



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.

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.



[SIX Swiss Exchange Directive](#)



[Economiesuisse Swiss Code](#)



[Sonova Organizational Regulations](#)



[Corporate Governance Report](#)



[Board of Directors](#)

Nomination and selection for the highest governance body and its committees

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



[Committee Charters](#)

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.



[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.



[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.

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).



[Compensation Report](#)

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.

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.



EHIMA



UN Global Compact



Ethics & integrity

Values and principles

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

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

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

Code of Conduct and internal regulations

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



[Code of Conduct](#)

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

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

Human rights and labor standards

Sonova supports and respects 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.



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.



[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.



[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:



[Sonova Supplier Principles](#)

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

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

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.

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.



OECD BEPS Reports

Bioethics

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

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

Replacement

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

Reduction

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

Refinement

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



[OECD Principles of Good Laboratory Practice](#)