an increase of 13.1% in Swiss francs and of 11.3% in local currencies. The gross profit margin was 70.6%, up from 68.9% in the prior year. This improvement was due both to a higher share of the retail business and an increase in average selling prices across the hearing instruments segment. In the cochlear implants segment, a higher share of upgrade revenues largely offset the impact from the lower-priced China tender.

Reported operating expenses, including other operating income, were CHF 1,335.7 million. This included one-time costs of CHF 19.2 million (2016/17: CHF 18.4 million) related to the AudioNova acquisition, specifically to integration and restructuring. Where relevant, we refer to figures normalized for such one-time costs. Normalized operating expenses rose by 12.5% in Swiss francs or by 10.8% in local currencies to CHF 1,316.6 million, reflecting the sales growth and a business mix effect from the higher relative share of retail business related to AudioNova.

Research and development (R&D) expenses were CHF 142.9 million, an increase of 4.3% in local currencies, underlining Sonova's continued commitment to innovation. Technology developments in the field of wireless connectivity again represented an important share of the R&D efforts. The increased relative share of the retail business means that R&D spending as a percentage of sales declined from 5.7% to 5.4%.

Normalized sales and marketing costs were up 12.3% in local currencies and reached CHF 928.2 million: 35.1% of sales, compared to 33.9% in the prior year. The higher cost ratio is driven by the increased relative share of retail business, which has a higher ratio of sales and marketing costs to sales than the rest of the Group.

Normalized general and administrative costs increased by 9.6% in local currencies to CHF 252.7 million, representing 9.5% of sales, which is unchanged from the prior year. The effect of a generally higher cost ratio from an increased retail business share was offset by firm cost management.

Other income for the current period was largely unchanged at CHF 7.2 million. Similarly to the prior year, this includes a capital gain of CHF 4.0 million (2016/17: CHF 3.9 million) from the sale of non-core retail activities in Europe, which had been part of the AudioNova acquisition.

Reported operating profit before acquisition-related amortization (EBITA) was CHF 532.5 million (2016/17: CHF 463.0 million), an increase of 15.0% in Swiss francs or 12.7% in local currencies. Reported EBITA margin rose to 20.1% (2016/17: 19.3%), mainly reflecting solid operating leverage from organic growth supplemented by a minor benefit from the exchange rate developments. Normalized for one-time costs, EBITA increased by 14.6% in Swiss francs or 12.3% in local currencies to CHF 551.6 million, corresponding to a margin of 20.8%. Including the expected increase in acquisition-related amortization from the AudioNova acquisition, reported operating profit (EBIT) reached CHF 483.0 million (2016/17: CHF 423.7 million), up by 14.0%.

Sonova Group key figures

in CHF m unless otherwise specified	2017/18	2016/17	Change in Swiss francs	Change in local currencies
Sales	2,645.9	2,395.7	10.4%	9.0%
EBITA	532.5	463.0	15.0%	12.7%
EPS (CHF)	6.13	5.35	14.6%	
Operating free cash flow	419.2	424.8	(1.3%)	
ROCE[1]	18.4%	20.4%		
EBITA (normalized)[2]	551.6	481.4	14.6%	12.3%
EBITA margin (normalized)[2]	20.8%	20.1%		
EPS (CHF) (normalized)[2]	6.36	5.58	14.0%	

1) For detailed definitions, please refer to "Key figures".
2) Excluding one-time costs of CHF 19.2 million (prior year: 18.4 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

Significant increase in earnings per share

Reflecting the strong growth in EBIT, basic earnings per share (EPS) reached CHF 6.13 (2016/17: CHF 5.35), a significant increase of 14.6% from the prior year. Normalized for one-time costs, EPS increased 14.0% to CHF 6.36. Net financial expenses, including the result from associates, decreased from CHF 6.3 million to CHF 4.0 million. The effective tax rate was 14.9% (2016/17: 14.7%); the increased rate reflects a negative impact from revaluation of tax loss carry forwards related to the US tax reform, mostly offset by the revaluation of other tax assets and liabilities. Income after taxes was therefore CHF 407.4 million (2016/17: CHF 356.2 million).

Minor increase in headcount

The Group's total workforce at the end of the 2017/18 financial year was 14,242 full-time equivalents, an increase of only 153 over the previous year after taking into account acquisitions and disposals, including the sale of our US Hearing Service Plan business at the end of the fiscal year. In line with our strategy, we continued to add staff in customer facing functions and in R&D. Good progress was made in directing new hires to lower-cost locations.

Hearing instruments segment – Acquisitions and new products driving growth

Sales in the hearing instruments segment grew by 10.6% in Swiss francs and 9.0% in local currencies to reported sales of CHF 2,423.1 million. Organic growth was 3.3%, while the contribution from acquisitions in the reporting period and the full-year effect of prior year acquisitions was 6.6% or CHF 143.8 million. Growth was reduced by 0.9% through disposals, mainly in the retail business. Exchange rate fluctuations, primarily a stronger Euro, contributed 1.6% to growth in Swiss francs.

As in the prior year, Premium hearing instruments achieved the strongest growth, with sales up 11.8% in local currencies. This was followed by the Advanced and Standard categories with an increase of 5.4% and 4.5% respectively in local currencies. The higher growth in the Premium category was driven by the continuing success of our innovative product portfolio, in particular the further expansion of our rechargeable solutions and the launch of our industry-first hearing aid with direct universal wireless connectivity functionalities, which generated ongoing improvement in the product mix and average selling prices. Sales of wireless communication systems showed good momentum with a rise of 7.7% in local currencies, almost exclusively from organic growth. Sales in the “miscellaneous” product category, which includes accessories, batteries, and services, increased strongly by 20.4% in local currencies, both from solid organic growth and the full-year effect of the AudioNova acquisition, which has a higher revenue share in this category.

Sales by product groups – Hearing instruments segment

in CHF m	2017/18			2016/17	
	Sales	Share	Growth in local currencies	Sales	Share
Premium hearing instruments	679.0	28%	11.8%	604.5	28%
Advanced hearing instruments	497.7	21%	5.4%	464.7	21%
Standard hearing instruments	761.3	31%	4.5%	713.9	32%
Wireless communication systems	115.8	5%	7.7%	106.7	5%
Miscellaneous	369.3	15%	20.4%	300.5	14%
Total hearing instruments segment	**2,423.1**	**100%**	**9.0%**	**2,190.3**	**100%**

The hearing instruments business, which includes sales to independent audiologists, retail chains, multinational, and government customers, but excludes our own retail business, grew 4.2% in local currencies to CHF 1,441.6 million. Organic growth was 4.7%, driven by the rechargeable and wireless connectivity innovations mentioned above, along with the further deployment of the Phonak Belong™ and the Unitron Tempus™ platforms. Solid growth was achieved across all regions, with double-digit organic growth in major markets including Canada, France, UK, Italy and Japan, partially held back by a more modest development in Germany and the United States.

The retail business increased sales by 17.2% in local currencies to CHF 981.5 million; growth was driven by acquisitions and improving organic sales development in the second half. Solid organic growth in a number of key markets, including UK, Belgium, Canada, France, Poland and New Zealand, was partially offset by a weaker development in Germany and Australia. In addition, business in the US and the Netherlands continued to be affected by the streamlining and strategic repositioning of our store networks, which is in an advanced stage. The integration of the AudioNova acquisition has further progressed and the conversion of its product portfolio to Sonova technology has been completed ahead of plan.

Growth was also affected by the sale of non-strategic retail assets, including the AudioNova businesses in France and Portugal in March and April 2017 respectively.

Sales by business – Hearing instruments segment

in CHF m	2017/18			2016/17	
	Sales	Share	Growth in local currencies	Sales[1)]	Share[1)]
Hearing instruments business	1,441.6	59%	4.2%	1,377.2	63%
Retail business	981.5	41%	17.2%	813.1	37%
Total hearing instruments segment	**2,423.1**	**100%**	**9.0%**	**2,190.3**	**100%**

1) Reclassification of US insurance subcontracting business from Retail (as disclosed in the annual report 2016/17) to Hearing instruments business.

Reported EBITA for the hearing instruments segment amounted to CHF 520.6 million, up 12.1% in local currencies. The normalized EBITA increased by 11.7% in local currencies to CHF 539.7 million, corresponding to an EBITA margin of 22.3% (prior year: 21.6%). The segment achieved strong organic margin expansion through a positive product mix and strict cost control, partially offset by the expected margin effect of the increased share of retail business.

Cochlear implants segment – Growth driven by upgrade sales

The cochlear implants segment achieved sales of CHF 222.9 million, up 8.5% in Swiss francs and 8.6% in local currencies; the main driver was a 27.5% local currency growth in upgrade sales. After a double-digit increase in the prior year, sales growth in Western markets was slower, due to increased competition and strict internal price discipline. The Asia/Pacific region significantly outperformed, even excluding the CHF 7.7 million in sales related to the government tender in China. New systems sales rose by 3.3% in local currencies. The range of bimodal solutions was further expanded by the launch of the Phonak Naída™ Link CROS, a wireless audio transmitter that provides full access to sounds for unilateral cochlear implant candidates with no hearing in their opposite ear. The year also saw the successful introduction of the HiFocus™ SlimJ electrode, featuring a thin, straight design that helps to preserve residual hearing.

Sales by product groups – Cochlear implants segment

in CHF m	2017/18			2016/17	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	165.1	74%	3.3%	160.0	78%
Upgrades and accessories	57.8	26%	27.5%	45.4	22%
Total cochlear implants segment	**222.9**	**100%**	**8.6%**	**205.4**	**100%**

Stable average selling prices in developed markets and an increased share of high-margin upgrade sales largely offset the impact of the lower-priced China tender on the gross profit margin. Together with a good operating leverage, this resulted in an EBITA of CHF 11.9 million versus CHF 8.0 million in the prior year.

Stable cash flow

Cash flow from operating activities was CHF 523.4 million, compared to CHF 522.4 million in the prior year; higher profitability was offset by adverse changes in working capital and long-term provisions. Compared to the prior year, movements in trade payables, rebounding from an elevated prior year level, and lower income tax accruals reduced cash flow by a total of CHF 33.2 million. Two other items, each of which had a negative impact in the high single-digit millions, were higher accounts receivables, and the liquidation of AudioNova legacy equity plans. Net investments in tangible and intangible assets were largely unchanged at CHF 95.5 million, resulting in an operating free cash flow of CHF 419.2 million, down by 1.3%. Cash consideration for acquisitions amounted to CHF 82.5 million, compared to 675.3 million in the prior year, which had included the acquisition of AudioNova. Cash inflow from divestments was CHF 23.3 million, against CHF 17.8 million in the prior year. In summary, this resulted in a free cash flow of CHF 360.0 million, compared to a negative free cash flow of CHF 232.6 million in the prior year.

Cash outflow from financing activities was CHF 186.2 million, compared to a cash inflow of CHF 290.5 million in the prior year, which had included the bond issue related to the financing of the AudioNova acquisition. A net amount of CHF 26.3 million was spent on the purchase of treasury shares to support equity-based compensation plans, compared to CHF 20.8 million in the prior year. Cash outflow from financing also includes dividend payments of CHF 150.3 million.

Balance sheet remains strong

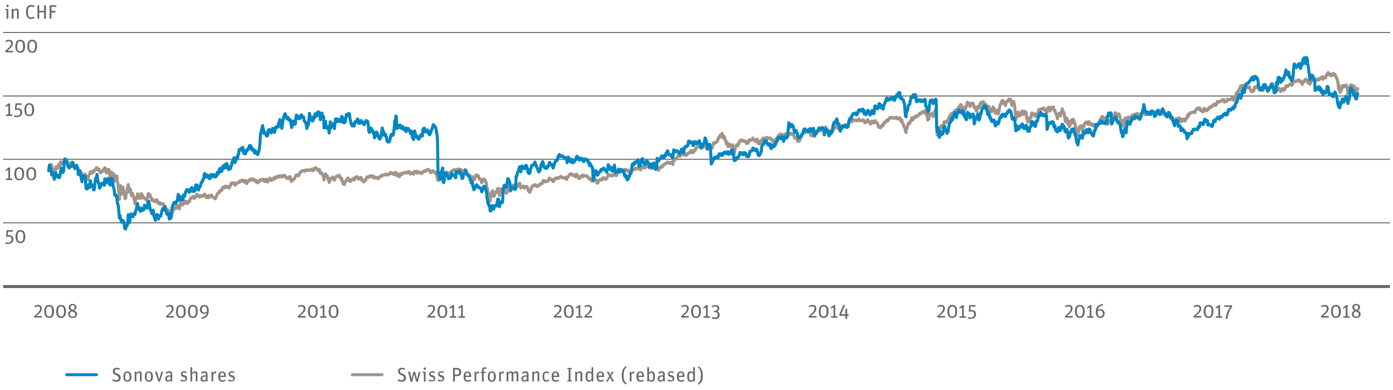
Reported net working capital was CHF 190.5 million, compared to CHF 169.7 million at the end of the prior year; this reflects a slight deterioration in working capital ratios and acquisition effects. Capital employed was CHF 2,702.9 million, compared to CHF 2,535.9 million in the prior year; the increase was largely driven by the acquisitions and currency effects on balance sheet positions. The Group’s equity position amounted to CHF 2,474.9 million, resulting in a solid equity ratio of 57.5%. The net debt position stood at CHF 228.0 million, compared to CHF 404.6 million at the end of the prior year. Reflecting the full year impact of the acquisition of AudioNova, the return on capital employed (ROCE) showed an expected decrease to 18.4% from 20.4% in the prior year.

In light of the solid profitable growth and a healthy financial position, the Board of Directors will propose a dividend of CHF 2.60 to the Annual General Shareholders’ Meeting on June 12, 2018. This proposed distribution is up 13% over the prior year, and represents a stable payout ratio, normalized for one-time cost, of 41% (reported: 42%).

Outlook 2018/19

We expect continued solid growth in sales and profitability across the hearing instruments and cochlear implants segments during 2018/19, supported by our attractive product and solutions portfolio and our continued commitment to innovation. The disposal of non-core retail assets and the US Hearing Service Plan business is expected to reduce growth by around 1% with a small impact on profitability. We therefore expect overall sales to grow in the range of 2%–4% in local currencies.

Share price development – Sonova versus Swiss Performance Index (rebased)



Share price performance history[1]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	66.6%	33.3%	12.2%	23.6%	9.3%
Swiss Performance Index (SPI)[2]	70.9%	40.7%	11.5%	22.5%	5.7%
Sonova shares relative to the SPI	(4.3%)	(7.4%)	0.7%	1.1%	3.6%

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2017/18 financial year.
2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 year key figures

April 1 to March 31, in 1,000 CHF unless otherwise specified	Normalized 2017/18[1]	Reported 2017/18	Normalized 2016/17[1]	Reported 2016/17	2015/16	2014/15	2013/14
Sales	**2,645,926**	**2,645,926**	**2,395,650**	**2,395,650**	**2,071,930**	**2,035,085**	**1,951,312**
change compared to previous year (%)	10.4	10.4	15.6	15.6	1.8	4.3	8.7
Gross profit	**1,868,186**	**1,868,186**	**1,651,752**	**1,651,752**	**1,375,468**	**1,387,524**	**1,340,449**
change compared to previous year (%)	13.1	13.1	20.1	20.1	(0.9)	3.5	8.1
in % of sales	70.6	70.6	68.9	68.9	66.4	68.2	68.7
Research & development costs	**142,899**	**142,899**	**137,134**	**137,134**	**130,255**	**130,897**	**125,657**
in % of sales	5.4	5.4	5.7	5.7	6.3	6.4	6.4
Sales & marketing costs	**928,201**	**934,476**	**810,988**	**815,018**	**638,240**	**613,217**	**589,627**
in % of sales	35.1	35.3	33.9	34.0	30.8	30.1	30.2
Operating profit before acquisition-related amortization (EBITA)	**551,620**	**532,453**	**481,441**	**462,998**	**430,632**	**455,564**	**430,109**
change compared to previous year (%)	14.6	15.0	11.8	7.5	(5.5)	5.9	11.6
in % of sales	20.8	20.1	20.1	19.3	20.8	22.4	22.0
Operating profit (EBIT)	**502,144**	**482,977**	**442,120**	**423,677**	**403,437**	**429,069**	**404,030**
change compared to previous year (%)	13.6	14.0	9.6	5.0	(6.0)	6.2	12.5
in % of sales	19.0	18.3	18.5	17.7	19.5	21.1	20.7
Income after taxes	**422,740**	**407,435**	**371,484**	**356,176**	**345,847**	**368,323**	**347,382**
change compared to previous year (%)	13.8	14.4	7.4	3.0	(6.1)	6.0	12.9
in % of sales	16.0	15.4	15.5	14.9	16.7	18.1	17.8
Basic earnings per share (CHF)	**6.36**	**6.13**	**5.58**	**5.35**	**5.11**	**5.37**	**5.08**
Dividend/distribution per share (CHF)	**2.60**[10]	**2.60**[10]	**2.30**	**2.30**	**2.10**	**2.05**	**1.90**
Net cash/(debt)[2]	**(227,982)**	**(227,982)**	**(404,634)**	**(404,634)**	**298,274**	**382,343**	**311,525**
Net working capital[3]	190,477	190,477	169,706	169,706	185,459	181,379	190,571
Capital expenditure (tangible and intangible assets)[4]	96,295	96,295	97,120	97,120	83,051	88,735	93,918
Capital employed[5]	2,702,891	2,702,891	2,535,906	2,535,906	1,607,992	1,489,461	1,462,850
Total assets	4,301,978	4,301,978	3,935,680	3,935,680	2,751,611	2,691,631	2,593,748
Equity	2,474,909	2,474,909	2,131,272	2,131,272	1,906,266	1,871,804	1,774,375
Equity financing ratio (%)[6]	57.5	57.5	54.2	54.2	69.3	69.5	68.4
Free cash flow[7]	359,957	359,957	(232,615)	(232,615)	252,573	308,700	288,618
Operating free cash flow[8]	**419,181**	**419,181**	**424,847**	**424,847**	**344,212**	**366,385**	**318,430**
in % of sales	15.8	15.8	17.7	17.7	16.6	18.0	16.3
Return on capital employed (%)[9]	**18.4**	**18.4**	**20.4**	**20.4**	**26.0**	**29.1**	**27.7**
Number of employees (average)	**14,073**	**14,073**	**12,802**	**12,802**	**10,697**	**9,960**	**9,175**
change compared to previous year (%)	9.9	9.9	19.7	19.7	7.4	8.6	5.4
Number of employees (end of period)	**14,242**	**14,242**	**14,089**	**14,089**	**10,894**	**10,184**	**9,529**
change compared to previous year (%)	1.1	1.1	29.3	29.3	7.0	6.9	6.4

1) Excluding one-time costs of CHF 19.2 million in 2017/18 (2016/17: CHF 18.4 million), consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova. Balance sheet related key figures (including respective ratios) as reported.
2) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
3) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – other short-term liabilities – short-term provisions.
4) Excluding goodwill and intangibles relating to acquisitions.
5) Equity – net cash.
6) Equity in % of total assets.
7) Cash flow from operating activities + cash flow from investing activities.
8) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.
9) EBIT in % of capital employed (average).
10) Proposal to the Annual General Shareholders' Meeting of June 12, 2018.

Consolidated financial statements

Consolidated income statements

April 1 to March 31, in 1,000 CHF	Notes	2017/18	2016/17
Sales	6	**2,645,926**	**2,395,650**
Cost of sales		(777,740)	(743,898)
Gross profit		**1,868,186**	**1,651,752**
Research and development		(142,899)	(137,134)
Sales and marketing		(934,476)	(815,018)
General and administration		(265,542)	(242,893)
Other income/(expenses), net	7	7,184	6,291
Operating profit before acquisition-related amortization (EBITA)[1]		**532,453**	**462,998**
Acquisition-related amortization	20	(49,476)	(39,321)
Operating profit (EBIT)[2]		**482,977**	**423,677**
Financial income	8	2,130	7,393
Financial expenses	8	(9,364)	(13,598)
Share of profit/(loss) in associates/joint ventures, net	18	3,197	(143)
Income before taxes		**478,940**	**417,329**
Income taxes	9	(71,505)	(61,153)
Income after taxes		**407,435**	**356,176**
Attributable to:			
Equity holders of the parent		400,135	349,172
Non-controlling interests		7,300	7,004
Basic earnings per share (CHF)	10	6.13	5.35
Diluted earnings per share (CHF)	10	6.11	5.34

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).
The Notes are an integral part of the consolidated financial statements.

Consolidated statements of comprehensive income

April 1 to March 31, in 1,000 CHF	Notes	2017/18	2016/17
Income after taxes		**407,435**	**356,176**
Other comprehensive income			
Actuarial gain/(loss) from defined benefit plans, net	29	15,000	39,448
Tax effect on actuarial gain/(loss) from defined benefit plans, net		(2,125)	(5,539)
Total items not to be reclassified to income statement in subsequent periods		**12,875**	**33,909**
Currency translation differences		93,184	(5,815)
Tax effect on currency translation items		(381)	(2,040)
Total items to be reclassified to income statement in subsequent periods		**92,803**	**(7,855)**
Other comprehensive income, net of tax		**105,678**	**26,054**
Total comprehensive income		**513,113**	**382,230**
Attributable to:			
Equity holders of the parent		504,028	377,154
Non-controlling interests		9,085	5,076

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

Consolidated balance sheets

Assets 1,000 CHF	**Notes**	**31.3.2018**	**31.3.2017**
Cash and cash equivalents	12	552,121	374,504
Other current financial assets	13	4,373	4,164
Trade receivables	14	449,545	413,375
Current income tax receivables		6,708	6,426
Other receivables and prepaid expenses	15	90,615	86,328
Inventories	16	264,468	255,655
Total current assets		**1,367,830**	**1,140,452**
Property, plant and equipment	17	315,493	310,321
Intangible assets	20	2,466,396	2,323,087
Investments in associates/joint ventures	18	13,700	11,471
Other non-current financial assets	19	23,914	20,365
Deferred tax assets	9	114,645	129,984
Total non-current assets		**2,934,148**	**2,795,228**
Total assets		**4,301,978**	**3,935,680**

Liabilities and equity 1,000 CHF	**Notes**	**31.3.2018**	**31.3.2017**
Current financial liabilities	22	161,637	13,355
Trade payables		89,235	106,028
Current income tax liabilities		141,812	117,583
Other short-term liabilities	23	275,670	259,175
Short-term provisions	21	117,922	112,279
Total current liabilities		**786,276**	**608,420**
Non-current financial liabilities	22	619,059	766,960
Long-term provisions	21	166,540	185,929
Other long-term liabilities	25	113,878	106,278
Deferred tax liabilities	9	141,316	136,821
Total non-current liabilities		**1,040,793**	**1,195,988**
Total liabilities		**1,827,069**	**1,804,408**
Share capital	26	3,267	3,271
Treasury shares		(536)	(12,130)
Retained earnings and reserves		2,449,001	2,117,271
Equity attributable to equity holders of the parent		**2,451,732**	**2,108,412**
Non-controlling interests		23,177	22,860
Equity		**2,474,909**	**2,131,272**
Total liabilities and equity		**4,301,978**	**3,935,680**

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

Consolidated cash flow statements

April 1 to March 31, in 1,000 CHF	Notes		2017/18		2016/17
Income before taxes			**478,940**		**417,329**
Depreciation, amortization and impairment of tangible and intangible assets	17,20	134,763		147,404	
Loss on sale of tangible and intangible assets, net		472		727	
Share of (gain)/loss in associates/joint ventures, net	18	(3,197)		143	
Decrease in long-term provisions		(28,993)		(38,384)	
Financial (income)/expense, net	8	7,234		6,205	
Share based payments and other non-cash item		21,241		19,985	
Income taxes paid		(46,752)	84,768	(36,353)	99,727
Cash flow before changes in net working capital			**563,708**		**517,056**
Increase in trade receivables		(31,200)		(23,926)	
Decrease/(increase) in other receivables and prepaid expenses		10,372		(6,505)	
Decrease in inventories		2,186		3,604	
(Decrease)/increase in trade payables		(8,296)		14,497	
(Decrease)/increase in other payables, accruals and short-term provisions		(13,393)	(40,331)	17,665	5,335
Cash flow from operating activities			**523,377**		**522,391**
Purchase of tangible and intangible assets		(96,295)		(98,220)	
Proceeds from sale of tangible and intangible assets		824		997	
Cash consideration for acquisitions, net of cash acquired	27	(82,474)		(675,283)	
Cash consideration from divestments, net of cash divested	27	23,250		17,821	
Changes in other financial assets		(10,107)		(1,486)	
Interest received and realized gain from financial assets		1,382		1,165	
Cash flow from investing activities			**(163,420)**		**(755,006)**
Proceeds from borrowings				880,493	
Repayment of borrowings		(145)		(411,597)	
(Purchase)/sale of treasury shares, net		(26,345)		(32,603)	
Dividends paid by Sonova Holding AG		(150,250)		(137,178)	
Transactions with non-controlling interests		(8,768)		(6,150)	
Interest paid and other financial expenses		(738)		(2,443)	
Cash flow from financing activities			**(186,246)**		**290,522**
Exchange gains/(losses) on cash and cash equivalents			3,906		(669)
Increase in cash and cash equivalents			**177,617**		**57,238**
Cash and cash equivalents at the beginning of the financial year			374,504		317,266
Cash and cash equivalents at the end of the financial year			**552,121**		**374,504**

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

Consolidated changes in equity

1,000 CHF

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2016	**3,331**	**2,330,723**	**(296,046)**	**(155,676)[1]**	**23,934**	**1,906,266**
Income for the period		349,172			7,004	356,176
Actuarial gain from defined benefit plans, net		39,448				39,448
Tax effect on actuarial gain		(5,539)				(5,539)
Currency translation differences		(67)	(3,820)		(1,928)	(5,815)
Tax effect on currency translation			(2,040)			(2,040)
Total comprehensive income		**383,014**	**(5,860)**		**5,076**	**382,230**
Capital decrease – share buy-back program	(60)	(155,579)		155,639		
Share-based payments		4,824				4,824
Sale of treasury shares		(6,627)		38,780		32,153
Purchase of treasury shares				(50,873)		(50,873)
Dividend paid		(137,178)			(6,150)	(143,328)
Balance March 31, 2017	**3,271**	**2,419,177**	**(301,906)**	**(12,130)[1]**	**22,860**	**2,131,272**
Balance April 1, 2017	**3,271**	**2,419,177**	**(301,906)**	**(12,130)[1]**	**22,860**	**2,131,272**
Income for the period		400,135			7,300	407,435
Actuarial gain from defined benefit plans, net		15,000				15,000
Tax effect on actuarial gain		(2,125)				(2,125)
Currency translation differences			91,399		1,785	93,184
Tax effect on currency translation			(381)			(381)
Total comprehensive income		**413,010**	**91,018**		**9,085**	**513,113**
Capital decrease – share buy-back program	(4)	(11,785)		11,789		
Share-based payments		4,539				4,539
Sale of treasury shares		(14,802)		50,317		35,515
Purchase of treasury shares				(50,512)		(50,512)
Dividend paid		(150,250)			(8,768)	(159,018)
Balance March 31, 2018	**3,267**	**2,659,889**	**(210,888)**	**(536)**	**23,177**	**2,474,909**

[1] Includes derivative financial instruments on treasury shares.
The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2018

1. Corporate information

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

2. Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31 which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 16, 2018, and are subject to approval by the Annual General Shareholders' Meeting on June 12, 2018.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant consolidated companies is given in Note 34.

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

2.1 Changes in accounting policies

In 2017/18 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group’s result and financial position:

- Disclosure Initiative (Amendments to IAS 7)
- Recognition of Deferred Tax Assets for Unrealized Losses (Amendments to IAS 12)
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2018, as summarized below.

IFRS 9 “Financial instrument”: The standard completes the guidance on recognition/ derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments, including a new expected credit loss model for calculating provisions for impairments on financial assets. The Group does not expect a significant impact on the Group's result and financial position and will implement the new standard on April 1, 2018.

IFRS 15 “Revenues from Contracts with Customers”: The standard combines, enhances and replaces specific guidance on recognizing revenue with a new single standard based on a five step approach. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied. The primary impact for the Group will be on the timing of revenue recognition for the performance obligations related to extended warranties, loss and damage, battery plans, loyalty programs, and on additional revenue related disclosures. The transition will decrease the Group's retained earnings for an estimated amount of CHF 125 million due to the recognition of contract assets/liabilities and release of provisions and deferred revenue. The impact on the income statement will not be material. The Group chose the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings and will implement the new standard on April 1, 2018.

Furthermore, the Group is also assessing other new and revised standards which are not mandatory until after the financial year 2018/2019, notably the impacts of IFRS 16 (refer below).

IFRS 16 “Leasing”: The standard will replace IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, that requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The main impact for the Group will be on the recognition of new assets and liabilities for its property lease agreements. In addition, the nature of the expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. The current operating lease obligations (see Note 32) provide an indication of the impact of IFRS 16 on the Group's consolidated balance sheet. The Group will implement the new standard on April 1, 2019.

2.2 Principles of consolidation

Investments in subsidiaries

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

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

Investments in associates and joint ventures

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

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

2.3 Currency translation

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

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

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

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

2.4 Accounting and valuation principles

Cash and cash equivalents

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

Other current financial assets

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

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

Trade receivables

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

Inventories

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

Standard costs take into account normal levels of materials, supplies, labor, efficiency, and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses.

Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value.

Provisions are established for slow-moving, obsolete and phase-out inventory.

Property, plant and equipment

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

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

Leasing

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

Intangible assets

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

Research and development

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

Business combinations and goodwill

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

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

Other non-current financial assets

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

Financial liabilities

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

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

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

Provisions

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

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

Share capital

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

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

Income taxes

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

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

Revenue recognition

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

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

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

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

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

Acquisition-related amortization

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

Segment reporting

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

Impairment of non-financial assets

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

Related parties

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

Employee benefits

Pension obligations

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

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

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

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

Other long-term benefits

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

Equity compensation benefits

The Board of Directors of Sonova Holding AG, the Management Board, and certain management and senior employees of other Group companies participate in equity compensation plans. The fair value of all equity compensation awards granted to employees is determined at the grant date and recorded as an expense over the vesting period (for details refer to Note 29). The expense for equity compensation awards is charged to the appropriate income statement heading within the operating result and an equivalent increase in equity (for equity-settled compensation) or financial liability (for cash-settled compensation) is recorded. In the case of cash-settled compensation, until the liability is settled, it is revalued at each reporting date, recognizing changes in the fair value in the income statement.

2.5 Financial assets

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

Financial assets at fair value through profit or loss

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

Loans and receivables

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

Impairment of financial assets

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

2.6 Derivative financial instruments and hedging

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

2.7 Significant accounting judgments and estimates

Key management judgments made in applying accounting policies

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

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

Capitalization of development costs

As outlined under 2.4 "Accounting and valuation principles" the Group capitalizes costs relating to the development of cochlear implants. In determining the commercial as well as the technical feasibility, management judgment may be required.

Business combinations

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

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

Key accounting estimates and assumptions

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

Cost of business combinations

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resulting change in the income statement. At the end of the 2017/18 financial year, such liabilities contingent on future events amount to CHF 6.1 million (previous year CHF 10.6 million) and are disclosed under other financial liabilities (Note 22).

Intangible assets, including goodwill

The Group has intangible assets with a carrying value of CHF 2,466.4 million (previous year CHF 2,323.1 million) as disclosed in Note 20.

Included in the intangible assets is goodwill amounting to CHF 1,947.2 million (previous year CHF 1,815.2 million).

Furthermore, intangible assets also include capitalized development costs in the amount of CHF 118.1 million (previous year CHF 100.6 million). The capitalized development costs are reviewed on a regular basis as a matter of a standard systematic procedure. In the current financial year the assessment of the capitalized cost did not lead to any value adjustment. Due to the revision of the Cochlear implants product roadmap in the 2016/17 financial year, Sonova identified in the previous year the need of valuation adjustments on certain R&D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a loss amounting to CHF 35.6 million in the previous year. The amount is included in the income statement in the line “other income/(expense), net”.

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

Deferred tax assets

The consolidated balance sheet includes deferred tax assets of CHF 114.6 million (previous year CHF 130.0 million) related to deductible differences and, in certain cases, tax loss carryforwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

Employee benefit plans

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2017/18 financial period amounts to CHF 373.0 million (previous year CHF 356.5 million) as disclosed in Note 29. This includes CHF 369.1 million (previous year CHF 353.3 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term, such deviations could have an impact on the equity. The carrying amounts of the plan assets and liabilities in the balance sheet, together with a sensitivity analysis considering changes for the main input parameters in the actuarial valuation, are set out in Note 29.

Provisions for warranty and returns

On March 31, 2018, the Group recorded provisions for warranty and returns of CHF 125.6 million (previous year CHF 117.5 million) as disclosed in Note 21.

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

Provision for product liabilities

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

The provision for product liabilities is reassessed on a regular and systematic basis. The provision is estimated based on a financial model. Generally, the model used to calculate the provision for the end of the 2017/18 financial year is consistent to the prior year and considers claim rates and cost per case based on historical averages. Improvements in the expected number and cost of current and future claims led to a reversal of CHF 1.8 million in the current financial year 2017/18 (2016/17: reversal of CHF 37.4 million) which contributed to the profit in the same amount (disclosed in the annual income statement in the line “Other income/(expenses), net”).

On March 31, 2018, the provision for the before mentioned cochlear implant product liabilities was CHF 118.4 million (previous year CHF 132.5 million).

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

3. Changes in Group structure

In the 2017/18 and 2016/17 financial years, the Group entered into several business combinations. The companies acquired/divested are in the business of producing, distributing and servicing hearing instruments.

In the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific. Furthermore, the Group divested two smaller companies in Europe as well as one company in the US. Due to the size of these transactions, they had no material impact on the financial statements.

In the financial year 2016/17, the group entered into several business combinations and divested two smaller group companies. The main acquisition in the previous year was relating to the purchase of AudioNova International B.V.

The effect of the acquisitions and divestments for the 2017/18 and 2016/17 financial years is disclosed in Note 27.

4. Number of employees

On March 31, 2018, the Sonova Group employed the full time equivalent of 14,242 people (previous year 14,089). They were engaged in the following regions and activities:

By region	31.3.2018	31.3.2017
Switzerland	1,219	1,178
EMEA (excl. Switzerland)	6,471	6,399
Americas	3,539	3,538
Asia/Pacific	3,013	2,974
Total	**14,242**	**14,089**
By activity		
Research and development	774	742
Operations	4,391	4,369
Sales and marketing, general and administration	9,077	8,978
Total	**14,242**	**14,089**

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,073 (previous year 12,802). Total personnel expenses for the 2017/18 financial year amounted to CHF 939.5 million (previous year CHF 861.3 million).

5. Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2018	31.3.2017	2017/18	2016/17
	Year-end rates		Average rates for the year	
AUD 1	0.73	0.77	0.75	0.74
BRL 1	0.29	0.32	0.30	0.30
CAD 1	0.74	0.75	0.76	0.75
CNY 1	0.15	0.15	0.15	0.15
EUR 1	1.18	1.07	1.14	1.08
GBP 1	1.35	1.25	1.29	1.29
JPY 100	0.90	0.90	0.88	0.91
USD 1	0.96	1.00	0.97	0.99

6. Segment information

Information by business segments

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

Hearing instruments:

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

Cochlear implants:

This operating segment includes the activities of the design, development, manufacture, distribution and service of hearing implants and related products. The segment consists of Advanced Bionics and the related sales organizations. Research and development as well as marketing activities of Advanced Bionics are centralized predominantly in the United States and Switzerland while production resides in the United States. The distribution of products is effected through sales organizations in the individual markets.

1,000 CHF	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	2,425,201	2,191,985	225,828	207,244			2,651,029	2,399,229
Intersegment sales	(2,129)	(1,688)	(2,974)	(1,891)			(5,103)	(3,579)
Sales	**2,423,072**	**2,190,297**	**222,854**	**205,353**			**2,645,926**	**2,395,650**
Operating profit before acquisition-related amortization (EBITA)	**520,560**	**454,993**	**11,893**	**8,005**			**532,453**	**462,998**
Depreciation, amortization and impairment	(112,783)	(92,767)	(21,980)	(54,637)			(134,763)	(147,404)
Segment assets	**3,780,657**	**3,552,007**	**608,275**	**588,382**	**(767,419)**	**(720,668)**	**3,621,513**	**3,419,721**
Unallocated assets[1)]							680,465	515,959
Total assets							**4,301,978**	**3,935,680**

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

Reconciliation of reportable segment profit 1,000 CHF	**2017/18**	**2016/17**
EBITA	532,453	462,998
Acquisition-related amortization	(49,476)	(39,321)
Financial costs, net	(7,234)	(6,205)
Share of gain/(loss) in associates/joint ventures, net	3,197	(143)
Income before taxes	**478,940**	**417,329**

Entity-wide disclosures

Sales by product groups 1,000 CHF	**2017/18**	**2016/17**
Premium hearing instruments	679,017	604,506
Advanced hearing instruments	497,627	464,710
Standard hearing instruments	761,349	713,864
Wireless communication systems	115,816	106,684
Miscellaneous	369,263	300,533
Total hearing instruments segment	**2,423,072**	**2,190,297**
Cochlear implant systems	165,099	159,971
Upgrades and accessories	57,755	45,382
Total cochlear implants segment	**222,854**	**205,353**
Total sales	**2,645,926**	**2,395,650**

Sales by business – hearing instruments segment 1,000 CHF	**2017/18**	**2016/17**[1]
Hearing instruments business	1,441,570	1,377,228
Retail business	981,502	813,069
Total hearing instruments segment	**2,423,072**	**2,190,297**

1) Reclassification of US insurance subcontracting business from Retail (as disclosed in the annual report 2016/17) to Hearing instruments business.

Sales and selected non-current assets by regions 1,000 CHF	**2017/18**	**2016/17**	**2017/18**	**2016/17**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	29,613	26,837	251,353	241,460
EMEA (excl. Switzerland)	1,369,231	1,135,362	1,650,584	1,461,948
USA	759,610	787,324	655,239	700,766
Americas (excl. USA)	230,781	210,888	129,128	130,749
Asia/Pacific	256,691	235,239	109,286	109,967
Total Group	**2,645,926**	**2,395,650**	**2,795,590**	**2,644,890**

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

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

7. Other income/expenses, net

"Other income/expenses, net" in the 2017/18 financial year amounts to CHF 7.2 million (previous year CHF 6.3 million). The regular and systematic assessment of the provision for product liabilities in the Cochlear implants segment led to a release of CHF 1.8 million (previous year CHF 37.4 million). In addition, the divestment of two minor group companies in the EMEA region and the sale of a company in the USA led to a gain of CHF 5.4 million (previous year other income from divestments CHF 3.8 million). Furthermore in 2016/17 the "other expenses" also included an impairment of previously capitalized development costs of CHF 35.6 million. For further information refer to Note 2.7 "Provision for product liabilities", Note 20 "Intangible assets", Note 21 "Provisions" and Note 27 "Acquisitions/Disposals of subsidiaries".

8. Financial income/expenses, net

1,000 CHF	2017/18	2016/17
Interest income	1,624	3,797
Other financial income	506	3,596
Total financial income	**2,130**	**7,393**
Interest expenses	(1,278)	(1,728)
Other financial expenses	(8,086)	(11,870)
Total financial expenses	**(9,364)**	**(13,598)**
Total financial income/expenses, net	**(7,234)**	**(6,205)**

Other financial expenses in 2017/18 and 2016/17 include, amongst other items, the unwinding of the discount on provisions, contingent considerations and deferred payments, fair value adjustments of financial instruments as well as the costs for entering into forward foreign currency contracts.

9. Taxes

1,000 CHF	2017/18	2016/17
Income taxes	60,433	49,235
Change in deferred taxes	11,072	11,918
Total tax expense	**71,505**	**61,153**
Reconciliation of tax expense		
Income before taxes	478,940	417,329
Group's expected average tax rate	14.6%	15.5%
Tax at expected average rate	**69,946**	**64,887**
+/– Effects of		
Expenses not subject to tax, net	3,994	3,564
Changes of unrecognized loss carryforwards/deferred tax assets	(8)	(3,785)
Local actual tax rate different to Group's expected average tax rate	(24,278)	(12,759)
Change in tax rates on deferred tax balances[1]	19,960	7,808
Prior year adjustments and other items, net	1,891	1,438
Total tax expense	**71,505**	**61,153**
Weighted average effective tax rate	14.9%	14.7%

[1] 2017/18 change mainly relates to a reduction for US corporate income tax rates.

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

Deferred tax assets and (liabilities) 1,000 CHF					2017/18
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(7,094)	(99,727)	35,315	64,669	(6,837)
Changes through business combinations		(1,940)	6,008		4,068
Deferred taxes recognized in the income statement	256	5,281	(4,152)	(12,457)	(11,072)
Deferred taxes recognized in OCI[1]			(2,125)		(2,125)
Exchange differences	(299)	(7,591)	(3,199)	384	(10,705)
Balance March 31	**(7,137)**	**(103,977)**	**31,847**	**52,596**	**(26,671)**
Amounts in the balance sheet					
Deferred tax assets					114,645
Deferred tax liabilities					(141,316)
Total deferred taxes, net					**(26,671)**

[1] Other comprehensive income.

Deferred tax assets and (liabilities) 1,000 CHF					**2016/17**
	Property, plant & equipment	Intangible assets	Inventories, receivables, provisions and other liabilities	Tax loss carryforwards	Total
Balance April 1	(6,168)	(25,570)	27,295	66,877	62,434
Changes through business combinations	(612)	(78,784)	8,294	9,662	(61,440)
Deferred taxes recognized in the income statement	(356)	3,238	(4,414)	(10,386)	(11,918)
Deferred taxes recognized in OCI[1]			5,539		5,539
Exchange differences	42	1,389	(1,399)	(1,484)	(1,452)
Balance March 31	**(7,094)**	**(99,727)**	**35,315**	**64,669**	**(6,837)**
Amounts in the balance sheet					
Deferred tax assets					129,984
Deferred tax liabilities					(136,821)
Total deferred taxes, net					**(6,837)**

1) Other comprehensive income.

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

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

1,000 CHF	**31.3.2018**	**31.3.2017**
Within 1–3 years	97,693	60,213
Within 4 years	10,918	39,851
Within 5 years	28,049	17,585
More than 5 years	449,355	416,462
Total	**586,015**	**534,111**

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

10. Earnings per share

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

Basic earnings per share	**2017/18**	**2016/17**
Income after taxes (1,000 CHF)	400,135	349,172
Weighted average number of outstanding shares	65,319,359	65,321,391
Basic earnings per share (CHF)	**6.13**	**5.35**

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through to 2018 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

Diluted earnings per share	**2017/18**	**2016/17**
Income after taxes (1,000 CHF)	400,135	349,172
Weighted average number of outstanding shares	65,319,359	65,321,391
Adjustment for dilutive share options	216,787	91,619
Adjusted weighted average number of outstanding shares	65,536,146	65,413,010
Diluted earnings per share (CHF)	**6.11**	**5.34**

11. Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 12, 2018, that a dividend of CHF 2.60 shall be distributed (previous year CHF 2.30).

12. Cash and cash equivalents

1,000 CHF	**31.3.2018**	**31.3.2017**
Cash on hand	1,335	1,129
Current bank accounts	413,551	289,819
Term deposits	137,235	83,556
Total	**552,121**	**374,504**

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

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

13. Other current financial assets

1,000 CHF	**31.3.2018**	**31.3.2017**
Marketable securities	59	358
Positive replacement value of forward foreign exchange contracts	534	819
Loans to third parties	3,780	2,987
Total	**4,373**	**4,164**

14. Trade receivables

1,000 CHF	31.3.2018	31.3.2017
Trade receivables	481,470	439,453
Provision for doubtful receivables	(31,925)	(26,078)
Total	**449,545**	**413,375**

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

1,000 CHF	31.3.2018	31.3.2017
Total trade receivables, net	**449,545**	**413,375**
of which:		
Not overdue	323,879	302,406
Overdue 1–30 days	64,384	54,547
Overdue more than 30 days	61,282	56,422
Total	**449,545**	**413,375**

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

1,000 CHF	2017/18	2016/17
Provision for doubtful receivables, April 1	**(26,078)**	**(22,166)**
Changes through business combinations	(45)	(3,039)
Utilization or reversal	10,696	9,299
Additions	(16,411)	(10,661)
Disposal	84	979
Exchange differences	(171)	(490)
Provision for doubtful receivables, March 31	**(31,925)**	**(26,078)**

During 2017/18, the Group utilized CHF 9.7 million (previous year CHF 7.3 million) of this provision to write-off receivables.

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

1,000 CHF	31.3.2018	31.3.2017
BRL	18,765	22,155
CAD	21,547	24,546
CHF	14,611	13,625
EUR	177,604	139,628
GBP	17,774	12,859
USD	131,931	134,033
Other	67,313	66,529
Total trade receivables, net	**449,545**	**413,375**

15. Other receivables and prepaid expenses

1,000 CHF	31.3.2018	31.3.2017
Other receivables	64,482	65,240
Prepaid expenses	26,133	21,088
Total	**90,615**	**86,328**

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

16. Inventories

1,000 CHF	31.3.2018	31.3.2017
Raw materials and components	45,030	40,905
Work-in-process	90,030	93,891
Finished products	168,883	156,871
Allowances	(39,475)	(36,012)
Total	**264,468**	**255,655**

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

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2017/18 to CHF 672.3 million (previous year CHF 639.2 million).

17. Property, plant and equipment

1,000 CHF					**2017/18**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195,039	277,262	313,340	5,433	791,074
Changes through business combinations	10	92	2,285		2,387
Additions	1,428	22,261	26,660	10,860	61,209
Disposals	(74)	(11,162)	(19,453)		(30,689)
Transfers	(3,146)	2,977	5,723	(5,554)	
Exchange differences	2,244	2,913	15,233	(136)	20,254
Balance March 31	**195,501**	**294,343**	**343,788**	**10,603**	**844,235**
Accumulated depreciation					
Balance April 1	(69,201)	(203,090)	(208,462)		(480,753)
Additions	(5,567)	(25,922)	(31,272)		(62,761)
Disposals	32	10,623	17,830		28,485
Transfers	1,722	323	(2,045)		
Exchange differences	(1,004)	(1,934)	(10,775)		(13,713)
Balance March 31	**(74,018)**	**(220,000)**	**(234,724)**		**(528,742)**
Net book value					
Balance April 1	125,838	74,172	104,878	5,433	310,321
Balance March 31	**121,483**	**74,343**	**109,064**	**10,603**	**315,493**

1,000 CHF					**2016/17**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	177,323	236,953	182,728	7,835	604,839
Changes through business combinations	10,650	25,726	122,691	2,069	161,136
Additions	7,509	22,782	22,585	3,059	55,935
Disposals	(311)	(13,449)	(15,225)		(28,985)
Transfers		4,572	2,972	(7,544)	
Exchange differences	(132)	678	(2,411)	14	(1,851)
Balance March 31	**195,039**	**277,262**	**313,340**	**5,433**	**791,074**
Accumulated depreciation					
Balance April 1	(60,095)	(171,618)	(105,256)		(336,969)
Changes through business combinations	(3,623)	(20,166)	(90,685)		(114,474)
Additions	(5,673)	(24,033)	(26,436)		(56,142)
Disposals	233	12,897	12,510		25,640
Transfers		402	(402)		
Exchange differences	(43)	(572)	1,807		1,192
Balance March 31	**(69,201)**	**(203,090)**	**(208,462)**		**(480,753)**
Net book value					
Balance April 1	117,228	65,335	77,472	7,835	267,870
Balance March 31	**125,838**	**74,172**	**104,878**	**5,433**	**310,321**

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

There are no assets held under finance leases.

18. Investments in associates/joint ventures

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

1,000 CHF	2017/18	2016/17
Current assets	1,558	919
Non-current assets	2,226	1,518
Total assets	**3,784**	**2,437**
Current liabilities	(801)	(394)
Non-current liabilities	(35)	
Total liabilities	**(836)**	**(394)**
Net assets	**2,948**	**2,043**
Income for the year	5,804	2,170
Expenses for the year	(2,607)	(2,313)
Profit for the year	**3,197**	**(143)**
Net book value at year-end	13,700	11,471
Share of gain/(loss) recognized by the Group	3,197	(143)

In the 2017/18 financial year, the Group acquired one associate and disposed a majority share (51%) of a previously fully consolidated company (resulting in a minority share and a reclassification to associates). Both transactions were for companies which are in the business of selling hearing instruments but had no significant effect on the financial statements for the group. The net consideration for the two transactions above amounted to CHF 1.2 million (previous year CHF 1.6 million). In the 2016/17 financial year, the Group acquired three and divested one associate.

Sales to associates/joint ventures in the 2017/18 financial year amounted to CHF 10.0 million (previous year CHF 7.3 million). At March 31, 2018, trade receivables towards associates/joint ventures amounted to CHF 2.3 million (previous year CHF 2.2 million).

At the end of the 2017/18 and 2016/17 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 13.7 million (previous year CHF 11.5 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2017.

19. Other non-current financial assets

1,000 CHF	31.3.2018	31.3.2017
Financial assets at fair value through profit or loss	1,761	3,190
Loans to associates	6,713	7,855
Loans to third parties	12,124	7,722
Rent deposits	3,316	1,598
Total	**23,914**	**20,365**

Financial assets at fair value through profit or loss mainly consist of minority interests in patent and software development companies specific to the hearing aid industry.

The loans are primarily denominated in CAD, EUR, GBP, USD and ZAR. Loans to third parties consist mainly of loans to customers. As of March 31, 2018, the respective repayment periods vary between one and seven years and the interest rates vary generally between 3% and 5%. The valuation of the loans approximates to fair value.

20. Intangible assets

1,000 CHF					2017/18
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,969,218	606,961	135,083	87,482	2,798,744
Changes through business combinations	77,876	26,653		72	104,601
Additions			30,092	4,994	35,086
Disposals	(18,223)	(18,602)		(8,115)	(44,940)
Exchange differences	65,550	30,316	(109)	459	96,216
Balance March 31	**2,094,421**	**645,328**	**165,066**	**84,892**	**2,989,707**
Accumulated amortization					
Balance April 1	(154,062)	(224,932)	(34,489)	(62,174)	(475,657)
Additions		(49,476)[2]	(12,462)	(10,064)	(72,002)
Disposals		11,135		8,279	19,414
Exchange differences	6,823	(958)		(931)	4,934
Balance March 31	**(147,239)**	**(264,231)**	**(46,951)**	**(64,890)**	**(523,311)**
Net book value					
Balance April 1	1,815,156	382,029	100,594	25,308	2,323,087
Balance March 31	**1,947,182**	**381,097**	**118,115**	**20,002**	**2,466,396**

1) Intangibles relating to acquisitions include primarily customer relationships, trademarks, in process R&D and technology.
2) Relates to research and development (CHF 1.1 million) and sales and marketing (CHF 48.4 million).

1,000 CHF					**2016/17**
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,217,979	303,894	138,217	67,356	1,727,446
Changes through business combinations	753,856	315,541		12,673	1,082,070
Additions			32,369	8,816	41,185
Disposals	(4,302)	(6,099)	(35,569)	(974)	(46,944)
Exchange differences	1,685	(6,375)	66	(389)	(5,013)
Balance March 31	**1,969,218**	**606,961**	**135,083**	**87,482**	**2,798,744**
Accumulated amortization and impairments					
Balance April 1	(148,518)	(158,834)	(24,420)	(46,046)	(377,818)
Changes through business combinations		(26,556)		(10,790)	(37,346)
Additions		(39,321)[2]	(10,069)	(6,303)	(55,693)
Disposals		437	35,569	958	36,964
Impairment			(35,569)		(35,569)
Exchange differences	(5,544)	(658)		7	(6,195)
Balance March 31	**(154,062)**	**(224,932)**	**(34,489)**	**(62,174)**	**(475,657)**
Net book value					
Balance April 1	1,069,461	145,060	113,797	21,310	1,349,628
Balance March 31	**1,815,156**	**382,029**	**100,594**	**25,308**	**2,323,087**

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

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

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

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

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2017/18 and 2016/17 financial years.

Hearing instruments

As of March 31, 2018, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,639.0 million (prior year CHF 1,492.7 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.2% (prior year 2.0%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.4% (prior year 9.2%) was used. The group performed a sensitivity analysis which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2018, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 308.2 million (prior year CHF 322.5 million).

The cash flow projections were based on the most recent business plan approved by management. The business plan for the Cochlear implants business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.4% (prior year 2.1%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.6% (prior year 9.1%) was used. The group performed a sensitivity analysis which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. In the current financial year 2017/18, this review did not lead to any valuation adjustments. Due to the revision of the Cochlear implants product roadmap in the 2016/17 financial year, Sonova had identified the need of valuation adjustments on certain R & D projects. As a result, an impairment of previously capitalized development costs was recorded in previous year, resulting in a loss amounting to CHF 35.6 million. The amount is included in the income statement 2016/17 in the line “other income/(expense), net”. The capitalized development costs are included in the reportable segment “Cochlear implants” disclosed in Note 6.

21. Provisions

1,000 CHF					2017/18
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	117,489	11,186	132,525	37,008	298,208
Changes through business combinations	7,413	24		413	7,850
Amounts used	(64,787)	(6,404)	(7,245)	(18,243)	(96,679)
Reversals	(8,155)	(11)	(1,835)	(4,228)	(14,229)
Increases	71,458	4,656		15,641	91,755
Disposals				(334)	(334)
Present value adjustments	2		722	(176)	548
Exchange differences	2,180	(290)	(5,743)	1,196	(2,657)
Balance March 31	**125,600**	**9,161**	**118,424**	**31,277**	**284,462**
thereof short-term	79,724	9,161	15,427	13,610	117,922
thereof long-term	45,876		102,997	17,667	166,540

1,000 CHF					2016/17
	Warranty and returns	Reimbursement to customers	Product liabilities	Other Provisions	Total
Balance April 1	96,293	11,380	166,385	23,042	297,100
Changes through business combinations	16,250			16,901	33,151
Amounts used	(63,621)	(6,816)	(3,157)	(11,520)	(85,114)
Reversals	(2,792)	(6)	(37,380)	(3,439)	(43,617)
Increases	70,798	6,302		12,479	89,579
Disposals	(60)			(539)	(599)
Present value adjustments	3		960		963
Exchange differences	618	326	5,717	84	6,745
Balance March 31	**117,489**	**11,186**	**132,525**	**37,008**	**298,208**
thereof short-term	78,793	11,180	14,062	8,244	112,279
thereof long-term	38,696	6	118,463	28,764	185,929

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

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

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

The provision for the above mentioned cochlear implant product liabilities is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a reduction of CHF 1.8 million (previous year CHF 37.4 million) in “other income/(expense), net”. For further information refer to Note 2.7 “Provision for product liabilities”. The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings.

Other provisions include provisions for specific business risks such as litigation and restructuring costs which arise during the normal course of business. The timing of cash outflows for the other provisions is expected to take place within the next two years.

22. Financial liabilities

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

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40% with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan pays an interest between 0.00% p.a. (floor) and 0.05% p.a. (cap). The maturity will be on October 11, 2018 (disclosed under current financial liabilities). The fair value as of March 31, 2018 amounts to CHF 150.0 million (100.30%).
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with a 0.00% interest rate and maturity on October 11, 2019 (disclosed as non-current financial liabilities). The fair value as of March 31, 2018 amounts to CHF 250.0 million (100.58%).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021 (disclosed as non-current financial liabilities. Interests will be paid on an annual basis. The fair value as of March 31, 2018 amounts to CHF 360.0 million (100.28%).

Current financial liabilities

Current financial liabilities 1,000 CHF	**31.3.2018**	**31.3.2017**
Bank debt	18	19
Bond	150,100	
Deferred payments and contingent considerations	9,598	12,323
Other current financial liabilities	1,921	1,013
Total	**161,637**	**13,355**
Unused borrowing facilities	187,153	187,003

Besides the bond, current financial liabilities mainly consist of financial liabilities resulting from earn-out agreements related to contingent considerations and deferred payments from acquisitions.

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

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

Non-current financial liabilities

Non-current financial liabilities 1,000 CHF	**31.3.2018**	**31.3.2017**
Bank debt	62	78
Bonds	609,227	759,198
Deferred payments and contingent considerations	7,593	6,024
Other non-current financial liabilities	2,177	1,660
Total	**619,059**	**766,960**

Other non-current financial liabilities consist of obligations in relation to earn-out agreements from acquisitions as well as amounts due in relation to the share appreciation rights (SARs) (refer to Note 30).

Analysis by currency 1,000 CHF				**31.3.2018**				**31.3.2017**
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Bonds	Other non-current financial liabilities	Total
CHF		609,227	8,693	617,920		759,198	5,944	765,142
USD			15	15			419	419
EUR			79	79				
Other	62		983	1,045	78		1,321	1,399
Total	**62**	**609,227**	**9,770**	**619,059**	**78**	**759,198**	**7,684**	**766,960**

Reconciliation of financial liabilities

Reconciliation of financial liabilities 1,000 CHF					**2017/18**
	Bank debt	Deferred payments and contingent considerations	Bonds	Other financial liabilities	Total
Balance April 1	97	18,347	759,198	2,673	780,315
Repayments	(22)	(108)		(15)	(145)
Exchange differences	5	163		(423)	(255)
Other		(1,211)	129	1,863	781
Balance March 31	**80**	**17,191**	**759,327**	**4,098**	**780,696**
thereof short-term	18	9,598	150,100	1,921	161,637
thereof long-term	62	7,593	609,227	2,177	619,059

23. Other short-term liabilities

1,000 CHF	31.3.2018	31.3.2017
Other payables	53,267	47,661
Accrued expenses	192,607	184,190
Deferred income	29,796	27,324
Total	**275,670**	**259,175**

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

24. Risk management and financial instruments

Group risk management

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

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

Financial risk management

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

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

Market risk

Exchange rate risk

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

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

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

As of March 31, 2018, forward currency contracts amounting to CHF 329.4 million (previous year CHF 201.8 million) were open. The open contracts on March 31, 2018 as well as on March 31, 2017 were all due within one year.

Notional amount of forward contracts 1,000 CHF		**31.3.2018**		**31.3.2017**
	Total	Fair Value	Total	Fair Value
Positive replacement values	61,024	534	57,513	819
Negative replacement values	268,337	(1,740)	102,597	(870)
Total	**329,361**	**(1,206)**	**160,110**	**(51)**

Foreign currency sensitivity analysis

1,000 CHF	**2017/18**	**2016/17**	**2017/18**	**2016/17**
	Impact on income after taxes[1]		Impact on equity	
Change in USD/CHF +5%	4,302	1,181	14,290	32,494
Change in USD/CHF –5%	(4,302)	(1,181)	(14,290)	(32,494)
Change in EUR/CHF +5%	5,223	4,665	19,550	17,733
Change in EUR/CHF –5%	(5,223)	(4,665)	(19,550)	(17,733)

1) Excluding the impact of forward currency contracts.

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2017/18 financial year of CHF 372 million (previous year CHF 236 million). On liabilities the most significant risk relates to the two year variable rate bond (see Note 22). If interest rates during the 2017/18 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 2.5 million. If interest rates had been 1% lower, the income would have been negatively impacted by CHF 2.0 million.

Other market risks

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

Credit risk

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

Core banking relations are maintained with at least "BBB+" rated (S & P) financial institutions. As of March 31, 2018, the largest balance with a single counterparty amounted to 24% (previous year 19%) of total cash and cash equivalents.

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

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

Liquidity risk

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

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2018 and 2017:

1,000 CHF					**31.3.2018**
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		150,100			150,100
Other current financial liabilities	267	(149,914)			(149,647)
Trade payables and other short-term liabilities	480	–			480
Total current financial liabilities	**747**	**186**			**933**
Bonds			(62)		(62)
Other non-current financial liabilities			62		62
Total non-current financial liabilities			**–**		**–**
Total financial liabilities	**747**	**186**	**0**		**933**

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

Fair value hierarchy

The following table summarizes the financial instruments carried at fair value, by valuation method, as of March 31, 2018 and 2017. The different levels have been defined as follows:

Level 1:
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Level 2:
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to value an instrument are observable, the instrument is included in level 2.

Level 3:
If a significant amount of inputs is not based on observable market data the instrument is included in level 3. For this level, other techniques, such as discounted cash flow analysis, are used to determine fair value.

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

1,000 CHF				**31.3.2018**
	Level 1	Level 2	Level 3	Total
Financial assets				
At fair value through profit or loss	59		2,295	2,354
Total	**59**		**2,295**	**2,354**
Financial liabilities				
At fair value through profit or loss			(62)	(62)
Total			**(62)**	**(62)**

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

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2018 and 2017:

Financial assets at fair value through profit or loss 1,000 CHF	**2017/18**	**2016/17**
Balance April 1	1,531	6,474
Additions/(disposals), net	819	(3,263)
Losses recognized in profit or loss	(55)	(1,680)
Balance March 31	**2,295**	**1,531**

Financial liabilities at fair value through profit or loss 1,000 CHF	**2017/18**	**2016/17**
Balance April 1	(20,598)	(21,574)
(Additions)/disposals, net	24,430	1,620
Losses recognized in profit or loss	(3,894)	(644)
Balance March 31	**(62)**	**(20,598)**

Capital risk management

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

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

25. Other long-term liabilities

1,000 CHF	**31.3.2018**	**31.3.2017**
Long-term deferred income	106,487	80,697
Retirement benefit obligations	7,391	25,581
Total	**113,878**	**106,278**

Long-term deferred income relates to long-term service contracts with customers and is recognized as a sale over the period of the service contract. The increase in the financial year 2017/18 primarily relates to the finalization of the purchase accounting of the fair values assigned in regards to the acquisition of AudioNova. For further information, refer to Note 27.

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 29.

26. Movements in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2016	66,626,387	(1,209,989)	65,416,398
Capital decrease – share buy-back program	(1,203,500)	1,203,500	
Purchase of treasury shares		(294,791)	(294,791)
Sale/transfer of treasury shares		293,090	293,090
Purchase of shares intended to be cancelled[2]		(92,000)	(92,000)
Balance March 31, 2017	**65,422,887**	**(100,190)**	**65,322,697**
Capital decrease – share buy-back program[2]	(92,000)	92,000	
Purchase of treasury shares		(318,675)	(318,675)
Sale/transfer of treasury shares		323,243	323,243
Balance March 31, 2018	**65,330,887**	**(3,622)**	**65,327,265**

Nominal value of share capital 1,000 CHF	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2018	**3,267**	**(1)**	**3,266**

Each share has a nominal value of CHF 0.05.

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

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

At the Annual General Shareholder’s Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2018. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company’s financial flexibility (3,301,120 shares).

27. Acquisitions/Disposals of subsidiaries

In the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific. Furthermore, the Group divested of two smaller companies in Europe as well as one company in the US. All of these companies acquired/divested are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. The most significant of the businesses acquired related to the acquisition of the “Hörgeräte ISMA GmbH & Co. KG”, a German retail company with 56 points of sale and 190 employees. During the financial year 2016/17 besides several small acquisitions/divestments, AudioNova International B.V. was acquired.

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

1,000 CHF	2017/18			2016/17
	Total	AudioNova	Others	Total
Trade receivables	2,270	32,486	333	32,819
Other current assets	17,435	77,152	2,444	79,596
Property, plant & equipment	2,387	45,572	1,090	46,662
Intangible assets	26,725	275,742	15,126	290,868
Other non-current assets	553	28,010	2,183	30,193
Current liabilities	(14,592)	(35,307)	(3,450)	(38,757)
Non-current liabilities	(27,969)	(460,818)	(5,117)	(465,935)
Net assets	**6,809**	**(37,163)**	**12,609**	**(24,554)**
Goodwill	77,876	720,610	33,246	753,856
Purchase consideration	**84,685**	**683,447**	**45,855**	**729,302**
Liabilities for contingent considerations and deferred payments[1]	(5,766)		(1,487)	(1,487)
Cash and cash equivalents acquired	(3,423)	(53,022)	(1,359)	(54,381)
Cash outflow for investments in associates, contingent considerations and deferred payments	6,978		1,849	1,849
Cash consideration for acquisitions, net of cash acquired	**82,474**	**630,425**	**44,858**	**675,283**
Settlement of pre-existing HAL intragroup financing		290,794		290,794
Total consideration paid, net of cash acquired	**82,474**	**921,219**	**44,858**	**966,077**

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

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

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

In the 2017/18 reporting period, recognized acquisition-related intangible assets mainly relate to customer relationships. In the financial year 2016/17, recognized acquisition-related intangible assets for AudioNova largely contain trademarks (CHF 142.3 million) and customer relationships (CHF 131.5 million). For acquisition-related intangibles the lifetimes assigned range between 10 and 20 years. On these intangibles, deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.5 million (prior year period CHF 8.8 million, thereof CHF 8.1 million relating to the acquisition of AudioNova) have been expensed and are included in the line "General and administration". There are no variable purchase price components resulting from the AudioNova acquisition.

April 1 to March 31, 1,000 CHF	2017/18			2016/17
	Total	AudioNova	Others	Total
Contribution of acquired companies from date of acquisition				
Sales	17,675	218,086	12,661	230,747
Net income	1,745	11,589	1,269	12,858
Contribution, if the acquisitions occurred on April 1				
Sales	34,778	361,867	19,754	381,621
Net income[1)]	6,337	9,304	3,230	12,534

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

On March 30, 2018, Sonova Holding AG signed an agreement to divest Ear Professional International Corporation ("EPIC"), representing the Group's US insurance subcontracting business. Further in the 2017/18 reporting period, the Group divested two minor group companies in the EMEA region. The total purchase price consideration for the divestments amounted to CHF 23.2 million. The carrying amount of the disposed net assets amounted to CHF 17.8 million including cash and cash equivalents of CHF 0.8 million. The net gain from these transactions of CHF 5.4 million has been recognized in the income statement and is included in "other income/(expense), net". These transactions have no material impact on the financial statements.

In the financial year 2016/17, the Group divested two minor group companies in the EMEA and the Americas region. The total consideration amounting to CHF 18.3 million was settled in cash. The carrying amount of the disposed net assets amounted to CHF 14.0 million including cash and cash equivalents of CHF 0.5 million. The net gain from these transactions of CHF 3.8 million has been recognized in the income statement and is included in "other income/(expense), net".

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

1,000 CHF	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
	Management Board		Board of Directors		Total	
Short-term employee benefits	9,309	8,199	1,552	1,519	10,861	9,718
Post-employment benefits	883	828			883	828
Share based payments	6,646	5,064	1,390	1,362	8,036	6,426
Total	**16,838**	**14,091**	**2,942**	**2,881**	**19,780**	**16,972**

The total compensation to the Management Board for the 2017/18 reporting period, as shown above, relates to 10 members (including two members of the Management Board who joined in October 2017) and two former members of the Management Board until contractual end date. The total compensation to the Management Board for the 2016/17 reporting period, as shown above, related to 10 members.

The total compensation to the Board of Directors for the 2017/18 reporting period, as shown above, relates to eight current members (previous year also eight members).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 29.

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

29. Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Israel. These plans are both funded and unfunded and governed by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland which in total accounts for CHF 369.1 million or 99.6% (previous year CHF 353.3 million or 99.6%) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions as defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. In the reporting period, to further reduce the financial risks of the pension fund, the foundation has decided that, above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. In the previous year, the foundation decided to reduce the annuity rate of 5.8% applied to the individual accumulated retirement saving gradually over-time. After 5.8% that was applied for 2016/17, an annuity rate of 5.6% was applied for the financial year 2017/18.

As of March 31, 2018, 1,254 employees (previous year 1,210 employees) and 119 beneficiaries (previous year 107 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.4 years (previous year 14.3 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF 1,000	**31.3.2018**	**31.3.2017**
Present value of funded obligations	(370,714)	(354,721)
Fair value of plan assets	365,616	330,864
Net present value of funded plans	**(5,098)**	**(23,857)**
Present value of unfunded obligations	(2,293)	(1,724)
Total liabilities, net	**(7,391)**	**(25,581)**
Amounts in the balance sheet:		
Retirement benefit obligation	(7,391)	(25,581)

Remeasurements recognized in equity CHF 1,000	**2017/18**	**2016/17**
Balance April 1	30,049	69,497
Actuarial (gains)/losses from		
– changes in demographic assumptions		(6,775)
– changes in financial assumptions	(12,525)	(4,125)
– changes in experience adjustments	12,564	(4,789)
Return on plan assets excluding interest income	(15,039)	(23,759)
Balance March 31	**15,049**	**30,049**

Amounts recognized in the income statement CHF 1,000	**2017/18**	**2016/17**
Current service cost[1)]	21,331	23,982
Participants' contributions	(10,973)	(10,633)
Net interest cost	187	435
Total employee benefit expenses[2)]	**10,545**	**13,784**

1) Current service cost for the 2017/18 financial year contains the effect of the pension plan change as described above. 2016/17 contains the effect of a gradual reduction of the annuity rate.

2) The amount recognized in the consolidated income statement 2017/18 has been charged to:
– cost of sales CHF 1.9 million (previous year CHF 2.4 million);
– research and development CHF 3.5 million (previous year 4.3 million);
– sales and marketing CHF 2.1 million (previous year 2.7 million);
– general and administration CHF 2.9 million (previous year CHF 4.0 million);
– financial expenses CHF 0.2 million (previous year CHF 0.4 million).

Movement in the present value of the defined benefit obligations CHF 1,000	**2017/18**	**2016/17**
Beginning of the year	356,452	361,122
Interest cost	2,215	2,243
Current service cost	21,331	23,982
Benefits paid, net	(7,197)	(15,377)
Actuarial loss on obligations	39	(15,689)
Changes through business combinations		104
Exchange differences	167	67
Present value of obligations at end of period	**373,007**	**356,452**

Movement in the fair value of the plan assets CHF 1,000	**2017/18**	**2016/17**
Beginning of the year	330,759	295,778
Interest income on plan asset	2,028	1,808
Employer's contributions paid	13,992	13,944
Participants' contributions	10,973	10,633
Benefits paid, net	(7,162)	(15,218)
Return on plan assets excluding interest income	15,039	23,759
Changes through business combinations		110
Exchange differences	(13)	(55)
Fair value of plan assets at end of period	**365,616**	**330,759**

The plan assets consist of:	**31.3.2018**	**31.3.2017**
Cash	4.5%	1.4%
Domestic bonds	17.9%	20.0%
Foreign bonds	7.6%	8.4%
Domestic equities	12.9%	13.8%
Foreign equities	31.9%	32.1%
Real estates	14.3%	15.0%
Alternative investments	10.9%	9.3%

The actual return on plan assets amounted to CHF 17.1 million (previous year CHF 25.4 million). The expected employer's contributions to be paid in the 2018/19 financial year amount to CHF 14.0 million.

Principal actuarial assumptions (weighted average)	**2017/18**	**2016/17**
Discount rate	0.85%	0.60%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2015GT

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions was changed. For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account.

Sensitivity analysis – Impact on defined benefit obligation CHF 1,000	**31.3.2018**	**31.3.2017**
Discount rate		
Discount rate +0.25%	(11,432)	(11,694)
Discount rate –0.25%	12,930	13,315
Salary growth		
Salary growth +0.25%	651	823
Salary growth –0.25%	(623)	(802)
Pension growth		
Pension growth +0.5%	26,426	13,485
Pension growth –0.5%	(26,426)	(13,485)
Fluctuation rate		
Fluctuation rate +5%	(11,307)	(14,357)
Fluctuation rate –5%	19,365	24,750

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 19.1 million in the year ended March 31, 2018 (previous year CHF 17.7 million) and are recognized directly in the income statement.

30. Equity plans

Equity plans are offered annually to the members of the Board of Directors (BoD), to the members of the Management Board (MB) as well as to other management and senior employees of the Group, entitling them to receive long-term incentives in the form of equity plans free of charge. Equity plans are settled either with Sonova Holding AG shares (equity-settled share-based payment) or for certain US employees with an equivalent amount in cash (cash-settled share-based payment). The amount granted varies depending on the degree of management responsibility held.

In the 2017/18 and 2016/17 financial years, Sonova granted restricted shares, restricted share units (RSUs), options, and for US employees, share appreciation rights (SARs). In 2017/2018, grants made to the members of the Management Board (excluding CEO) under the Executive Equity Award Plan (EEAP) consist of options as well as performance share units (PSUs), which generally replace restricted share units (RSUs). Options as well as PSUs granted to the Management Board (excluding CEO) in 2017/2018 include a performance criterion. Grants to the CEO in the financial year 2017/18 consist of RSUs as well as options (both containing performance criteria). In addition, in the current financial year a non-recurring performance option grant was made to the COO.

For further details on the different instruments granted (especially in regards to performance criteria) to the members of the Management Board, please refer to the compensation report.

The following share-based payment costs have been recognized in the financial years:

1,000 CHF	2017/18	2016/17
Equity-settled share-based payment costs	17,920	18,708
Cash-settled share-based payment costs	308	254
Total share-based payment costs	**18,228**	**18,962**

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2012 to 2018. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the COO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2018:

Financial year granted	Instruments granted	First vesting date/ Expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2011/12	Options/SARs	1.6.2013 31.1.2019	298,474	95.85	34,958	0.8	34,958
2012/13	Options/SARs	1.6.2014 31.1.2020	227,188	109.10	56,573	1.8	56,573
2013/14	Options/SARs[1]	1.6.2015 31.1.2021	242,673	124.60	102,945	2.8	62,734
2014/15	Options/SARs[2]	1.6.2016 31.1.2022	308,459	121.10	165,014	3.8	52,534
2015/16	Options/SARs[3]	1.6.2017 31.1.2023	298,520	124.20	208,139	4.8	35,128
2016/17	Options/SARs[4]	1.6.2018 31.1.2024	378,652	130.00	342,825	5.8	
2017/18	Options[5]	1.4.2023 30.9.2027	47,415	147.85	47,415	9.5	
2017/18	Options/SARs[6]	1.6.2019 31.1.2028	341,943	147.85	341,943	9.8	
Total			**2,143,324**	**123.57**	**1,299,812**[7]	**6.0**	**241,927**[8]
Thereof:							
Equity-settled			1,908,819		1,197,443		227,885
Cash-settled			234,505		102,369		14,042

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Non-recurring performance options, granted to the COO.
6) Including 150,114 performance options, granted to the CEO and MB members.
7) Weighted average exercise price of outstanding options/SARs amounts to CHF 131.03.
8) Weighted average exercise price for exercisable options/SARs amounts to CHF 116.00.

The fair value of options and/or SARs is calculated at the grant date by using an "Enhanced American Pricing Model". The expected volatility is based on historical measures. The main valuation assumptions used for the options and/or SARs granted in the current and in the previous financial year are as follows:

Assumptions for valuation at grant date	EEAP 2018 Options/SARs	EEAP 2018 Performance Options COO	EEAP 2017 Options/SARs
Valuation date	1.2.2018	1.2.2018	1.2.2017
Expiry date	31.1.2028	30.9.2027	31.1.2024
Share price on grant date	CHF 147.85	CHF 147.85	CHF 130.00
Exercise price	CHF 147.85	CHF 147.85	CHF 130.00
Volatility	20.1%	20.1%	21.7%
Expected dividend yield	1.9%	1.9%	2.1%
Weighted risk free interest rate	0.2%	0.3%	(0.3%)
Weighted average fair value of options/SARs issued	**20.77**	**21.09**	**CHF 16.99**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment.

Changes in outstanding options:		2017/18		2016/17
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,123,708	122.03	1,010,026	117.07
Granted[1]	357,319	147.85	334,440	130.00
Exercised/sold[2]	(211,026)	114.36	(168,642)	108.20
Forfeited	(72,558)	125.60	(52,116)	121.82
Outstanding options at March 31	**1,197,443**	**130.87**	**1,123,708**	**122.03**
Exercisable at March 31	**227,885**	**115.77**	**239,356**	**110.71**

1) 2017/18 includes 150,114 performance options (previous year 147,948 performance options), granted to the CEO and MB members as well as 47,415 non-recurring performance options granted to the COO.

2) The total consideration from options exercised amounted to CHF 24.1 million (previous year CHF 32.5 million). The weighted average share price of the options exercised during the year 2017/18 was CHF 159.16 (previous year CHF 132.29).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs , multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until their expiry.

Changes in outstanding SARs:	**2017/18**		**2016/17**	
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	102,364	125.00	103,956	119.45
Granted	32,039	147.85	44,212	130.00
Exercised/sold	(11,957)	117.19	(19,963)	110.83
Forfeited	(20,077)	125.84	(25,841)	122.18
Outstanding SARs at March 31[1]	**102,369**	**132.90**	**102,364**	**125.00**
Exercisable at March 31[2]	**14,042**	**119.84**	**11,402**	**115.43**

1) The carrying amount of the liability relating to the SARs at March 31, 2018 is CHF 1.1 million (previous year CHF 1.2 million).
2) The intrinsic value of the SARs exercisable at March 31, 2018 amounts to CHF 0.4 million (previous year CHF 0.3 million).

Performance share units (PSUs)/Restricted share units (RSUs)/Restricted shares

Under the EEAP grants 2012 to 2018, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. In 2018, grants made to the members of the Management Board (excluding CEO) under the EEAP consist of performance share units (PSUs), which generally replace RSUs. The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a “Monte-Carlo valuation”. PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion.

In addition to the PSUs/RSUs granted in respect to the EEAP 2018, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

Upon vesting of the PSUs/RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the PSUs/RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely achievements of the rTSR targets for performance of PSUs and ROCE targets for performance of RSUs granted to CEO and the other members of the MB) to ensure that only vested amounts are expensed. The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2017/18 financial year as these shares have no vesting period.

Changes in outstanding PSUs/RSUs/Restricted shares:	**2017/18**	**2016/17**
	Number of PSUs/RSUs/ Restricted shares	Number of RSUs/ Restricted shares
RSUs/Restricted shares at April 1	457,669	458,436
Granted[1]	126,931	135,286
Released	(115,014)	(110,627)
Forfeited	(34,080)	(25,426)
PSUs/RSUs/Restricted Shares at March 31	**435,506**	**457,669**

[1] 2017/18 includes 18,001 PSUs, granted to the MB members (excluding CEO) as well as 2,800 RSUs granted to the CEO. In the previous year, 17,907 RSUs were granted to the MB members and the CEO.

31. Contingent liabilities

At March 31, 2018 and 2017, there were no pledges given to third parties other than in - relation to bank loans and mortgages.

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

Deposits in the amount of CHF 3.7 million (previous year CHF 2.7 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.9 million at March 31, 2018 (previous year CHF 0.8 million). Open purchase orders as of March 31, 2018 and 2017, were related to recurring business activities.

32. Leasing liabilities

At March 31, 2018, the following non-cancellable minimum operating lease obligations - existed:

Financial year 1'000 CHF	**31.3.2018**	**31.3.2017**
2017/18		69,320
2018/19	77,591	50,229
2019/20	56,173	38,743
2020/21	37,072	26,593
2021/22	27,004	21,391
2022/23	21,444	14,233
thereafter	27,684	11,757
Total	**246,968**	**232,266**

The operating lease commitments relate primarily to long-term property lease agreements which are, in general, renewable.

In the 2017/18 financial year, CHF 101.2 million was recognized as expenses for leases in the consolidated income statement (previous year CHF 79.6 million). The increase compared to 2016/17 is mainly related to the annualization effect of the acquisition of AudioNova and the increase in the CHF/EUR exchange rate.

As of March 31, 2018 and 2017, the Group had no financial lease obligations.

33. Events after balance sheet date

There have been no material events after the balance sheet date.

34. List of significant companies

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000			Shares held
Switzerland						
Sonova Holding AG	A	Stäfa	CHF	3,267		
Sonova AG	A, B, C, D	Stäfa	CHF	2,500		100%
Advanced Bionics AG	A, B	Stäfa	CHF	4,350		100%
Sonova Retail Holding AG	A	Zug	CHF	1,000		100%
EMEA (excluding Switzerland)						
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450		100%
Ets. Lapperre BHAC NV	B	Groot-Bijgaarden (BE)	EUR	124		100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR	41		100%
Hansaton Akustik GmbH	B	Hamburg (DE)	EUR	1,000		100%
Vitakustik GmbH	B	München (DE)	EUR	500		100%
Hörgeräte ISMA GmbH & Co. KG	B	Sonnenberg (DE)	EUR	120		100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR	1,000		100%
Sonova Ibérica S.A.	B	Alicante (ES)	EUR	7,000		100%
Audition Santé SAS	B	Cahors (FR)	EUR	28,800		100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR	1,000		100%
Sonova Italia Srl	B	Milan (IT)	EUR	1,040		100%
Schoonenberg Hoorcomfort B.V.	B	Dortrecht (NL)	EUR	19		100%
AudioNova NV/SA, BE	B	Groot-Bijgaarden (NL)	EUR	3,562		100%
AudioNova Italia	B	Milan (IT)	EUR	1,166		100%
AudioNova Aps, DK	B	Klampenborg (DK)	DKK	1,561		100%
Geers Akustyka, PL	B	Lodz (PL)	PLN	678		100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0	2)	51%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500		100%
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150		100%
Americas						
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	67,179		100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	3)	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0	3)	100%
Connect Hearing Inc.	B	Naperville (US)	USD	0	4)	100%
Sonova USA, Inc.	B	Plymouth (US)	USD	46,608		100%
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	3)	100%
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0	3)	100%
Development Finance Inc.	A	Wilmington (US)	USD	0	5)	100%
Asia/Pacific						
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	35,000		100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	750		100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100%
Phonak Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100%

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.
1) Share/paid-in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) GBP 133
3) Without par value
4) USD 1
5) USD 10

Report of the statutory auditor on the consolidated financial statement

Report of the statutory auditor

to the General Meeting of Sonova Holding AG

Staefa

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 March 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 21.3 million

We concluded full scope audit work at 28 reporting units in 13 countries. Our audit scope addressed over 68% of the Group's revenue and 74% of the Group's assets.

In addition, specified procedures were performed for 5 reporting units in 4 countries representing a further 4% of the Group's revenue and 2% of the Group's assets and limited reviews for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 9% of the Group's assets.

As key audit matters the following areas of focus have been identified:

- Goodwill impairment assessment
- Provisions for product liabilities

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group is primarily structured across two operating segments: Hearing Instruments and Cochlear Implants. Both segments are active in several markets, mainly Americas, Europe, Asia, Australia and South East Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, by component auditors from PwC network firms and component auditors from other firms operating under our instructions. The group consolidation, financial statement disclosures, goodwill and deferred tax assets are audited by the group Engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Our Group engagement team's involvement included various conference calls with component Auditors during the planning phase, interim and final audit.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 21.3 million
How we determined it	5% of average profit before tax of the last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years avoids volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the

pwc

context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	*How our audit addressed the key audit matter*
The Group has goodwill of CHF 1,947.2 million at March 31, 2018. The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgements and estimates made by Management. The judgements and estimates include the initial valuation and subsequent determination of the timing and measurement of an impairment charge, if any. Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied. Refer to note 2.7 (Significant accounting judgements and estimates), and note 20 (Intangible assets).	We have obtained impairment assessments for the CGU Hearing Instruments and the CGU Cochlear Implants from Management and performed the following procedures, amongst other: We assessed and tested the design and operating effectiveness of the controls over the Group's Budget- and Management Reporting process which is the basis for the future cash flow forecasts. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which included the timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets. In addition, we focused on whether Management had identified all relevant CGUs. The Group operates as a fully integrated system provider in the respective segments covering the whole value chain. Individual entities or elements of the business do not generate independent cash flows. Therefore, our work focused on confirming Management's position that the Hearing Instruments and Cochlear Implants CGU's are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. We evaluated and challenged the reasonableness of Management's key assumptions applied in its impairment assessments for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the key assumptions had, with hindsight, been reasonable. • Any significant changes to key assumptions from prior periods by considering whether they had been applied appropriately in the cash flow projection. • Growth rates, by comparing them to economic and industry forecasts and operating margins with comparable companies. • Discount rate, with support of our valuation experts, by assessing the risk adjusted

4

pwc

	cost of capital used to derive the discount rate for the Group and comparable organisations. We performed our own sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. Sufficient headroom remained between our own value in use calculation used for sensitivity analysis and the carrying value of the CGUs in the financial statements. We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.

Provisions for product liabilities

Key audit matter	*How our audit addressed the key audit matter*
Provisions for product liabilities amounted to CHF 118.4 million as of March 31, 2018. We focused on the provision for product liabilities related to the voluntary product recall of Advanced Bionics LLC in 2006 (for further details refer to note 2.7 (Significant accounting judgements and estimates), due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially impact the Group's result. Refer to note 2.7 (Significant accounting judgements and estimates), and note 21 (Provisions) for more information.	In response to the risk, our audit procedures included, assessing management's process around the identification and evaluation of respective claims, proceedings and investigations at different levels in the organisation and the recording and continuous re-assessment of the related provision and disclosures. We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors. We also received external legal confirmation letters from relevant external legal counsels. Management use a developed model to calculate the product liability (the Model). Generally the key assumptions within the Model are consistent to the prior year. The provision is based on historical average claim rates and costs per claim. We tested the Model's mathematical integrity, the accuracy of the underlying calculation and the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We selected samples for settlements and insurance payments and assessed whether the settlements support the key determining factors used in the Model. Furthermore we assessed if the discounting of the provision was in accordance with

5

pwc

	IAS 37 (provisions, contingent liabilities and contingent assets). Based on our procedures performed, the provision had been reasonably based on the information currently available to Management and after proper consideration of the legal advice received.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Sonova Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

pwc

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm	Claudio Berchtold
Audit expert Auditor in charge	Audit expert

Zürich, 16 May 2018

Enclosure:

- Consolidated financial statements (consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and notes)

7

Financial statements of Sonova Holding AG

Income statements

1,000 CHF	Notes	2017/18	2016/17
Income			
Investment income		276,144	125,729
License income		6,523	12,168
Financial income	2.1	27,872	31,738
Total income		**310,539**	**169,635**
Expenses			
Administration expenses		(8,272)	(8,858)
Other expenses		(1,004)	(1,014)
Financial expenses	2.1	(19,280)	(15,587)
Direct taxes		(914)	(1,497)
Total expenses		**(29,470)**	**(26,956)**
Net profit for the year		**281,069**	**142,679**

Balance sheets

Assets 1,000 CHF	Notes	31.3.2018	31.3.2017
Cash and cash equivalents		34,420	8,514
Other receivables			
– Third parties		2,765	2,531
– Group companies		6,379	6,105
Prepaid expenses		17	16
Total current assets		**43,581**	**17,166**
Financial assets	2.2		
– Third parties		772	1,019
– Group companies		2,310,209	2,193,035
Investments	2.3	324,296	319,071
Total non-current assets		**2,635,277**	**2,513,125**
Total assets		**2,678,858**	**2,530,291**

Liabilities and shareholders' equity 1,000 CHF	Notes	31.3.2018	31.3.2017
Trade account payables			
– Third parties		74	22
– Group Companies		23	
Short-term interest-bearing liabilities			
– Third parties		17	17
– Group companies		17,641	1,443
Bond	2.4	150,000	
Other short-term liabilities to third parties		207	64
Accrued liabilities		5,480	4,470
Total short-term liabilities		**173,442**	**6,016**
Bonds	2.4	610,000	760,000
Other long-term liabilities to third parties			217
Total long-term liabilities		**610,000**	**760,217**
Total liabilities		**783,442**	**766,233**
Share capital		3,267	3,271
Legal reserves			
– Reserves from capital contribution		18,634	18,630
– General reserves		1,800	1,800
Statutory retained earnings			
– Balance carried forward		1,591,182	1,610,541
– Net profit for the year		281,069	142,679
Treasury shares	2.5	(536)	(12,863)
Total shareholders' equity		**1,895,416**	**1,764,058**
Total liabilities and shareholders' equity		**2,678,858**	**2,530,291**

Notes to the financial statements of Sonova Holding AG as of March 31, 2018

1. General information

The financial statements of Sonova Holding AG, with registered office in Stäfa, comply with the requirements of Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations, 'SCO'). The company does not have any employees.

2. Accounting principles

2.1 Financial income/expenses

Financial income/expenses consists primarily of realized/unrealized foreign exchange gains and losses as well as interest income/expenses.

2.2 Financial assets

Financial assets contain loans to third parties as well as to Group companies and are recognized at cost less adjustments for foreign currency losses and impairment of value. Loans granted in foreign currency are translated at balance sheet date.

2.3 Investments

Investments consists mainly of participations in fully consolidated Group companies. They are in general subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.

2.4 Bonds

Bonds are valued at nominal value. Any bond premium/discount is accrued/capitalized and released/amortized linearly over the term.

2.5 Treasury shares

Treasury shares are recognized at cost and deducted from shareholders' equity. The gain or loss from sale is recognized in the income statement as financial gain or financial loss.

3. Information on income statement and balance sheet items

3.1 Bonds

On October 11, 2016, the Sonova Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40% with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan pays an interest between 0.00% p.a. (floor) and 0.05% p.a. (cap). The maturity will be on October 11, 2018 (disclosed under short-term liabilities).
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with 0.00% interest payment and maturity on October 11, 2019 (disclosed under long-term liabilities).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis (disclosed under long-term liabilities).

3.2 Treasury shares

In accordance with the acceptance of the annual general meeting on June 13, 2017, 92,000 treasury shares have been cancelled with the effect of a decrease in share capital. Consequently the reserves from capital contribution increased by the same amount. The average selling price amounted to CHF 117.34 and the average purchase price to CHF 158.51.

Number/1,000 CHF

	Number	Treasury shares at cost
Balance April 1, 2017	100,190	12,863
Purchase of treasury shares	318,675	50,512
Sale/Transfer of treasury shares	(323,243)	(37,928)
Cancellation of treasury shares	(92,000)	(11,789)
Loss from sale of treasury shares		(13,122)
Balance March 31, 2018	**3,622**	**536**

3.3 Contingent liabilities

1,000 CHF	**31.3.2018**	**31.3.2017**
Guarantees given in respect of rental obligations of Group Companies	1,173	2,038

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

The Swiss Sonova entities form a VAT group and, hence, every company participating in the group is jointly and severally liable for VAT debt of other group participants. Further Sonova Group companies participating in the cash pool are jointly and severally liable for any debit position or outstanding overdraft in connection with them.

3.4 List of investments

Company name	Activity	Domicile	Share/paid-in capital[1)] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Sonova AG	A,B,C,D	Stäfa	CHF	2,500	100%
Phonak AG	A	Stäfa	CHF	100	100%
Phonak Communications AG	B, C, D	Murten	CHF	500	100%
Unitron Hearing GmbH	B	Stäfa	CHF	20	100%
Verve Hearing Systems AG	A	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Sonova France SAS	B	Bron-Lyon (FR)	EUR	1,000	30%[2)]
SCI Du Triangle De Bron	A	Bron-Lyon (FR)	EUR	46	100%
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	85%[2)]
Sonova Italia S.R.L.	B	Milan (IT)	EUR	1,040	100%
Sonova Nederland B.V.	B	Vianen (NL)	EUR	227	100%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0[3)]	51%
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR	15,311	100%
Sonova Denmark A/S	B	Middelfart (DK)	DKK	11,075	100%
Sonova Nordic AB	B	Stockholm (SE)	SEK	200	85%[2)]
Sonova Sweden AB	B	Stockholm (SE)	SEK	100	100%
Sonova Norway AS	B	Oslo (NO)	NOK	1,854	49%[2)]
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Hansaton Akustische Geräte GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Warsaw Service Center Sp.Z.o.o.	A	Warsaw (PL)	PLN	100	100%
Sonova Hungary Korlátolt Felelösségü Társaság	B	Budapest (HU)	HUF	5,000	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Audition Santé SAS	B	Cahors (FR)	EUR	28,800	15%[2)]
HIMSA A/S	A	Copenhagen (DK)	DKK	250	25%

For significant indirect investments refer to Note 34 of the consolidated financial statements of Sonova Holding AG.
Description:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.
1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) GBP 133

Company name	Activity	Domicile	Share/paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Americas					
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0[3]	100%
Sonova United States Hearing Instruments, LLC	B	Warrenville (US)	USD	0[3]	85%[2]
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD	13,105	31%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0[3]	85%[2]
Phonak Mexicana S.A. de C.V.	B	Mexico DF (MX)	MXN	94,050	85%[2]
AudioNova Mexico S.A. de C.V.	B	Mexico DF (MX)	MXN	66,100	99%[2]
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL	37,106	100%
Asia/Pacific					
Advanced Bionics Medical Instruments (Suzhou) Co., Ltd.	B	Suzhou (CN)	CNY	4,617	70%[2]
Sonova Australia Pty. Ltd.	B	Baulkham Hills (AU)	AUD	750	100%
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD	250	100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Sichuan i-Hear Co., Ltd.	A	Chengdu (CN)	CNY	42,802	100%
Sonova (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100%
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD	3,100	100%
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD	250	100%
Sonova Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Sonova India Private Limited	B	Mumbai (IN)	INR	2,439	64%[2]
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100%
Sonova Vietnam Company Limited	B	Ho Chi Minh City (VN)	VND	2,088,000	70%[2]

For significant indirect investments refer to Note 34 of the consolidated financial statements of Sonova Holding AG.

Description:

A Holding/Finance: The entity is a holding or finance company.

B Sales: The entity performs sales and marketing activities for the group.

C Production: This entity performs manufacturing for the group.

1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.

2) The remaining shares are held by a subsidiary of Sonova Holding AG.

3) Shares without par value

3.5 Significant shareholders

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 3% of the issued share capital). Significant shareholders may also hold non-registered shares which are reported under “Not registered”.

	31.3.2018	31.3.2017
Beda Diethelm	10.19%	10.17%
Chase Nominees Ltd.[1]	8.59%	8.54%
Hans-Ueli Rihs	5.71%	5.84%
Nortrust Nominees Ltd.[1]	4.41%	4.63%
Andy Rihs	3.08%	3.16%
Registered shareholders with less than 3%	35.93%	35.42%
Not registered	32.09%	32.24%

1) Registered without voting rights.

3.6 Shareholdings and participations of the Board of Directors and the Management Board

	31.03.2018				31.03.2017			
	Shares	Restricted Shares[1)2)]	PSUs/RSUs[2)]	Options (incl. SARs)[2)]	Shares	Restricted Shares[1)2)]	RSUs[2)]	Options (incl. SARs)[2)]
Board of Directors	42,720	66,126		2,558	31,215	65,462		12,788
Management Board	62,892		56,137	613,440	52,243		56,026	533,765
Total	**105,612**	**66,126**	**56,137**	**615,998**	**83,458**	**65,462**	**56,026**	**546,553**

1) These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.
2) For further details see also Note 30 in the consolidated financial statements.

For further details to shareholdings in the company by members of the Board of Directors and by members of the Management Board, in accordance with Swiss Code of Obligation article 663c, refer to the Compensation report of Sonova Holding AG.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 12, 2018:

1,000 CHF	**31.3.2018**
Balance carried forward from previous year	1,591,182
Net profit for the year	281,069
Statutory retained earnings	**1,872,251**
Dividend distribution[1]	(169,851)
Balance to be carried forward	**1,702,400**

[1] If the Annual Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 2.60 per registered share of CHF 0.05 will be paid out (previous year distribution of CHF 2.30).

Report of the statutory auditor on the financial statements

pwc

Report of the statutory auditor

to the General Meeting of Sonova Holding AG

Staefa

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sonova Holding AG, which comprise the balance sheet as at 31 March 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 March 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 11.7 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

- Valuation of investments in subsidiaries

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example,

PricewaterhouseCoopers AG, Birchstrasse 160, Postfach, CH-8050 Zürich, Switzerland
Telefon: +41 58 792 44 00, Telefax: +41 58 792 44 10, www.pwc.ch

pwc

in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 11.7 million
How we determined it	5% of average profit before tax of last three years
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the entity is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years helps dampen volatility effects in the profit before tax.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1.0 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

Key audit matter	*How our audit addressed the key audit matter*
The investments in subsidiaries amount to CHF 324.3 million (12.1 % of assets) as of March 31, 2018. In general the valuation of the investments is subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature. This accounting policy is referenced in note 2. Accounting Principles.	We performed the following audit procedures, amongst others: We assessed the appropriateness of the grouping of the investments on their level of homogeneity in nature. We did this by critically reviewing the different elements of Management's assessment and validating them with evidence and our understanding of the economic links among the Sonova Group companies.

3

pwc

We consider the valuation of the investments as a key audit matter due to the size of the carrying value and the judgement involved in assessing the valuation of these assets.	To identify indicators for individual impairments of investments in subsidiaries, Management compared the investment value with the shareholders equity and financial performance of the respective subsidiaries. We evaluated and tested the assessment by re-performing the comparison undertaken by Management for an appropriate sample of investments. For the overall value of the investments in subsidiaries we additionally considered the market capitalisation of the Group. We found that Management's assessments were based upon reasonable assumptions and were consistently applied.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm
Audit expert
Auditor in charge

Claudio Berchtold
Audit expert

Zürich, 16 May 2018

Enclosures:

- Financial statements (balance sheet, income statement and notes)
- Proposed appropriation of the available earnings

5

Investor information

Financial calendar

June 12, 2018
General Shareholders' Meeting of Sonova Holding AG
at Messe Zurich, Halle 7, Zurich-Oerlikon

November 20, 2018
Publication of Semi-Annual Report as of September 30, 2018
Media and Analyst Conference Call

May 21, 2019
Publication of Annual Report as of March 31, 2019
Media and Analyst Conference

June 13, 2019
General Shareholders' Meeting of Sonova Holding AG
Messe Zurich, Halle 7, Zurich-Oerlikon

Financial information

Corporate & ad hoc news
Annual Reports
Semi-Annual Reports
IR presentations
www.sonova.com/en/investors

Information on the General Shareholders' Meeting

Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
www.sonova.com/en/AGM

IR online news service

IR News Service
www.sonova.com/en/registration

Capital structure and shareholder rights

Share data
www.sonova.com/en/investors/share-data

Shareholder structure
www.sonova.com/en/investors/shareholder-structure

Shareholder participation rights
www.sonova.com/en/investors/shareholder-participation-rights

Regulations and principles
Articles of Association
Organizational Regulations
Rules on Board Operations and Procedures
Committee Charters
Code of Conduct
Supplier Principles
www.sonova.com/en/investors/articles-association

Contact form
www.sonova.com/en/contact-us

Sonova Headquarters
Sonova Holding AG
Investor Relations
Laubisrütistrasse 28
CH-8712 Stäfa
Switzerland
Phone: +41 58 928 33 33
Fax: +41 58 928 33 99
E-mail: ir@sonova.com
Internet: www.sonova.com

Director Investor Relations
Thomas Bernhardsgrütter

Investor Relations Associates
Nicole Jenni
Corinne Hofmann

Share register
ShareCommService AG
Europastrasse 29
CH-8152 Glattbrugg
Switzerland
Phone: +41 44 809 58 53
Fax:+41 44 809 58 59

Corporate social responsibility report

Strategy

Message from the CEO

Dear Reader

At Sonova, we are committed to creating sustainable value for all our stakeholders: we continuously innovate to provide the best solutions for our customers. We enable access to hearing care for millions of people with hearing loss, invest in the development of our employees and partners, and apply eco-efficient practices across all our business activities.

We work to meet our responsibility to our customers by continuing to set new standards in hearing performance, ease of use, design, and by regularly launching advanced new products and powerful eSolutions. A significant innovation for 2017/18 was the launch of our new wireless chip, SWORD (Sonova Wireless One Radio Digital), which enables direct connection to virtually all currently used cell phones, as well as to a broad range of other consumer electronic devices.

We strive to expand access to hearing care by offering the industry's most comprehensive product portfolio and by supporting training of local specialists, including specific efforts we support in emerging countries. We also support people with hearing loss who have no access to hearing care through our Hear the World Foundation. This year, Sonova gave the Foundation a record value of more than CHF 3.7 million in cash, in-kind-benefits, and resources.

WEB
Hear the World Foundation Activity Report

We advance our commitment to develop our employees through our professional leadership culture and proactive approach to employee engagement. We are proud to report that, for four years in a row, we have been able to secure internal succession for more than half of our open leadership positions, and that 48% of our current leadership positions are held by women.

We continue to find ways to minimize our ecological impact across all our business activities, through our comprehensive environmental program. In 2017/18, we were able to improve the eco-efficiency of our corporate car fleet to an average of 135 grams of CO_2 per kilometer, thereby achieving a long term goal.

We never let up in our efforts to further advance our corporate social responsibility; we are proud that we continue to be recognized by a number of relevant organizations in the field, including the internationally recognized Dow Jones Sustainability and FTSE4Good indices.

WEB
Dow Jones Sustainability Index

WEB
FTSE4Good

Sonova has been a signatory of the UN Global Compact since 2016, fully endorsing its ten principles in the areas of human rights, labor, environment, and anti-corruption. We also support the newly developed Sustainable Development Goals of the United Nations, which define the global sustainable development agenda through 2030. These goals are a universal call to action to end poverty, protect the planet and ensure prosperity for all.

I am pleased to invite you to read this report to learn more about our strategy and how we are contributing to these global goals through our own sustainability commitments.

WEB
Sustainable Development goals

Arnd Kaldowski, CEO

Strategy

Hearing care market and supply chain

Hearing – an underestimated topic

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

WEB WHO global estimates

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.

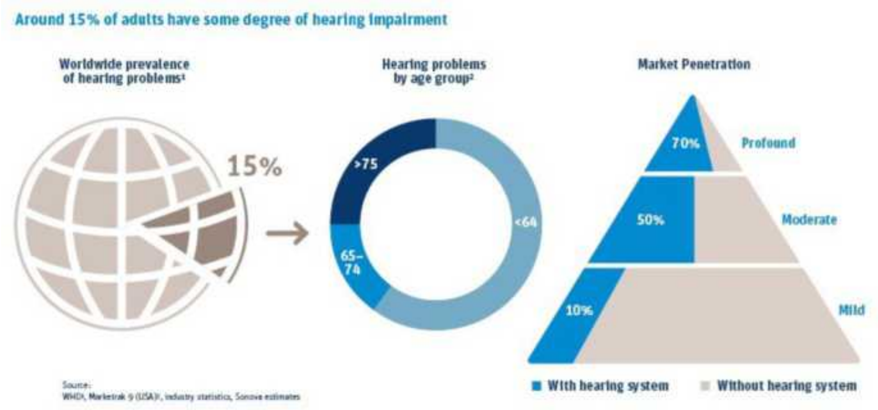
WEB WHO disability and health factsheet

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

WEB WHO deafness and hearing loss fact sheet

Market opportunities

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



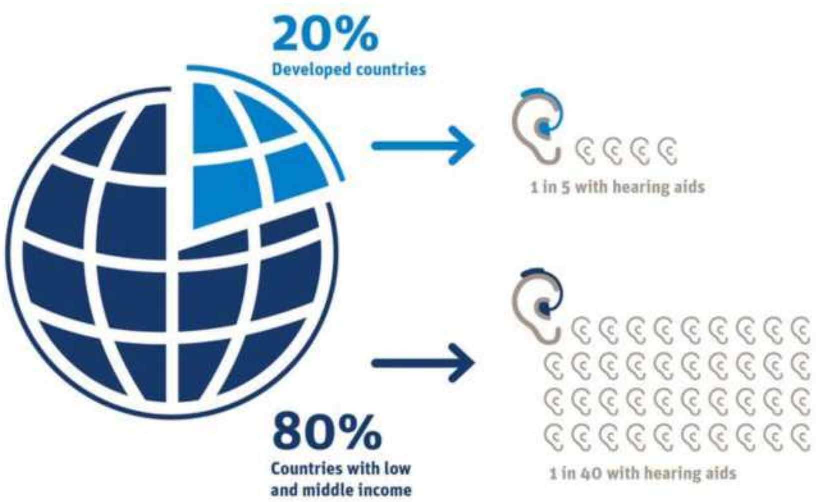
over 15%

of the world's population is affected by hearing loss

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

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

WEB
WHO global estimates



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

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

Market challenges

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

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

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

Two-thirds

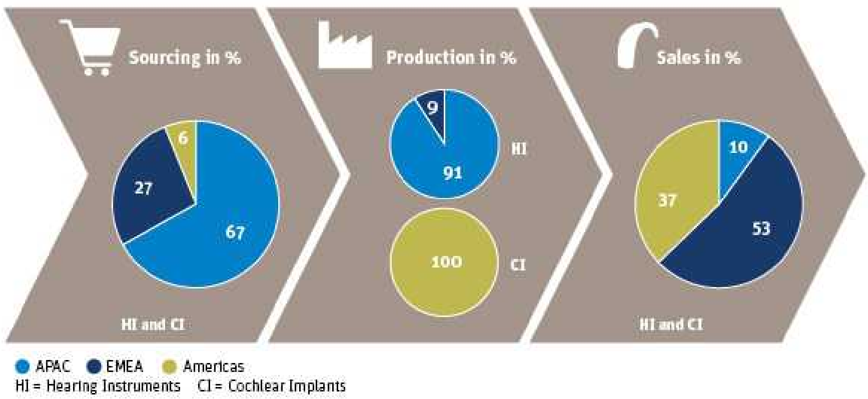
of our hearing aids sales are generated by products less than two years from launch

International supply chain

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

Continuous supplier management

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.



Materiality analysis

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

Identification and prioritization

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

PDF
Materiality Matrix 2014/15

GRI 102-44, GRI 102-46

Sustainability landscape

Our vision – the "why"

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

WEB
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.

WEB
WHO global estimates

WEB
Sonova values

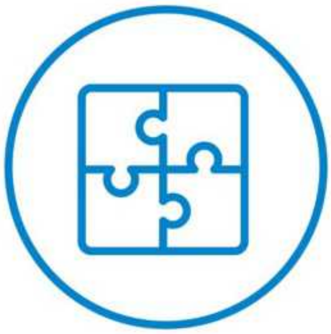
Our commitments – the “what”

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

GRI 102-47

Customer-focused solutions

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



Fields of activity

- New products
- eSolutions

Goal

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

Approach

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

Performance

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

Access to hearing care

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

Fields of activity

- New markets
- Hear the World Foundation

Goal

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

Approach

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

Performance

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

Investment in people

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

Fields of activity

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

Goal

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

Approach

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

Performance

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

Safeguarding the environment

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

Fields of activity

- Environmental program
- Smart Mobility

Goal

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

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

Approach

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

Performance

Read about our achievements and progress in 2017/18 in the corresponding section of this CSR Report "Safeguarding the environment".

Validation

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

Topic boundaries

GRI 103-1

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).

Strategy

Stakeholder engagement

Open dialog

GRI 102-40, GRI 102-42

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.

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

GRI 102-43

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

WEB
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.

WEB
Pediatric Advisory Board

Employees

GRI 102-43

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.

Investment in people

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.

Shareholders

GRI 102-43

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

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

WEB
Annual Report 2017/18

Suppliers

GRI 102-43

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

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

PDF Group Supplier Principles

Academia and opinion leaders

GRI 102-43

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

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

Financial community

GRI 102-43

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

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

WEB Sonova Investor Relations

Media

GRI 102-43

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

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

WEB Sonova News Room

Regulators

GRI 102-43

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.

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

GRI 102-43

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

Competitors

GRI 102-43

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.

Commitments

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.

Our goal is to continue to offer the broadest range of technologically advanced hearing solutions to our customers by substantially investing in R&D and by applying for a minimum of 40 patents each year. In 2017/18, 54 new patent applications were submitted across the Sonova Group.

>1500

number of active patent and design rights owned by the Sonova Group as of March 2018

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.

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.

Two examples of collaborations on research with top-class universities are around the topics of family centered care and correlation of hearing loss with other health problems.

In the research collaboration with the University of Queensland (Australia), we have been developing an approach to involve family members in the entire process of seeking advice on hearing rehabilitation and trying and using hearing instruments. Hearing loss affects not only the hearing impaired persons themselves but also impacts the life of their families. Support by family members is a very important contribution to successful uptake and usage of hearing rehabilitation and hearing instruments. The outcome of the research collaboration is a practical guideline for clinicians on how to successfully implement a family centered approach to hearing health care in their private audiology clinic.

In recent years several large cohort longitudinal studies have shown that the occurrence of hearing loss is strongly correlated with other health considerations in elderly people. In this research theme we have been studying various comorbidities between hearing loss and health issues such as psycho-social-health, depression, arthritis, cognitive decline, risk of falls and diabetes in collaboration with the VU University Medical Center in Amsterdam (Netherlands). This research will provide us with a new, more holistic perspective of hearing health care in the broader context of healthy aging.

>50

number of scientific cooperations

Smart technologies

The digital revolution and the Internet of Things are making their way into various aspects 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.

eSolutions today

Digital technology and connectivity make Sonova hearing solutions smart companions that have about as much in common with the conventional idea of a hearing aid as iPods®[1] do with gramophones. Their sophistication is not just in terms of sound resolution and quality, speech intelligibility, form factor, or design – but also functionality: the hearing aid connects wirelessly to media players of all kinds. Music, TV sound, or phone calls can be enjoyed in excellent quality directly within the ear. Thanks to a discreet Bluetooth®[2] microphone, hearing aid wearers can follow conversations even in noisy environments – in some cases better than a person without hearing loss. And a smartphone app lets the wearer control parameters and functions intuitively and individually.

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

1) The Bluetooth® word mark and logos are registered trademarks owned by the Bluetooth SIG, Inc.
2) iPod® is a registered trademark of Apple Inc., registered in the U.S. and other countries.

eSolutions for the future

Improving audiological quality and ease of operation is one thing; multiplying opportunities through networking is another: Our solutions go far beyond the individual hearing instrument, creating a digital experience that brings together, empowers, and supports the healthcare provider and the user, seamlessly and in real time, through all stages of the hearing journey. From online-based histories and customer support to remote adjustment and optimization under real-life conditions, digitally networked solutions offer users a previously undreamed-of degree of control and freedom. Wherever users might be, their audiologist can be by their side online, directly capturing data on the specific audiological situation and providing immediate assistance. Continuous data monitoring and statistical analysis of listening situations allow ever more user-specific fine tuning, as well as more targeted advice. Follow-up appointments are a thing of the past, spatial distance is no longer an issue: professional and personal assistance, as well as effortless instrument adjustment by the user, are only a screen tap away. People with hearing loss can 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.

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. Initial training programs and maintenance training programs ensure the adequate training and qualification regarding the regulatory and statutory requirements.

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 fulfill the requirements for quality management systems of the US FDA Quality System Regulation, Title 21 CFR Part 820.

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.

Commitments

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 spectrum of service and pricing levels for individual needs and different markets in both developing and developed countries. Operating through many channels multiplies the potential paths to hearing in all markets, even in parts of the world where care has been in short supply.

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's new training center in Suzhou (China) offers practice-oriented training courses for hearing care professionals from the entire Asia-Pacific region.

Education and training of hearing care practitioners

In China, there is a significant lack of comprehensive, practical training for qualified hearing care professionals. That is why Sonova decided to bridge the gap and build a new training center – the Global Hearing Institute in Suzhou. The center offers advanced audiology courses and practical training for optimal hearing solutions with a customer focus; it features a soundproof room for hearing tests and workstations for fitting ear-molds. The uptake of training courses by hearing care practitioners from across China has been very strong since the center opened in May 2017. After the courses, participants keep in touch with their trainers via chat and can contact them if they need advice on issues back in the workplace. In parallel, Sonova is establishing an interactive, online audiology academy. Further plans for the future include collaborations with universities, e.g. on specific certified courses or summer schools.

WEB

Practical training for optimal hearing solutions

The Hear the World Foundation

Around 665,000 children with hearing loss are born every year. 80 percent of them live in countries with low and middle incomes and have no access to audiological care. The consequences of an untreated hearing loss especially for children can be severe, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss is also often associated with social isolation, less chances of getting an education, poor prospects for future employment and thus minimizes their chances of a life without limitations.

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 in need with hearing loss, and particularly children. The key is prevention of hearing loss and education, but more specifically, financial and technological support of aid projects enabling people in need with hearing loss to hear better. On many voluntary missions, our engaged employees have already successfully supported ninety projects all around the world, helped thousands of children with advanced hearing solutions and actively contributed to the establishment of local audiological care infrastructures.

By 2020, we want to conduct 14,000 hours of volunteer work for our Hear the World Foundation with Sonova employees. Since 2013, Sonova employees have already conducted 8,400 hours of volunteer work.

WEB

Hear the World Foundation

Alejandro from Panama, born with a profound hearing loss, can hear the voice of his mother for the first time – thanks to his new cochlear implant donated by the Hear the World Foundation.

Access to hearing care

Sticking out your tongue at hearing loss

Who doesn't know the Rolling Stones' legendary logo of a mouth with the tongue sticking out? When more than 40,000 fans came to see the rock veterans play at Zurich's Letzigrund stadium, volunteers from Sonova were on hand to distribute hearing protection on behalf of the Hear the World Foundation and to inform concert-goers of the possible consequences of excessively loud music for their hearing.

It's as if someone has turned on a tap: an endless stream of hundreds of concert-goers files past Katrin Egli and Feifei Pilet, the two Sonova volunteers. Although the performance at Zurich's Letzigrund stadium by what must be the world's most venerable rock band is not due to begin for another three hours, people are still in a hurry to get to their seats. Even so, most still make a quick grab for one of the little blue packs of ear plugs that Egli and Pilet are handing out.

Attending regular amped-up concerts without ear protection can cause lasting hearing damage. This is why the Hear the World Foundation has launched a campaign to raise awareness about listening habits and offer tips on ways to protect your hearing.

It's Egli and Pilet's first outing as volunteers for the Hear the World Foundation. 30-year-old Katrin Egli, who works for Sonova as Project Manager Global Pricing and Lifecycle, is wearing a fiery red sweatshirt with the words "Ear Brigade" emblazoned across it. "Volunteering here is a nice change," she says cheerily, without stopping to reach into her red shoulder bag for more ear plugs to hand out. "It's fun and I'm glad I can do my bit for our foundation."

The free hearing protection is a hit with concert-goers. "I was a bit taken aback at first," says 60-year-old Thomas Berger. "But it's only logical, really." His parents had warned him about listening to loud music when he was young: "They always told me I wouldn't be able to hear a thing when I was older." Berger has taken his 22-year-old son Philipp on a special trip from Stuttgart for the concert and both father and son are glad to receive some hearing protection. There is a hint that it might indeed get loud at the Letzigrund as Mick Jagger and his bandmates take to the stage, three hours before the concert is due to begin, and play the first familiar bars of their hits as a soundcheck.

Concert-goers at the Letzigrund stadium are receptive to the foundation's campaign to raise awareness about preventative care. "If it gets too loud for me, I'm going to use the earplugs," says 47-year-old Böbu Hüssi from Solothurn, stashing the little blue package in his pants pocket.

Hüssi is also more than happy to have his picture taken. In addition to handing our ear protection, Egli and Pilet are inviting concert-goers to strike the signature Hear the World pose for conscious hearing – with their hands cupped behind their ears – for a snap taken by an automatic photo booth. Feifei Pilet presses the start button on the display to prime the camera, there's a quick countdown, then a flash. A few seconds later, Hüssi has his personal memento photo in his hands. Those who wish can also receive their picture by email. Thomas Frank, who has come down from Berlin specially for the concert, needs no second invitation; the couple link arms and grin into the camera. They are both delighted with the snap and the 45-year-old Berliner thinks the foundation's awareness campaign work is "a cool initiative". He says he thinks the topic of preventive healthcare is important: "When I go to concerts, I always take earplugs with me." A lot of his friends already have hearing problems, he remarks; when they were young, they used to listen to too much loud music without protection.

The Hear the World Foundation has been working with Swiss concert promoters abc Production since 2016. "We don't want to wag our fingers or appear patronizing – we'd rather meet visitors halfway on a friendly basis and make them aware of the preventive measures they can take," emphasizes Elena Torresani, Head of the Hear the World Initiative, adding that there are still plenty of people who are unaware that excessively loud music can result in permanent hearing damage. "We'd like to make sure that people can enjoy concerts without regretting it afterwards." This is also the reason for the photo booth, which is an opportunity for the Sonova volunteers to engage with concert-goers and raise awareness of hearing protection issues. "We want to use the photos to make sure that Hear the World's campaign sticks in the memories of the audience," explains Torresani. The foundation is also showing a short preventive health infomercial in which international stars point out the dangers of excessively loud music and recommend the use of hearing protection at music events.

André Béchir, CEO of abc Production, is delighted to be working with the Hear the World Foundation. "For a concert promoter, working with a hearing aid manufacturer and doing preventive healthcare work is a no-brainer," he says. "People coming to a concert are in a good mood and full of excitement and anticipation. That's the best moment to sensitize them to the issue and make clear to them that it is every individual's responsibility to protect their hearing."

Three hours later, Sonova volunteers Katrin Egli and Feifei Pilet have handed out almost all their earplugs. "It was a lot of fun," observes 33-year-old Pilet with a grin, as Egli pulls at her sleeve – the Rolling Stones concert is due to start in just a few minutes and they still have to find their seats. They both quickly pocket a little packet of earplugs. "Now we're ready for anything," says Egli, laughing.

Commitments

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 to enhance the quality of life for millions of people by bringing better hearing to those 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, a 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 2017, we were able to fill 53% of our open leadership positions with Sonova employees[1], thereby reaching our long-term target.

53%

of leadership positions filled internally[1]

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 low level of 11.9%. The average tenure of our managerial staff is 8.3 years, while the total average workforce tenure is 6.4 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%.

1) excluding former AudioNova

Employee turnover rates

(in percent)

	2017/18	2016/17	2015/16
Switzerland	8.5	7.5	10.3
EMEA (excl. Switzerland)	7.6	6.2	7.2
Americas	18.4	18.0	19.1
Asia/Pacific	10.8	9.0	9.0
Total	11.9	10.8	11.9

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

Personnel figures

After a significant increase in the number of employees through the AudioNova acquisition in 2016/17, the full time equivalent figures show stable growth of 1.1% in the current reporting year to 14,242 full time equivalents. The additional 153 full time equivalent employees stem mostly from our wholesale activities in Europe and from Advanced Bionics in North America.

XLS
Workforce KPIs

Employees by region

Full time equivalent (end of period)

	2017/18	2016/17	2015/16
Switzerland	1,219	1,178	1,200
EMEA (excl. Switzerland)	6,471	6,399	3,452
Americas	3,539	3,538	3,622
Asia/Pacific	3,013	2,974	2,620
Total	14,242	14,089	10,894

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 depth of available in-house talent. 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 portfolio of leadership development programs consists of different modules. The Aspiring Leaders program is a newly introduced two-day course that encourages participants to start thinking about their leadership brand, and about how they can best fulfill and contribute to Sonova's future. The Leadership Advanced program lasts three days and 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. 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.

Success of the career development program is measured in two ways: Development planning and employee progress are the responsibility of each individual line manager. Sonova also tracks the internal promotion rate and participation in the High Potential Program.

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.

WEB
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, two 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, sexual orientation, 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.

>14,000

dedicated employees

As the world's largest hearing care provider, Sonova campaigns 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 and employees from different cultures in leadership and executive positions.

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 in Switzerland 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 Stäfa and in our production center in Vietnam 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 48% of our leadership positions.

48%

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 make 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

	2017/18	2016/17	2015/16
Share of total workforce (% of headcount)	66.0	66.0	63.5
Part-time employees (% of headcount)	19.0	18.1	8.5
Turnover rate[1] (% of FTE)	12.1	10.3	12.1

1 excluding former AudioNova employees

Employment numbers by gender – Men

As percentage of employees

	2017/18	2016/17	2015/16
Share of total workforce (% of headcount)	34.0	34.0	36.5
Part-time employees (% of headcount)	6.0	4.9	2.7
Turnover rate[1] (% of FTE)	11.9	11.2	11.3

1 excluding former AudioNova employees

Ratio women in leadership positions

As percentage of Manager headcount

	2017/18	2016/17	2015/16
Switzerland	21.0	21.0	21.6
EMEA (excl. Switzerland)	53.0	50.6	37.4
Americas	45.0	45.0	45.0
Asia/Pacific	49.0	48.8	47.1
Total	48.0	46.0	39.0

Ratio women in executive positions

As percentage of Executive headcount

	2017/18	2016/17	2015/16
Switzerland	13.0	11.5	10.0
EMEA (excl. Switzerland)	26.0	25.4	21.2
Americas	33.0	33.9	34.4
Asia/Pacific	30.0	26.8	23.2
Total	24.0	23.1	21.5

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. In 2017, we also conducted a stress management training with selected members of our leadership team at headquarters in Stäfa.

WEB

Body & Mind initiative at Sonova headquarters in Stäfa

Three-minute break-time exercises at our operation centers to reduce muscle tension.

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 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 that 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

	2017/18	2016/17	2015/16
Injury rate (IR)	0.44	0.44	0.43
Lost day rate (LDR)	1.36	2.69	1.45

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.

Investment in people

Body & Mind initiative – for physical and mental wellbeing

Sonova has a sustainable preventive healthcare program for its staff called the Body & Mind initiative: sport and activity, yoga and relaxation, a healthy, balanced diet and regular medical check-ups are all part of a healthy work environment and ensure high levels of satisfaction within the company.

It's a little after nine in the morning, and 32-year-old Corporate Sustainability Manager Mevina Caviezel is in good spirits as she stands at the breakfast buffet in the Bistromax, Sonova's staff restaurant in Stäfa. The wide selection of fruit and muesli on offer (with every imaginable kind of cereal, all of which can be freshly ground) means that she is spoilt for choice. Caviezel eventually plumps for dried blueberries with almond milk, freshly ground buckwheat, and chia pudding. "I love the choice here," she says, "it's much better than at home." She sets great store by a healthy diet. "I'm glad I can get such a wide variety of things to eat at work."

The Bistromax is already bustling at around 9am – the cozy staff restaurant is popular with the many staff members who like to combine a healthy mid-morning snack with their first meetings of the day. "A balanced diet is the key to a happy and healthy workforce," says Caviezel. As Corporate Sustainability Manager, the Body & Mind initiative, which promotes sustainable preventive healthcare and wellbeing for Sonova employees around the world, falls within her remit. The initiative is based on several guiding principles: a balanced diet for every member of staff, opportunities for sport and relaxation at the workplace, and regular medical check-ups for employees. "We want our employees to be healthy and happy, so they stay motivated over the long term. The Body & Mind initiative is a strategic priority for Sonova," explains Caviezel.

There is already a hive of activity in the kitchen as lunch is prepared, and commis chef Yousif Diler is getting warm falafel, vegetable parcels and hummus ready for the salad buffet. Chef Kumar Subramaniam is frying off 40 kg of mince for the spaghetti Bolognese while Amely Schmitt, a budding cook in the third year of her apprenticeship, stands beside him flipping 240 veal hamburgers, one after another, in a giant frying pan.

650 to 700 lunches are prepared here every day but there is no sign of the stress and commotion to be seen in other commercial kitchens. "The whole operation runs like a well-oiled machine," explains Thomas Leu, the 49-year-old chef and staff restaurant manager, who has given up his place in the kitchen to concentrate on strategy, purchasing and planning.

"It's like on a cruise ship," he continues, with a grin. "Good food creates a good atmosphere." He prefers to buy local and sustainable produce – organic and low-fat if possible – and he is more concerned with providing a balanced spread than an embarrassment of choice. "We understand our clientele, which means we try to offer an eclectic range of food with plenty of colors on the plate, so there's something for everyone." For their midday meal, diners can choose between some 30 salads, a generous buffet of vegetable dishes and three set menus.

In addition to a healthy diet, sport and relaxation are two key priorities for the Body & Mind initiative. "This means that we integrate athletic activities and relaxation (such as yoga and Pilates) into the working day," says Caviezel – Sonova staff are free to spend their lunch breaks attending one of the many athletics clubs to play any number of sports from volleyball to squash. There is even a swimming pool and a sauna on the roof of the main building. "There's a real need to get people moving regularly, not least because a lot of our staff work at desks – and it's important for me personally as well," emphasizes Caviezel, who frequently joins her team colleagues for a lunchtime jog in the woods nearby.

Thomas Bernhardsgrütter, Director Investor Relations, has also joined an eight-strong running group, and members take to the streets two to three times a week to jog 7 or sometimes even 11 km. "I find it an important counterbalance to desk work and a good opportunity to clear my head. I feel fitter and more productive in the afternoons," says 46-year-old Bernhardsgrütter. He goes on to explain that, as he often has to work late in the evenings, it is practically his only opportunity to do sports and stay active. It means his lunch break may be a little shorter, but that's a trade-off he says he is happy to make. "I'm extremely glad that Sonova has got behind sporting activities. It's a big plus." He is also a fan of the way his running group share tips and compare notes. "As we all work in different departments, it's interesting to find out what's currently going on elsewhere in the company," he says.

"Badminton at lunchtime is one of the few moments when I'm not thinking about business," says 39-year-old Sascha Stocker, who works as an Associate General Counsel in the legal department. He and a few colleagues from his unit joined the badminton group about four years ago and they get to use the nearby indoor gym hall for matches twice a week. Sonova has organized a special minibus shuttle for all the athletes. "Sport is an important extra shot of energy for me – I get sluggish if I don't play badminton regularly," says Stocker. He is also highly appreciative of how Sonova allows him to configure his work flexibly and encourages staff to play sport during their lunch breaks: "The benefits are tangible."

His eyes lighting up at the mere thought of soccer, Systems Manager Corporate HR Oliver Appelshäuser heads to the gym every Wednesday lunchtime for kick-off. "It's a sacrosanct time slot for us all," says the 39-year-old and laughs. The "all" to which he is referring are a group of between 10 and 16 soccer fans that includes members of the Management Board. "But work hierarchies are left on the touchline, of course." Appelshäuser no longer has enough time to commit to turning out for a club side, so he is doubly delighted to be able to play his favorite sport at work.

At the same time Appelshäuser is chasing the ball in the gym, the yoga enthusiasts are gathering in Audimax 1 for their weekly session. The leader of the group Philipp Schneider, Director eSolutions Development, guides 20 employees through a demanding program – in English, no less, so that even those who speak little or no German can take part. The "Crow", a difficult pose in which the hands are placed on the mat a span apart and the hips and knees are extended to one side, pushes the yoga devotees to their limits. The weight of the torso is taken on the arms while the legs are stretched out sideways in the air. There is laughter as a couple of participants come tumbling down onto their mats. "No problem," says 49-year-old Schneider. "It's important to laugh." He has been doing yoga for 14 years. "I make an effort to teach in such a way that everyone can follow what I'm doing, however long they have been doing yoga," he says, adding that it doesn't matter how an exercise looks – what is important is how it feels.

The yoga lesson ends with “savasana” – lying calmly on the mat – which is intended to bring about deep relaxation, and tranquil faces are indeed to be seen everywhere. For Fabia Müller, a Product Manager for Sonova’s Phonak brand, the yoga lesson is the highlight of the week: “It’s a valuable time-out for body, mind and spirit.” 33-year-old Müller has been practicing yoga since she was young, but only started at Sonova this month. “I’m so glad there’s a yoga class here,” she says, adding: “What Philipp does is super, it’s a really good thing to have available.” As she takes her leave, she says that she is looking forward to going into her next meeting – and indeed her whole afternoon – completely relaxed and full of energy.

The time and effort required to organize the sports groups is minimal as the classes all coordinate their bookings and activities themselves. If necessary, Sonova’s HR department will also help out staff with financial support to buy sports equipment. “Working with us should be fun and we are extremely pleased that so many people are getting involved,” says Mevina Caviezel. “In addition to the positive effects on people’s fitness and health, sports help to build a sense of solidarity.”

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

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.

PDF
Environmental policy

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 purchase volume comes from suppliers having environmental friendly practices in place by 2018/19. We continuously monitor and optimize environmental objectives and performance across the Group.

XLS
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), Unitron Hearing (Suzhou) Co., Ltd (Suzhou, China), Phonak LLC manufacturing and distribution centers in Warrenville/ Aurora (USA).

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 2017, 95.5% of purchase volume came from suppliers having environmental friendly practices in place. This assessment was made based on internal or external audits.

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 2017 (or in previous years) for noncompliance with environmental laws or regulations.

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 anticipates no financial implications for the organization's activities from this source.

In 2017, the total energy consumption of the Sonova Group amounted to 97,890 megawatt-hours (MWh). 42,276 MWh can be attributed to the wholesale business and 55,614 MWh to the retail business. The wholesale business accounts for a higher proportion of electricity consumption because of air conditioning systems in operation centers in China, Vietnam and the US. On the other hand, the retail business accounts for a higher proportion of heating because of a stronger retail presence in Europe, where cold winters make heating more relevant. A total of 5,520 MWh of electricity consumption stems from renewable energy sources.

As a result of the acquisition of AudioNova, the retail business was included in the 2017/18 reporting for the first time. The values for the retail business are based on extrapolations and not actual data. Due to additional changes in the reporting scope, the values are not comparable to the previous years.

Energy consumption

In MWh

	2017		2016	2015
	Retail[1]	Wholesale	Wholesale	Wholesale
Heating	36,926	7,812	8,033	8,195
Electricity	18,688	34,465	30,629	28,892
Total	55,614	42,276	38,661	37,087

1 extrapolation, no actual data

Restatement
The energy and carbon emissions values published in the CSR Report 2016/17 for Scope 1 and 2 were restated for the year 2015 and 2016 due to data quality improvements and changes in the data collection methodology.

Sonova Group's absolute carbon footprint of Scope 1 and 2 emissions amounts to 38,701 metric tons of CO_2 equivalents (t CO_2eq). The figure is not comparable to those of previous years because of changes in emission factors and reporting scope. The emissions values for the retail business are based on extrapolations and not actual data.

In 2017, we estimated Scope 3 emissions for three categories: upstream transportation and distribution (11,543 t CO_2eq), business travel (10,441 t CO_2eq), and employee commuting (21,558 t CO_2eq), which adds to a total of 43,542 t CO_2eq of Scope 3 emissions.

Greenhouse gas (GHG) emissions – Scope 1&2

In t CO_2 eq

	2017		2016	2015
	Retail[1]	Wholesale[2]		
Scope 1	11,048	5,446	6,646	5,738
Scope 2	9,528	12,679	22,462	20,666
Total	20,576	18,125	29,108	26,404

1 extrapolation, no actual data
2 values not comparable to previous years due to changes in emission factors and reporting scope

Restatement
The energy and carbon emissions values published in the CSR Report 2016/17 for Scope 1 and 2 were restated for the year 2015 and 2016 due to data quality improvements and changes in the data collection methodology.

Greenhouse gas (GHG) emissions – Scope 3 estimates

In t CO_2 eq

	2017
Upstream transportation and distribution	11,543
Business travel	10,441
Employee commuting	21,558
Total	43,542

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 Sonova Germany in Fellbach, where we replaced conventional lighting with LED technology; we also installed motion-detecting light switches in corridors, stairways and non-regularly used areas to save energy. A 5,000 square meter solar panel system in Suzhou, China, which was put into operation in 2015, will help us reduce our CO_2 footprint in upcoming years by substituting solar power for coal-derived electricity. In 2017, the new photovoltaic system produced 500,000 kWh of green energy. Despite our efforts to improve energy efficiency in our infrastructure and production processes, the company recorded a higher CO_2eq emission value per unit produced. The increased production volume could not offset the additional CO_2eq emission caused by our buildings in China and Vietnam. The main reasons are adjusted emission factors as well as a shift of production from Switzerland to China and Vietnam, where electricity consumed has a higher carbon intensity. This makes reaching the ambitious 10% reduction target extremely difficult.

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 2017, the carbon emissions from business-related air travel activities on a group-wide basis were 10,441 t CO_2eq, of which 32% originated from the flights of Sonova employees in Switzerland. Carbon emission intensity (expressed as t CO2eq/million CHF sales) decreased to 3.95 in 2017 (previous year: 4.30), which leads to a total reduction in air travel carbon emission intensity since 2013/14 of 20.0%. Despite strict travel policies and the increased use of web-conferencing tools, carbon emissions from business flights increased slightly in absolute terms by 1.3% compared to the previous year due to the growth of the group.

20%

reduction of air travel-related carbon emissions intensity since 2013/14

Sonova also estimated the carbon footprint of its corporate car fleet in 2017. 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 7,328 t CO_2eq per year. The average carbon emissions per single vehicle were evaluated at 134.5 grams CO_2/km. The long-term goal to achieve average carbon emissions of 140 grams CO_2/km or below has not only been reached, but even improved from the previous year's average carbon emissions per single vehicle of 139 grams CO_2/km.

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. 2017 was the first year in which Sonova conducted a worldwide survey to estimate its carbon footprint from employee commuting; this amounts to 21,558 t CO_2eq.

Sonova headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns.

In terms of product distribution, air freight is clearly the dominant contributor to Sonova's carbon footprint, accounting for around 98% of relevant CO_2 emissions. Based on a study conducted in 2017, the carbon emissions for the hearing instruments segment are estimated at 10,708 t CO_2eq (2014: 7,000 t CO_2eq) in absolute terms and 7.2 kg CO_2eq per kg transported (2014: 6.6 kg CO_2eq) in relative terms. The equivalent carbon emissions for the cochlear implant segment were estimated at 835 t CO_2eq (2014: 1,100 t CO_2eq) and 4.0 kg CO_2eq per kg transported (2014: 5.4 kg CO_2eq), respectively.

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 in electrical and electronic equipment, and with the EU's regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH) for the safe manufacture and use of

WEB

RoHS EU directive (2011/65/EU)

chemical substances throughout their lifecycle. Sonova's suppliers are also required to prove their compliance with RoHS directive and the REACH regulations in their respective processes and supply chains.

WEB
REACH EU regulation (EC 1907/2006)

In accordance with REACH regulation, Sonova 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 2017/18 financial year, DEHP was the only SVHC substance requiring communication in accordance with the REACH regulation.

WEB
Phonak Material Declarations

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 from 46% in 2016 to 47% in 2017. 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 decrease by 9.8% to 1,030 metric tons (previous year: 1,142 metric tons).

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 2017, the amount of hazardous waste rose to 56 metric tons.

Waste

In metric tons

	2017	2016	2015
Non-hazardous	1,030	1,142	1,122
Hazardous	56	36	33
Recycling	958	1,018	834
Total	2,043	2,196	1,989

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.

Introduced in 2017, the new wireless chip SWORD™ (Sonova Wireless One Radio Digital) is the world's first Bluetooth®[1] Classic chip compatible with small hearing aid batteries. SWORD is a low voltage radio chip with the lowest power consumption of any hearing aid using Bluetooth® Classic.

Sonova's new wireless chip SWORD™ is a low voltage radio chip with the lowest power consumption of any hearing aid using Bluetooth® Classic.

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 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, such as 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. Launched during 2017/18, the Phonak Naída™ B-R RIC is the most feature-rich rechargeable hearing aid from Phonak, designed for people with severe to profound hearing loss. With 40% more capacity than conventional rechargeable batteries, our proven built-in lithium-ion technology is reliable and fully supports the superior performance of Naída™ B-R RIC. Sales of rechargeable products based on the Phonak Belong™ platform continue to grow strongly.

WEB
Phonak Products

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 our products and their components.

WEB
WEEE EU directive

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. One such example is the battery collection initiative of Connect Hearing Canada, where clients can collect their used hearing aid batteries in "The Little Green Box" and return them to the clinic for recycling once the box is full. In 2017, Connect Hearing Canada was able to collect more than 90,000 batteries, amounting almost to one tonne.

At Connect Hearing Canada, clients can collect and return their used hearing aid batteries in "The Little Green Box".

1) The Bluetooth® word mark and logos are registered trademarks owned by the Bluetooth SIG, Inc.

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 VOCs evaporated to air increased in 2017 by 11.1% from 4,191 liters to 4,655 liters due to the increase in production volume.

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

Volatile organic compounds

In liters

	2017	2016	2015
VOC	4,655	4,191	3,893

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-volume water equipment in restrooms. Water consumption at Group level decreased by 1.1% from 133,972 m^3 to 132,506 m^3 compared to the previous year. Relative water consumption decreased from 20.1 m^3 to 18.2 m^3 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 use

In m^3

	2017	2016	2015
Municipal water supply	132,505	133,972	124,451

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 the AudioNova Group companies acquired in September 2016, are included for the first time in the environmental reporting of this CSR report.

The tables above show environmental data from Sonova Group companies that operate as headquarters, manufacturing sites, or wholesale distributors, and Group companies with retail activities only. In 2017, due to the new inclusion of companies with retail activities, all entities are covered in the environmental data reporting. For the energy consumption, car fleet and air flight data, actual data was collected. For VOC emissions, water, waste and recycling, actual data was collected when feasible, and estimated if data collection was not feasible given the decentralized organizational structure of these businesses and their small, often rented facilities.

Sonova's environmental management system monitors 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.

WEB
GHG Protocol

Sonova differentiates between direct emissions (Scope 1) from sources such as burning natural gas, indirect emissions (Scope 2) from sources such as using electricity, and, since 2017, indirect emissions (Scope 3) from upstream transportation and distribution, business travel, and employee commuting. Since 2014, we have also investigated the environmental impact of our corporate car fleet – a further Scope 1 emission source. 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 (CDP) and makes the results publicly available.

PDF
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.

WEB
SIX Swiss Exchange Directive

WEB
Economiesuisse Swiss Code

PDF
Sonova 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.

WEB
Corporate Governance Report

WEB
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.

PDF
Committee Charters

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.

WEB
Corporate Governance Report

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.

WEB
Management Board

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, if any, 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. More detailed information is available in the Corporate Governance Report.

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.

We are committed to equal pay for the same position in the same Country or Region and we are taking the necessary action to guarantee a fair compensation system. Thus, based on our grading and position management processes we are certainly committed to equal pay.

WEB
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. Human rights and environmental risks are evaluated in the regular risk assessment process together with all other business risks. Human rights and environmental risks are currently not considered key risks and are thus not included in the Group Risk Map.

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 Head Group Compliance Program 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

Our CSR program aligns closely with our business strategy; its topics are reviewed both at the highest management level and regularly at meetings of the Board of Directors.

The CSR Management Office develops the CSR program and provides expertise and advice to the management board on relevant topics. It implements the strategy approved by the management board 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.

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 was the acting board president of EHIMA until he stepped down from his role as CEO of the Sonova Group. Arnd Kaldowski, new CEO of the Sonova Group, replaced him and is now a member of EHIMA's Board of Directors. Founded in 1985, EHIMA represents the six major European hearing instrument manufacturers.

WEB
EHIMA

Since 2016, Sonova is 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.

WEB
UN Global Compact

Governance

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.

WEB
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 in accordance with, 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.

WEB
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 2017/18 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 labor, forced labor, 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 2017/18 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on the integration of our acquired businesses into our compliance culture, 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 2017/18 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 2017/18 financial year, Sonova neither initiated nor defended against legal actions regarding, anti-competitive behavior or violations of anti-trust and monopoly legislation.

Responsible marketing

We adhere to strict ethical sales and marketing practices in all our businesses and have established world-wide guidelines containing principles regarding responsible marketing for our group companies to ensure that all our interaction with customers and marketing materials provide truthful, accurate, balanced and non-misleading information and to prevent inappropriate practices or false claims. These guidelines are further supported by the worldwide Sonova Group Code of Conduct and the Anti-Bribery Policy, which also includes detailed information on interactions with health care professionals (HCPs). Furthermore, we have implemented refined country-specific marketing and sales practices codes in group companies in markets with relevance for Sonova.

WEB
Sonova Group Code of Conduct

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 2017/18 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on the integration of our acquired businesses into our compliance culture, 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 2017/18 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 and is available to internal and external stakeholders. All reports to the compliance hotline are forwarded to designated functions 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.

Requirements for conflict resolutions and e.g. the use of independent arbitration is defined on a case by case basis.

WEB
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 continue working on our data protection program 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.

PDF
Sonova Supplier Principles

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.

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.

Sonova strives for long-term collaborations and long-term contracts with their suppliers. In the 2017/18 financial year, 77% of the total purchase volume came from suppliers with more than 10 years of business relationship with Sonova and 94% of the total purchase volume came from suppliers with more than 5 years of partnership. Sonova also offers its suppliers financial support to buy necessary equipment and technology.

In the 2017/18 financial year, we had 10 critical suppliers; all of them have been certified or recertified by a notified body and therefore no need to audit them. They have all been visited within the last two years in a less formal manner than an audit, but the Group Supplier Principles were always an important topic during the visits. 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 to the vast majority 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.

WEB
OECD BEPS Reports

b) Full compliance: All taxes fully comply with local laws, regulations and are aligned with internationally recognized standards such 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.

c) Cooperation with tax authorities: Sonova highly values open and proactive cooperation with tax administrations worldwide for any kind of tax matter, irrespectively of the fact that Sonova has not entered Advanced Pricing Agreements (APAs). As part of our tax compliance policy, we continuously engage in constructive and transparent dialogue with tax authorities.

The responsibility for tax compliance lies with the Corporate Tax team, located in Switzerland, the US, and Germany. 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.

Sonova's commitment to tax transparency and responsibility is expressed in various policies in the field of direct and indirect taxes as well as transfer pricing, most of them for internal tax use only. A tax policy in line with the above-mentioned principles is in the process of being made publicly available on the Sonova website.

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.

PDF
OECD Principles of Good Laboratory Practice

CSR report

Reporting profile

Report

Sonova reports in an annual cycle: the most recent previous Annual Report and Corporate Social Responsibility Report were released on May 16, 2017. The 2017/18 reporting period covers the financial year from April 1, 2017 to March 31, 2018.

The Sonova CSR Report for 2017/18, when combined with the Business and Financial report for 2017/18, complies with the Global Reporting Initiative (GRI) Standards 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.

WEB
Annual Report 2017/18

Entities

GRI 102-45

The information and data provided relate to the entire Sonova Holding AG Group, including its group companies, unless explicitly noted. Some environmental data stems from actual data collection, whereas other data of selected Group companies were only estimated. Whenever applicable, it is stated in the respective sections whether the data is measured or estimated.

Restatements and significant changes

GRI 102-48, GRI 102-49

Data from the AudioNova Group companies acquired in September 2016, are included for the first time in the environmental reporting of this CSR report. The energy and carbon emissions values published in the CSR Report 2016/17 for Scope 1 and 2 were restated for the year 2015 and 2016 due to data quality improvements and changes in the data collection methodology.

There were no other significant changes during 2017/18 in the scope, boundary, or measurement methods applied in the report, that would require a restatement of information provided in earlier Sonova CSR Reports.

Declaration and assurance

The compensation report, the consolidated financial statement, and the financial statement of Sonova Holding AG in the 2017/18 Annual Report have been audited by a statutory external auditor.

PricewaterhouseCoopers AG has provided independent assurance on specific CSR data outlined in this report. For more detail, see the Independent Assurance Report below.

pwc

Independent Assurance Report on the Sonova Corporate Social Responsibility Reporting 2017/18

To the Board of Directors of Sonova Holding AG, Stäfa.

We have been engaged to perform assurance procedures to provide limited assurance on the aspects of the 2017/18 Corporate Social Responsibility (CSR) Reporting of Sonova Holding AG, Stäfa and its consolidated subsidiaries included in the 2017/18 CSR Report.

Scope and subject matter
Our limited assurance engagement focused on the selected data and information disclosed in the CSR Report of Sonova for the year ended on March 31, 2018:

- The "number of active patent and design rights owned by Sonova Group as of March 2018" on page 15; the "number of scientific cooperations" on page 15, the indicator "leadership positions filled internally" on page 22, the "Employee turnover rates" and "Employees by region" on page 23, the "Employment numbers by gender – Women" and the "Employment numbers by gender – Man" on page 26, the "Ratio women in leadership positions" and the "Ratio women in executive positions" on page 27, the indicator "Purchase volume from suppliers having environmental friendly practices" and the "Energy consumption" on page 33, the "Greenhouse gas (GHG) emissions – Scope 1&2" and the "Greenhouse gas (GHG) emissions – Scope 3 estimates" on page 34 (CSR indicators);
- The management of reporting processes with respect to the CSR Report in all material aspects and the preparation of CSR indicators as well as the related control environment in relation to data aggregation of CSR indicators.

We have not carried out any work on data reported for prior reporting periods, nor have we performed work in respect of projections and targets.

Criteria
The management reporting processes with respect to the CSR reporting and CSR indicators were prepared by Sonova based on the internal policies and procedures as set forth in the following:

- the Sonova Group internal CSR reporting guidelines based on the 'GRI Standards' published in October 2016 by the Global Reporting Initiative Version G4;
- the Sonova Group internal reporting manuals 'Environmental Reporting' dated 12th of December 2017 and 'HR KPI Calculation Factsheet'; and
- Procedures, by which the data for the CSR indicators reporting is gathered, collected and aggregated internally.

Inherent limitations
The accuracy and completeness of CSR indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with Sonova's internal guidelines, definitions and procedures on the CSR reporting.

Sonova's responsibilities
The Board of Directors of Sonova Holding AG is responsible for both the subject matter and the criteria as well as for the selection, preparation and presentation of the selected data and information in accordance with the criteria. This responsibility includes the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error.

Our responsibility
Our responsibility is to to express a limited assurance conclusion on whether anything has come to our attention to indicate that the identified CSR information selected and contained in this report is not stated, in all material respects, in accordance with the reporting criteria.

We planned and performed our procedures in accordance with the International Standard on Assurance Engagements (ISAE 3000) (revised) 'Assurance engagements other than audits or reviews of historical financial information'. This standard requires that we plan and perform the assurance engagement to obtain limited assurance on the identified sustainability information prepared, in all material aspects, in accordance with Sonova's internal policies and procedures.

A limited assurance engagement under ISAE 3000 (revised) is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement. The procedures selected depend on the assurance practitioner's judgement.

Our independence and quality control
We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed
Our assurance procedures included, amongst others, the following work:

- **Evaluation of the application of Group guidelines**
  Reviewing the application of the Sonova Group internal CSR reporting guidelines;
- **Site visit and management inquiry**
  Visiting the Stäfa site of Sonova. The selection was based on quantitative and qualitative criteria;
  Interviewing personnel responsible for internal reporting and data collection at the site we visited;
- **Assessment of the key figures**
  Performing tests on a sample basis of evidence supporting selected CSR indicators concerning completeness, accuracy, adequacy and consistency;
- **Review of documentation and analysis of relevant policies and principles**
  Reviewing relevant documentation on a sample basis, including Sonova Group CSR policies, management of reporting structures and documentation;
- **Assessment of the processes and data consolidation**
  Reviewing the management reporting processes for CSR reporting and assessing the consolidation process of data at Sonova Group level.

We have not conducted any work on data other than outlined in the subject matter as defined above. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusion.

Conclusion
Based on our work performed nothing has come to our attention causing us to believe that in all material respects:

- The CSR indicators outlined in the scope and subject matter section and disclosed in the 2017/18 CSR Report of Sonova Group are not stated in accordance with Sonova Group internal policies and procedures; and
- The management of reporting processes with respect to the CSR Report in all material aspects and the preparation of CSR indicators as well as the related control environment in relation to data aggregation of these key performance indicators are not functioning as designed.

Zurich, 22 May 2018

PricewaterhouseCoopers AG

Marc Schmidli Stephan Hirschi

CSR report

GRI Index

GRI content index

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Disclosure	Description	UNGC	SDG	Reference	External assurance
GENERAL DISCLOSURES					
1. Organizational profile					
102–1	Name of the organization			**This is Sonova**	No
102–2	Activities, brands, products, and services			**This is Sonova**	No
102–3	Location of headquarters			**This is Sonova**	No
102–4	Location of operations			**This is Sonova**	No
102–5	Ownership and legal form			**Organizational structure**	No
102–6	Markets served			**Hearing care market**	No
102–7	Scale of the organization			**Reporting profile**	No
102–8	Information on employees and other workers	6	8	**Investment in people**	No
102–9	Supply chain			**Hearing care market**	No
102–10	Significant changes to the organization and its supply chain			**Reporting profile**	No
102–11	Precautionary Principle or approach			**Message from the CEO**	No
102–12	External initiatives			**Ethics and integrity**	No
102–13	Membership of associations			**Corporate Governance**	No
2. Strategy					
102–14	Statement from senior decision-maker			**Message from the CEO**	No
102–15	Key impacts, risks, and opportunities			**Hearing care market**	No
3. Ethics and integrity					
102–16	Values, principles, standards, and norms of behavior	1	16	**Corporate governance**	No
102–17	Mechanisms for advice and concerns about ethics	1	16	**Corporate governance**	No
4. Governance					
102–18	Governance structure			**Corporate governance**	No
102–19	Delegating authority			**Corporate governance**	No

102–20	Executive-level responsibility for economic, environmental, and social topics			**Corporate governance**	No
102–21	Consulting stakeholders on economic, environmental, and social topics		16	**Corporate governance**	No
102–22	Composition of the highest governance body and its committees		5, 16	**Corporate governance**	No
102–23	Chair of the highest governance body		16	**Corporate governance**	No
102–24	Nominating and selecting the highest governance body		5, 16	**Corporate governance**	No
102–25	Conflicts of interest		16	**Corporate governance**	No
102–26	Role of highest governance body in setting purpose, values, and strategy			**Corporate governance**	No
102–27	Collective knowledge of highest governance body		4	**Corporate governance**	No
102–28	Evaluating the highest governance body's performance			**Corporate governance**	No
102–29	Identifying and managing economic, environmental, and social impacts		16	**Corporate governance**	No
102–30	Effectiveness of risk management processes			**Corporate governance**	No
102–31	Review of economic, environmental, and social topics			**Corporate governance**	No
102–32	Highest governance body's role in sustainability reporting			**Corporate governance**	No
102–35	Remuneration policies			**Compensation report**	Yes (Annual Report)
102–36	Process for determining remuneration			**Compensation report**	Yes (Annual Report)
102–37	Stakeholders' involvement in remuneration		16	**Compensation report**	Yes (Annual Report)
5. Stakeholder engagement					
102–40	List of stakeholder groups			**Stakeholder engagement: Open dialog**	No
102–41	Collective bargaining agreements	3	8	**Investment in people**	No
102–42	Identifying and selecting stakeholders			**Stakeholder engagement: Open dialog**	No
102–43	Approach to stakeholder engagement			**Stakeholder engagement: Customers**	No
102–44	Key topics and concerns raised			**Sustainability program: Identification and prioritization**	No
6. Reporting practice					
102–45	Entities included in the consolidated financial statements			**Reporting profile: Entities**	No
102–46	Defining report content and topic Boundaries			**Sustainability program: Identification and prioritization**	No
102–47	List of material topics			**Sustainability program: Sustainability landscape**	No
102–48	Restatements of information			**Reporting profile: Restatements and significant changes**	No
102–49	Changes in reporting			**Reporting profile: Restatements and significant changes**	No
102–50	Reporting period			**Reporting profile**	No
102–51	Date of most recent report			**Reporting profile**	No
102–52	Reporting cycle			**Reporting profile**	No
102–53	Contact point for questions regarding the report			**Reporting profile**	No
102–54	Claims of reporting in accordance with the GRI Standards			**Reporting profile**	No
102–55	GRI content index			**GRI content index**	No

102–56	External assurance			**Reporting profile**	No
MATERIAL TOPICS					
Management Approach					
103–1, 2, 3	Customer-focused solutions			**Sustainability program**	No
	Access to hearing care			**Sustainability program**	No
	Investment in people			**Sustainability program**	No
	Safeguarding the environment			**Sustainability program**	No
ECONOMIC					
201–1, 3	Economic performance		2, 5, 7, 9	**Financial report**	Yes (Annual Report)
203–2	Indirect economic impacts		1, 3 8, 10, 17	**Hearing care market**	No
204–1	Procurement practices			**Hearing care market**	No
205–1, 2	Anti-corruption		16	**Ethics and integrity**	No
206–1	Anti-competitive behavior			**Ethics and integrity**	No
ENVIRONMENTAL					
302–1, 2, 4, 5	Energy	7, 9	7, 12, 13	**Safeguarding the environment**	Yes
303–1, 2	Water	7	6	**Safeguarding the environment**	No
305–1, 2, 3, 4, 5, 6, 7	Emissions	7, 9	3, 12, 13, 14, 15	**Safeguarding the environment**	Yes
306–2, 3	Effluents and waste	8	3, 6, 12, 13, 14, 15	**Safeguarding the environment**	No
307–1	Environmental compliance	8	12, 13, 14, 15, 16	**Safeguarding the environment**	No
308–1, 2	Supplier environmental assessment	8		**Safeguarding the environment**	Yes
SOCIAL					
401–1	Employment	6	5, 8	**Investment in people**	Yes
402–1	Labor/management relations	3	8	**Investment in people**	No
403–2	Occupational health and safety		3, 8	**Investment in people**	No
404–2, 3	Training and education	6	5, 8	**Investment in people**	No
405–1	Diversity and equal opportunity	1	5, 8	**Investment in people**	Yes
407–1	Freedom of association and collective bargaining	3	8	**Ethics and integrity**	No
408–1	Child labor	4, 5	8, 16	**Ethics and integrity**	No
409–1	Forced or compulsory labor	4, 5	8	**Ethics and integrity**	No
412–1	Human rights assessment	1, 2		**Ethics and integrity**	No
413–1	Local communities	1		**Access to hearing care**	No
414–1, 2	Supplier social assessment	2	5, 8, 16	**Ethics and integrity**	No
415–1	Public policy		16	**Ethics and integrity**	No
416–1	Customer health and safety			**Investment in people**	No
417–1	Marketing and labeling		12, 16	**Customer-focused solutions**	No
418–1	Customer privacy		16	**Ethics and integrity**	No
419–1	Socioeconomic Compliance		16	**Ethics and integrity**	No

UNCG = UN Global Compact Principle; AR = Annual Report; SDG = Sustainable Development Goal

Sonova Holding AG
Laubisrütistrasse 28
8712 Stäfa
Switzerland

Phone +41 58 928 33 33
Fax +41 58 928 33 99
E-mail ir@sonova.com
Website www.sonova.com

Disclaimer

This report contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

Imprint
Publishing System: ns.wow by mms solutions

Our brands