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 70th year of age, although in justified individual cases the Board of Directors can make an exception.

Board of Directors competence

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

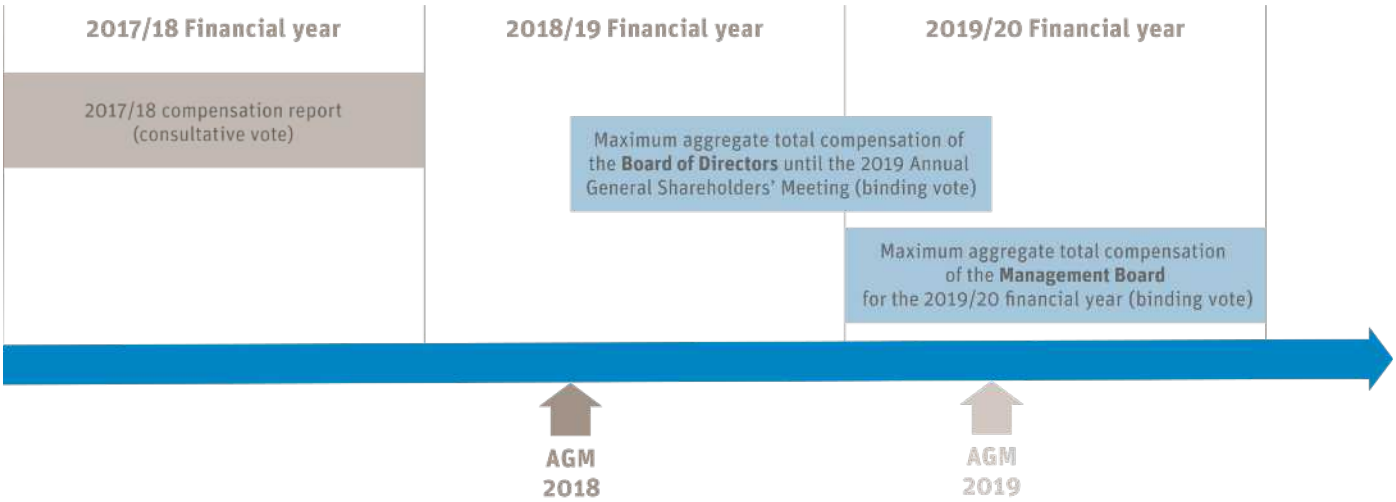
There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors

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:

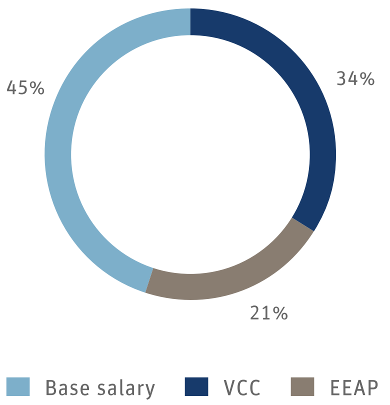
- Fixed base salary
- Employee benefits, such as pension benefits, flat rate car allowance, expense allowance, and relocation benefits for certain affected members
- Short-term cash incentive award (VCC)
- Long-term equity incentive award (EEAP)

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.

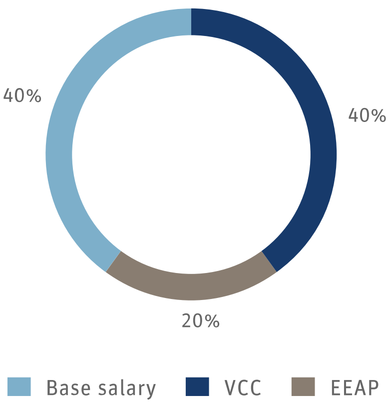
The entire section describes the compensation system for the CEO and the Management Board. Compensation of the COO is excluded and is further described in detailed in section 5.2.

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

<table>
<tr><th>Performance Objective</th><th>CEO/COO/CFO</th><th>Other members of the MB</th><th>Minimum payout (threshold)</th><th>Target payout (target)</th><th>Maximum payout (cap)</th></tr>
<tr><td colspan="6">Group objectives</td></tr>
<tr><td>Sales</td><td>20%</td><td>10% – 20%</td><td rowspan="4">0%</td><td rowspan="4">100%</td><td rowspan="4">200%</td></tr>
<tr><td>EBITA</td><td></td><td>10% – 20%</td></tr>
<tr><td>FCF</td><td>10% – 20%</td><td>10% – 20%</td></tr>
<tr><td>EPS</td><td>30% – 40%</td><td></td></tr>
<tr><td colspan="6">Business objectives*</td></tr>
<tr><td>Sales</td><td></td><td>20% – 30%</td><td rowspan="4">0%</td><td rowspan="4">100%</td><td rowspan="4">200%</td></tr>
<tr><td>EBITA</td><td></td><td>20%</td></tr>
<tr><td>OPEX</td><td></td><td>10% – 20%</td></tr>
<tr><td>ASP</td><td></td><td>10%</td></tr>
<tr><td colspan="6">Individual objectives</td></tr>
<tr><td>Initiatives/Projects</td><td>20% – 40%</td><td>20% – 40%</td><td>0%</td><td>100%</td><td>200%</td></tr>
</table>

* 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.

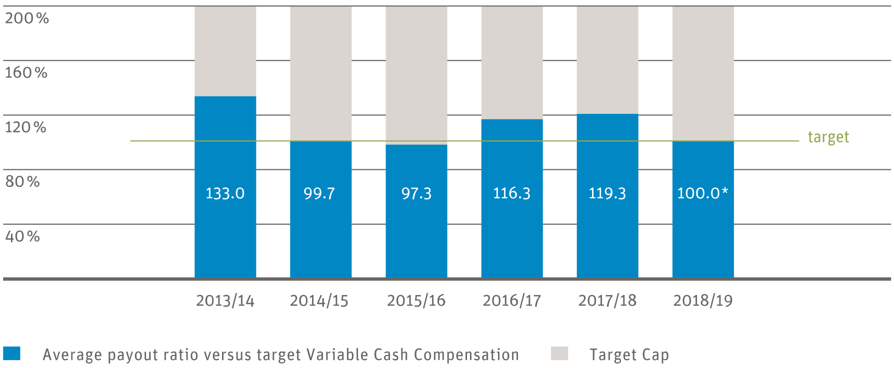
6) Including Sarah Kreienbühl and Franz Petermann for the full 2017/18 until contractual end date.

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.

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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	Claudio Berchtold
Audit expert Auditor in charge	Audit expert

Zürich, 16 May 2018

Enclosure:

- Remuneration report

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