

Letter to shareholders

Dear shareholders,

2018/19 marked another year of solid financial performance, posting further record levels of sales and profits to which all three businesses contributed. Moreover – and as expected – growth accelerated from the first half-year to the second, driven by the launch of a number of innovative products and solutions.

Sonova affirmed its leading position in audiological performance with the release of the Marvel™ technology platform. Marvel takes full advantage of the unique connectivity enabled by our SWORD™ (Sonova Wireless One Radio Digital) chip and combines it with the proven convenience of our rechargeable solutions.

We also made significant progress in our retail business, which we have renamed “audiological care” for one simple reason: care is what we deliver. The expert service provided by our hearing care professionals adds key value for the consumer.

Our cochlear implants business launched a series of innovative new products to strengthen its leading position in this expanding market.

You will find details of these and other strategic initiatives in the “strategy and businesses” section of this report.

The global market in which we operate is poised for further growth, as developed countries see increasing demand from the “baby boomer” generation and developing countries begin to bridge the gap in hearing care provision. Our vertically integrated business model – covering every step from R&D, through manufacturing, all the way to the consumer – gives us the breadth and depth to thrive in a fast-evolving global environment. Our growth strategy emphasizes innovation and audiological performance, expansion of our differentiated audiological care network, and investment in high-growth developing markets. At the same time, we sustain profitability growth by extending our multi-channel distribution partnerships, and driving continuous structural and operational improvements.

As in previous years, we would also like to give you some specific examples of how we are implementing our strategy locally in one of our key markets: The [feature story](#) this year describes our business in France.

We have made significant progress in implementing our strategy.

Robert Spoerry

Success combines clear strategy with effective execution, and both depend on employee engagement. We already have a strong tradition of innovation and consumer awareness, and we are building on this to foster a company culture, where growth mindedness, commercial execution, collaboration, and personal initiative are key. This year we conducted our first global employee survey, HearMe; around 90% of employees participated, providing valuable information about ways we can boost collaboration across the Group. The first resulting initiatives have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thus stimulate professional growth and business success.

Hearing instruments segment

The hearing instruments segment saw a further rise in sales of 3.9% in local currencies; the increase was driven by organic growth, while the net impact of acquisitions and divestments made at the beginning of the year slightly reduced growth. Both the hearing instruments and audiological care businesses contributed to sales growth.

A key highlight in the hearing instruments business was the launch of the Phonak Marvel product platform, which helped to accelerate sales growth in the second half-year. Marvel delivers exceptional sound quality from the first fit¹ – hence our slogan, “Love at first sound” – while improving speech understanding in the most difficult listening situations. It benefits from new connectivity solutions, further exploiting the capabilities of our SWORD chip: Consumers can make hands-free phone calls, stream music from electronic devices, and benefit from a wide range of life-enhancing apps. Combined with our proven rechargeable technology, the new platform is a true multifunctional marvel. The market reaction is very positive, reflecting the step-change that Marvel represents in the lives of consumers.

The audiological care business also contributed strongly to positive results this year. The highly-trained hearing care professionals in our international network deliver advanced audiological services and form an integral part of Sonova’s strategy to expand direct consumer access. We have now completed the integration of AudioNova and created a strong platform for future growth.

We successfully addressed the challenges we faced in individual markets such as the US and Netherlands. In the US, we streamlined and reconfigured our store network with a bigger focus on the Sun Belt, where our highest consumer concentration is found. In the Netherlands, we optimized our store network while simultaneously introducing a new flagship store concept. This year’s same-store sales growth in both markets confirmed the success of these initiatives. We have also made good use of our strongest brand by introducing Phonak Marvel throughout our own global network and supporting the launch with dedicated marketing campaigns, including television advertising.

Cochlear implants segment

Our cochlear implants segment generated another year of solid growth, with sales up 6.3% in local currencies. Much of this rise was from new system sales, which is a reliable indicator of the competitiveness of our product range. We also made significant progress in profitability.

Advanced Bionics further expanded its range of implants this year with the launch of its HiRes™ Ultra 3D cochlear implant, which features an innovative magnet design that allows cochlear implant recipients to undergo MRI scans without the need to surgically remove the magnet. This gives our recipients peace of mind and ensures that they can enjoy uninterrupted hearing if they need to go through this medical procedure.

Breakthroughs like Marvel reinforce our position as an innovation leader.

Arnd Kaldowski

In March 2019, Advanced Bionics introduced cochlear implant recipients to the universal direct connectivity made possible by Sonova's SWORD chip, once again highlighting the synergies between our businesses. We have further expanded our global partnerships with hearing care professionals (including those in our own audiological care business) and cochlear implant clinics to identify potential candidates for an implant solution among current hearing aid users and to manage their transition from hearing aids to the new experience of an implant.

Financial highlights

The Group's consolidated sales for the year were CHF 2,763.2million, a rise of 4.4% in Swiss francs and 4.1% in local currencies. The increase was driven by organic growth, while the net impact of acquisitions and previously announced divestments slightly reduced growth. As expected, growth accelerated from the first half-year to the second, driven by new product introductions.

Towards the end of the financial year, Sonova announced steps to further improve its local operating structure in the UK, Germany, and Canada, streamlining the supply chain. The measures resulted in restructuring costs of CHF 11 million in the 2018/19 financial year, and are expected to lead to annual costs savings of around CHF 7 million once fully implemented. Adjusted for these costs, operating profit before acquisition-related amortization (EBITA) reached CHF 594.0 million, up 6.7% in local currencies (compared to the adjusted EBITA for 2017/18). Reported EBITA was CHF 582.5 million and reported earnings per share (EPS) reached CHF 6.98 (2017/18: CHF 6.13). The adjusted EPS was up 11.7% to CHF 7.11.

The Group achieved a stable cash flow. Net debt stands at CHF 253.9 million, and the balance sheet remains strong with a net debt/EBITDA ratio of 0.4.

Total shareholder return strategy

In October 2018, Sonova initiated a new share buyback program of up to CHF 1.5 billion, which will run for up to 36 months. The shares are repurchased for purposes of cancellation. In the event of an attractive larger acquisition opportunity, the program can be suspended or amended. In addition, the Board of Directors proposes a dividend of CHF 2.90 per share, an increase of 11.5% and representing an adjusted payout ratio of 41%. Our total shareholder return strategy, consisting of significant dividends and a steady share buyback program, is based on our confidence in Sonova's future cash generating capacity.

Corporate responsibility

Creating sustainable value for all our stakeholders and doing business responsibly are permanent elements of Sonova's corporate strategy. Our innovation and broad range of solutions create value for consumers and enable us to offer a path to better hearing for people around the world; this is why we continue to invest significantly in R&D. Of equal importance to us is that we continuously invest in the development of our employees and partners.

These efforts, along with our continuing pledge to apply eco-efficient practices across all our activities, have once again been recognized through our inclusion in the Dow Jones Sustainability and FTSE4Good Global indices for 2018. Our first-time selection to the Bloomberg Gender-Equality Index shows that our commitment to equality and a comprehensive diversity and inclusion strategy is bearing fruit.

The Hear the World Foundation, a key pillar of Sonova's social engagement, has supported people with hearing loss, especially disadvantaged children in developing countries, for more than twelve years. This year the foundation provided funding, hearing aid technology, and expertise for 23 projects, including in Peru assessing the hearing of over 20,000 children, fitting hearing aids, and training 50 speech therapy students to become audiology technicians.

You can find more information about our activities and performance in the [Corporate Responsibility Report](#), which is part of the Sonova Annual Report.

Changes to the Management Board and Board of Directors

In November 2018, the Board announced the appointment of Victoria E. Carr-Brendel, effective April 1, 2019, as Group Vice President Cochlear Implants and President of Advanced Bionics, taking over from Hansjürg Emch. Having spent her entire career in healthcare, she has a background as an innovation and growth leader, bringing with her marketing, development, clinical, and strategic business experience in the medical device sector. The Board also announced that Ludger Althoff will be succeeding Hans Mehl as GVP Operations and member of the Sonova Management Board, effective April 1, 2019. He adds a wealth of experience in manufacturing of medical technology and life science products, global sourcing, and logistics, and is a highly experienced continuous improvement expert.

We are very pleased to welcome both new Management Board members, who will be important contributors to our team on our journey to further expand our business in a fast-moving global environment. We also want to sincerely thank Hansjürg Emch and Hans Mehl for the key roles they have played in past years.

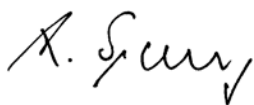
Anssi Vanjoki, non-executive member of the Board of Directors, will not stand for re-election at the Annual General Shareholders' Meeting in June 2019. We warmly thank Anssi Vanjoki for his many years of most valuable contributions to the growth and strategic development of the Sonova Group.

Our thanks

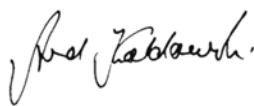
Operating at the forefront of innovation and giving consumers ever better hearing experience requires not just the commitment to excel – it demands the desire to improve continually, year-on-year. Sonova employees show that desire: their enthusiasm for pushing the limits of hearing care is the source of our success. The collaboration we enjoy with researchers and hearing care professionals helps to ensure that our innovation is centered on the consumer's most critical needs. And the people who benefit from our solutions remain our inspiration and motivation, every working day. All this is enabled by the firm support of our shareholders, which allows us to make continued significant advances. We sincerely thank you all.

Outlook 2019/20

The global hearing care market offers both general and specific opportunities for continued growth. Our strategy is tuned to capture these benefits while delivering further advances in commercial excellence and operational efficiency. We therefore expect to increase consolidated sales in 2019/20 by 6-8% in local currencies, while further expanding profitability.



Robert Spoerry
Chairman of the
Board of Directors



Arnd Kaldowski
CEO

1) Jansen, S., & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. Phonak Insight, retrieved from www.phonakpro.com/evidence, accessed October 16th, 2018.

Our product and service offering

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

Hearing Instruments Business

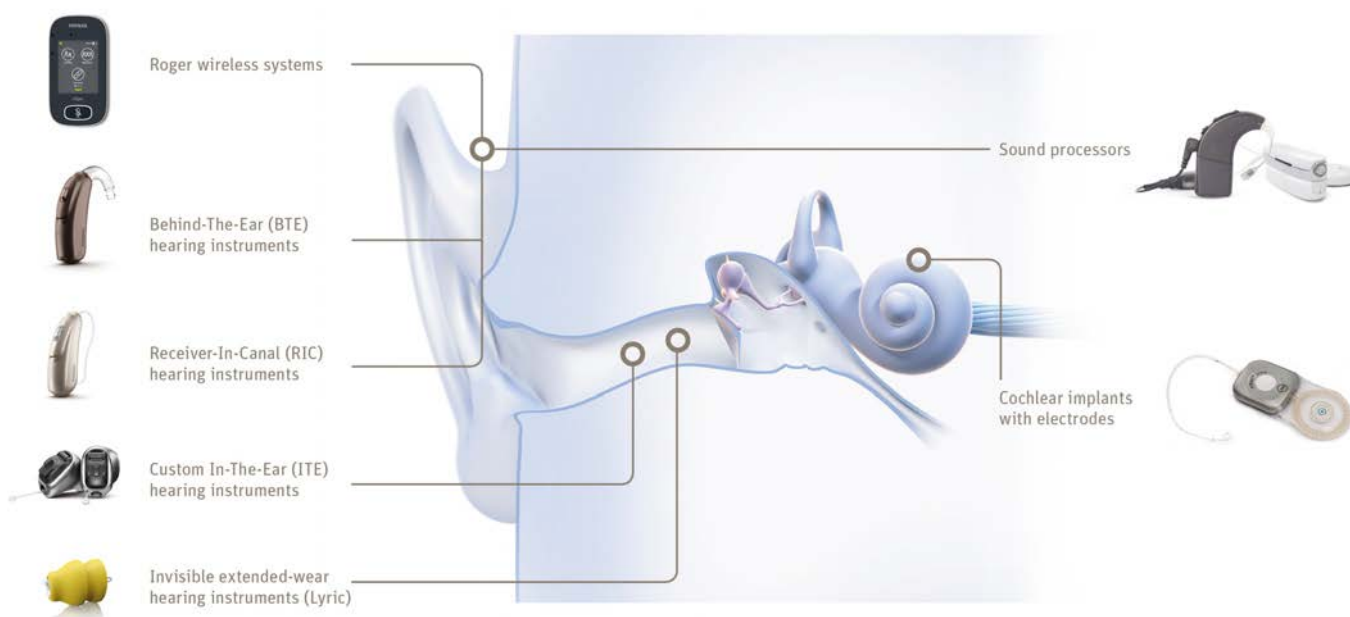
PHONAK

unitron

HANSATON

Cochlear Implants Business

AB Advanced Bionics



Audiological Care Business – Professional audiological services



Phonak

Audéo™ Marvel

The Phonak Audéo Marvel Receiver-In-Canal hearing aid delivers top-rated streamed sound quality¹ and automatically adapts to different listening situations thanks to AutoSense OS™. This multifunctional hearing aid is the world's first to feature technology capable of supporting binaural direct streaming from iOS, Android and Bluetooth enabled phones as well as from billions of other devices, all in stereo sound. Hearing aid wearers can enjoy the benefits of rechargeable technology and a host of dedicated apps which allow them to experience remote hearing adjustments and real-time voice-to-text call transcription.

- 1) Legarth, S., Latzel, M. & Rodrigues, T. (2018). Media streaming: The sound quality wearers prefer, Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed October 17, 2018.

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Unitron

Moxi™ Jump R

Moxi Jump R – Unitron's first lithium-ion rechargeable Receiver-In-Canal hearing aid has impeccable natural sound and speech clarity. It offers a full day of hearing, including phone and media streaming, to both ears – hands-free. It's easy to use, with no battery door – and, it looks great. With the revolutionary Unitron Flex™ ecosystem of technologies, services, and programs it is designed to make the process of buying and using a hearing aid easy, personal, and empowering.



Hansaton

sound SHD stream

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

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



Advanced Bionics

HiRes™ Ultra 3D Cochlear Implant

Advanced Bionics this year introduced the new breakthrough HiRes™ Ultra 3D implant, featuring a new magnet design. More and more people undergo an MRI scan (magnetic resonance imaging) during their lifetime, but this has long been a hassle as the powerful magnetic field generated by the scanner caused a strong force on the magnet contained in traditional implants. This resulted in the need to surgically remove the magnet in order to ensure a pain-free scan and meant that recipients were not able to hear until it was replaced and the healing process was complete. With the HiRes Ultra 3D implant, recipients can now undergo an MRI scan without feeling pain or discomfort and without the need to remove the magnet, thereby improving the quality of life for recipients.



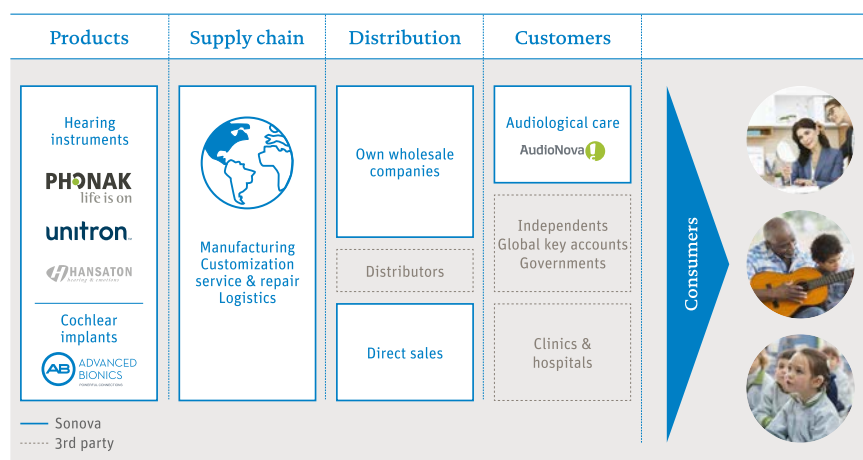
Strategy and businesses

Sonova's vision is of a world where everyone can enjoy the delight of hearing and therefore live a life without limitations.

Every person's experience of hearing loss is different, hence Sonova's market is naturally diverse. Our mission, though, is simple and unchanging: to be recognized as the innovation leader in the global hearing care market. In everything we do, we aim to provide industry-leading audiological performance and outstanding consumer experience.

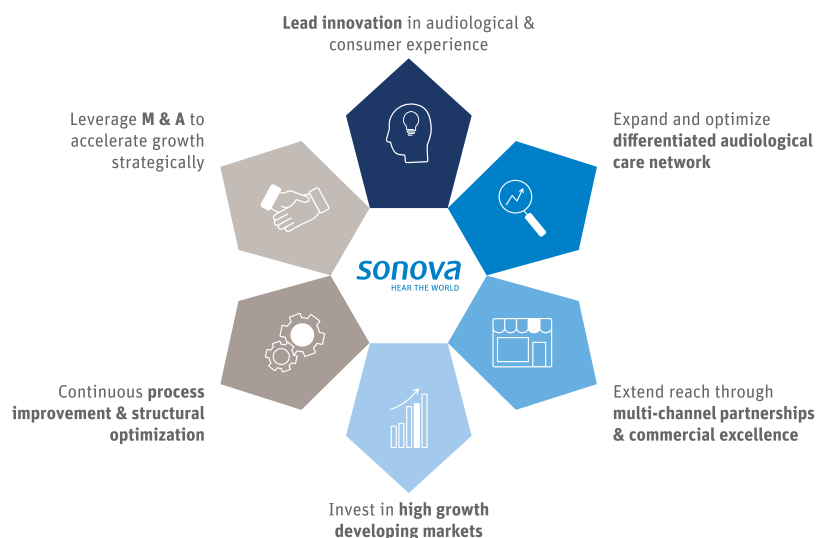
We reach our consumers through multiple channels; this diversity lets them benefit from our broad range of solutions – hearing aids, cochlear implants, wireless communication products, eSolutions, and professional audiological care – in the way that best suits their individual needs.

Our vertically-integrated business model lets us be both flexible and efficient, using the consumer insights gained through every channel to drive our shared R&D in a cycle of continuous customer-focused innovation.



Our growing emphasis on connectivity and digital applications means that we can both broaden and deepen our engagement with consumers, offering trusted, valuable support at every stage of their journey to better hearing.

Sonova's strategy builds on the strengths we have established over many years.



Our market-leading innovation, such as this year's worldwide launch of Phonak's Marvel platform, puts us at the forefront of audiological performance and clear rich sound experience. Our audiological care network combines in-store, remote, and online support to deliver a uniquely flexible and personal consumer experience. We continue to optimize our sales and marketing to fit precisely to the needs of our various distribution channels and to establish a strong presence in high-growth developing markets. And we never stand still: where there is a possibility to improve our processes, optimize our structure, or expand our consumer offering and technological capabilities – whether organically or through acquisitions – we will seize that opportunity, not only to increase Sonova's profitability, but to build the investment capacity that fuels future growth.

Our Group is organized in three core businesses: hearing instruments, audiological care, and cochlear implants. Collectively, they enable Sonova to offer innovative solutions for every type of hearing loss along with the training, tools, and support that create an optimal consumer experience.

Hearing instruments business: Sonova continues to be a leading developer and manufacturer of hearing aids and related solutions. Our R&D focus enables us to consistently launch new technology platforms that support significant performance improvements across our wide product spectrum and through multiple distribution channels. Our emphasis is on audiological performance, offering a clear, rich sound experience and speech understanding even in the most challenging environments. Recent innovations in connectivity and digital applications let us deliver fundamental improvements in the consumer's experience.

Audiological care business: The new name for what was previously called our retail business underlines the quality that sets it apart: its emphasis on care. The 5,000 trained specialists who work in our centers are there to care for people who have a clear medical need. A personal relationship founded on expertise and understanding is the best basis for getting the full benefit from a hearing solution. Our technology and our increasingly integrated IT systems give consumers the freedom to choose how they would like to receive our support – in person, remotely, or online – at every stage of their relationship with us. This integrated approach lets us care for every consumer with the individual attention he or she deserves.

Cochlear implants business: A cochlear implant offers people with significant or complete hearing loss the chance to hear clear sound and join in conversations. Our Advanced Bionics implants benefit from the latest sound processing capabilities made possible by our Phonak technology. The cochlear implant market is expanding from being mostly children born with hearing loss to adults whose hearing loss has become too severe to be treated only with hearing aids.

Key areas of activity

Innovation



Phonak developed SWORD, an ultra small, ultra low power chip. The structure includes 42 million transistors placed on 6.8mm² size chip. Using 40 nm CMOS technology, SWORD is the only wireless chip with one antenna to power all applications.

Last year, we introduced our first products based on the proprietary SWORD™ (Sonova Wireless One Radio Digital) chip that allows hearing instruments to communicate with a vast selection of electronic devices such as mobile phones or televisions. This year, we extended the benefits of this technology, providing users with the ultimate combination of excellent stereo sound quality with universal Bluetooth® connectivity¹ and rechargeability, all in a single product.

We never innovate simply for innovation's sake: what matters are capabilities, not features. The benefits offered by technology such as our SWORD chip go far beyond mere connectivity: hands-free phone conversations, direct media streaming, remote fitting and supporting consumer applications – a whole new universe of possibilities that enriches the consumer's experience.

1) with Bluetooth® 4.2 wireless technology and most older Bluetooth phones.

Market and consumer access

Sonova's global distribution network is the broadest in the industry. We seek engagement with consumers through a range of channels: our own audiological care business, retail chains, independent audiologists, government agencies, and cochlear implant clinics. This wide reach, extending to more than 100 countries, offers many points of contact with consumers where we can gather feedback and offer enhancements. Digital connectivity and eSolutions let us deepen that contact with consumers across all channels.

The global hearing instrument industry shows a wide difference in growth potential between developed and developing markets. As general wealth increases in countries like China, the number of people with hearing loss using a hearing aid will rise from the current 1–2% toward the developed world average of around one quarter. We are therefore building access and engagement with consumers and hearing care professionals in those markets. In China, for example, we are expanding our distribution network, accelerating our China-specific innovation, and scaling up our education program for local professionals.

Continuous improvement

Every year brings its technological innovations, but there are other improvements that can contribute materially to growth. We benefit from highly efficient manufacturing and aim to increase productivity further by continuous process improvement and structural optimization.

In every area, from maximizing product reliability to fine-tuning our sales and marketing approach to optimizing capital allocation, we seek to increase the number of projects delivering these incremental gains, both on the operational and the market-facing sides of our business. Every gain helps us to build our investment capacity for future growth.



Feature story: Pioneering innovation

Sonova has been operating successfully in France for decades. We took a trip to a country where creativity and innovation lie at the heart of French “genius”.

“An invasion of armies can be resisted, but not an idea whose time has come.” This quotation from the famed French writer Victor Hugo reflects the long history of scientific and technological progress that is part and parcel of French identity. For centuries, French thinkers, writers, artists, researchers, and scientists have helped to enrich humankind, bringing new wonders and emancipation in equal measure; and thanks to this tradition, Sonova’s innovations are finding fertile ground in France. Customers in this sophisticated market are open to new products, services, and solutions for the world of tomorrow.

In 2018, turnover in France’s hearing aid market grew some 10%, with the number of devices sold totaling around 800,000 – an impressive figure. Despite these high sales numbers, there is still significant market potential here. Nearly one in six of France’s population of 67 million is over the age of 65; some 1.9 million people already wear a hearing aid. As a 2018 study on behalf of the European Hearing Instrument Manufacturer Association¹ has shown, both the number of hearing aids fitted and general willingness to wear a hearing instrument have risen over the last few years. About 7.5 million French citizens over the age of 18 are thought to be affected by hearing loss, but only a third of these have been fitted with a hearing aid. Given these circumstances, it is part of Sonova’s strategy to raise awareness amongst those affected to ensure they seek professional help as early as possible. As the study makes clear, the chance for many patients to get comfortable with the idea of purchasing a hearing aid will generally still come during a hearing test conducted by an ENT specialist. However, researchers also found that some of these people are not willing to be fitted with hearing aids, despite their doctor’s recommendations.

The study shows that having to live with hearing loss without the support of a hearing aid can result in depression, unemployment, insomnia, and dementia, which in turn increases follow-up costs for the healthcare system. This has led the French government to significantly expand its reimbursement program. Promoted to the public under the slogan “100% Santé” (100% Health) and passed at the end of 2018, the law has been in force since 1 January 2019 and ensures comprehensive cost coverage or reimbursement for hearing aids. It defines two categories of hearing aids, with full cost coverage guaranteed for the first (in which device and service costs are limited) and a sliding scale of prices with a fixed upper threshold for the second device category.

France Facts & figures:

Area: 211,413 square miles

Population: 66.89 million (2018)

GDP:

EUR 2,349 billion (2018)

Growth: +1.5% (2018)

Per capita: EUR 32,900 (2018)



France's audiological supply infrastructure is very highly developed, with a diverse market that encompasses everything from independent audiologists to chains. Independent audiologists form the largest group amongst these various providers, and a total of seven institutions throughout the country offer a three-year course leading to professional qualification in the field.

"Customers in France are sophisticated and appreciate the benefits of our ongoing technical innovations," explains Arnd Kaldowski, Sonova's CEO. As in other countries, it is the interplay between technology and innovation, digitalization and customer focus that has underpinned Sonova's success. "We will continue to drive growth by launching a succession of new and pioneering products." The Sonova Group is thus excellently positioned in France, one of its most important markets worldwide: its brands and its network of specialist audiology stores are firmly established and the Phonak brand enjoys a leading position.



Sonova France headquarters near Lyon, where around 160 staff work for the French market

Sonova has concentrated much of its hearing care expertise at its headquarters near Lyon – Phonak, Unitron, Hansaton, and Advanced Bionics thus run their business in France just a few kilometers outside the city. Some 160 staff work here, while the Hansaton brand has a facility in Sarreguemines near the Franco-German border. Sonova's Audiological Care business segment and its international service network of specialist audiology stores are represented in France by the Audition Santé brand, with a total of around 300 staff across the country providing their customers with professional in-store audiology services. Audition Santé is headquartered in Cahors in the south of France.

Sonova has maintained a presence and has been enjoying success in the country for more than forty years – a fact that is reflected in the expanding workforce at its France headquarters. Staff numbers almost doubled here between 2006 and 2018, and Sonova's modern site – with its attractive, all-glass atrium – offers more than 25,000 square feet of workspace. The meeting nooks in the open-plan offices within give employees plenty of opportunity to compare notes.

"We are very happy with the facilities, but we are running out of space. In August 2018, we began work on a new building that will double the floor space available to us," explains Vincent Lefèvre, Sonova's Managing Director for France. The new building is being erected on the same site and is due to be completed during 2019. The old and new structures will be linked with a bridge to facilitate communications and create a unified architectural impression.



Vincent Lefèvre, Managing Director Sonova France with his team members

Phonak has an excellent brand image in France. A market survey of French audiologists² commissioned by Sonova in 2017 shows that Phonak has a commanding lead over other providers when it comes to value-for-money, product performance, and innovation. The company's service hotline also got top marks, as did the outstanding reliability of its devices. Phonak's brand recognition has also improved amongst end users and audiologists. "We're very happy with the results. They confirm that our strategy is on the right track," adds Lefèvre.

Phonak's pioneering products and hearing solutions are proving extremely popular on the French market, where there has also been a very positive reaction to Phonak Audéo™ Marvel, the latest innovation in hearing technology. Launched at the end of November 2018, the hearing aid is based on Phonak's new product platform and provides exceptional sound quality from the very first second, setting new standards for rechargeable solutions and direct connectivity.

Phonak Audéo™ Marvel focuses on what customers expect from a first-class hearing aid – clear, rich sound. A combination of cutting-edge technologies has created a multi-functional hearing aid that customers are describing in reviews as "Love at first sound". Users such as fashion journalist Barbara Markert from Paris are enthusiastic: "Being able to link my hearing aid directly to my computer is essential for my job. It is also really cool that I can take a call on my mobile just by touching the hearing aid."

Marvel makes it easier for the wearer to understand speech³ with less listening effort⁴ in loud environments. The new hearing aid can link directly with iOS or Android™ smartphones and other Bluetooth®-enabled phones, allowing users to enjoy their favorite series and movies with the TV Connector, a simple plug-and-play solution. In addition, Marvel hearing aids enable genuinely hands-free phone calls and allow wearers to stream TV, music, videos, e-books, podcasts, and much more. Wearing Marvel hearing aids is like wearing wireless headphones – or perhaps even better, as they can distinguish between streamed speech and music signals and automatically adjust to ensure optimized sound quality. Thanks to powerful lithium-ion battery technology, they are quick to charge and provide a whole day of hearing enjoyment; no more hassle with having to switch batteries! And thanks to the myPhonak app, a hearing care professional can adjust a customer's Marvel hearing aid in real time.

Given its range of products, which set new standards for hearing solutions, Phonak has carved out a strong position for itself in France and maintains close relationships with independent audiologists. In addition to providing support and advice for successful hearing aid fittings, Phonak engages with its clients via a suite of marketing campaigns and a strong social media presence.

Sonova's Unitron hearing aid brand has also found success in France, and is now reaping the rewards of its efforts to build longstanding client relationships. "We have experienced very pleasing growth in recent years, both in terms of turnover and in terms of the number of devices sold," says Vincent Gaggero, General Manager Unitron France. The launch of the new Max™ hearing aids in October 2018 has been a success: the devices are available in two behind-the-ear models based on Unitron's Tempus™ product platform and are equipped with three Super Power pre-sets. Selecting from a range of possible combinations, the audiologist can personalize the solution – and this results in a better hearing experience and fewer and shorter follow-up appointments. The Super Power pre-sets make it easier to meet the expectations of people with severe-to-profound hearing loss.

The flexible fitting concept using Flex:trial™ technology, whereby audiologists can themselves upload the software for the required level of technology, is also in high demand in France. Many customers appreciate the opportunity to trial the devices with no obligation before committing to a purchase. The brand also provides support for the audiologists with whom Unitron works to acquire new clients. "We have consciously sought out new customers and have also succeeded in winning them over. In particular, we contacted a lot of young audiologists who had just opened their stores. They are excited about the possibilities offered by our Flex:trial™ technology, as it can be employed quickly and easily," adds Vincent Gaggero.

Business is also going well for Sonova's Hansaton hearing aid brand, and collaborations with the audiologists who stock the brand have proved very successful. Hansaton is exclusively retailed via independent audiologists in France, and for historical reasons has a particularly strong presence in the east of the country. "We take a very personal approach to client relations with audiologists, and of course they appreciate that," explains Yorick Hubert, General Manager Hansaton France.

Sonova's Advanced Bionics brand similarly builds on trust-based relationships and cooperation. It is strongly positioned in the French market and is represented in leading cochlear implant clinics. Providing patients with cochlear implant systems is a growth industry, and customer acceptance of the technology is improving thanks to targeted awareness-raising campaigns. Professor Thierry Van Den Abbeele, head of the ENT department at Paris' Robert Debré University Hospital, explains: "You have to understand that implants offer a solution not only when someone has lost their hearing completely but also in cases of significant hearing loss, and it's here in particular that we achieve our best results. So even an 85-year-old person in a good state of health can be a suitable candidate."

Advanced Bionics' business has performed gratifyingly over the last few years. "We have been able to increase our market share significantly," says Jean-Baptiste Delande, Area Director French Europe Advanced Bionics. The company has a total of 18 staff working in France and maintains contacts with ENT physicians and patients at hospitals specializing in cochlear implants across the country. One big advantage over other providers lies in the cutting-edge waterproof technology that Advanced Bionics deploys. Neptune™, the first and only sound processor you can wear while swimming, is ideal for young children. This is what tipped the balance in choosing a supplier for Marlène Corbin, the mother of four-year-old Léa, who wears implants on both sides. "We ultimately decided on an Advanced Bionics cochlear implant system because you can even swim underwater with it – that's ideal for kids."



Léa Corbin, cochlear implants patient

Jean-Baptiste Delande continues: “We are constantly comparing notes with the physicians at the clinics.” Innovations are also being introduced on the basis of these exchanges. “In future, we intend to switch on the cochlear implants earlier. Previously, we had been switching them on about a month after the operation, but now the aim is to activate the device the very next day, to give the patient an immediate hearing experience.”

Sonova wishes to continue growing in France with the help of its international network of audiology stores, and it has been pursuing this objective via its local brand Audition Santé. The company is constantly searching for new ways to further improve information provision, awareness campaigns, hearing screening, advice, and support – with the focus always squarely on the customer.

Lots of energy is being invested in marketing campaigns, as Stéphan Rosat, Audition Santé’s Managing Director in France, explains: “Things are working out very well with new customer acquisitions. Hearing tests are being advertised in mailshots, for example, and we are active on social media.” The company’s YouTube channel has been extraordinarily successful, garnering more than 1.6 million views in just two years. “While it’s certainly important to have an online presence these days, D-Cibel, our print magazine, has proved to be one of our best marketing tools.” The magazine, which runs to about 30 pages and appears twice yearly, explores an array of hearing-related topics. In addition to the print version, which has a circulation of 600,000, we have had an online edition for more than two years now, and a video version of many of the stories has also been posted to YouTube over the last year. The hardcopy magazine is mailed directly to customers and is also available in stores.

Audition Santé has 226 specialist audiology stores in France, almost twice as many as ten years ago. Their largest branch in France at the moment is in Versailles. A modern and attractive retail environment where the new audiological care store layout has already been installed, it is all geared to optimal customer service, both in terms of its design and the facilities on offer. 77-year-old customer Jacques Lolloz likes to drop in. “The staff here are all highly professional. I feel like I’m in good hands,” recounts the holder of the Order of the Legion of Honor, who served as mayor for many years.

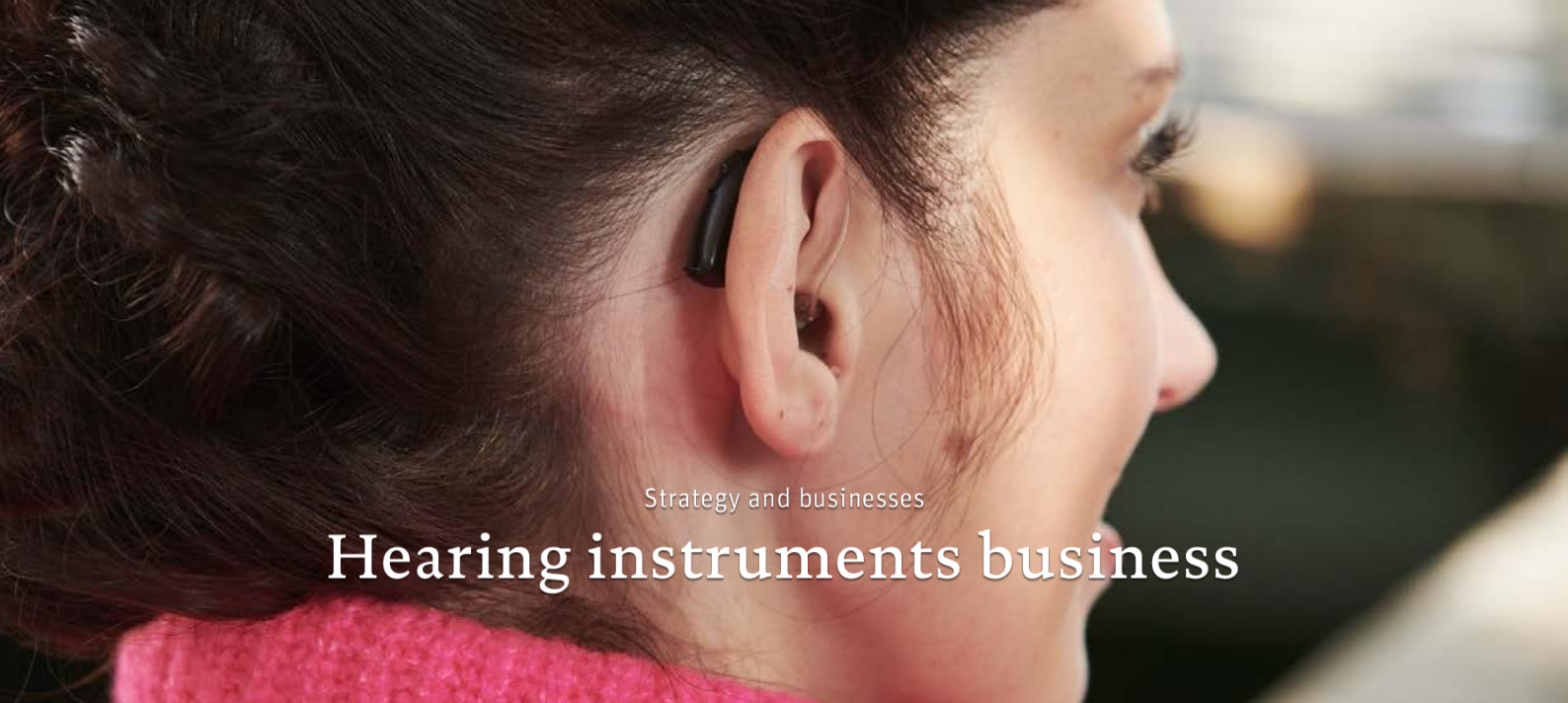


Jacques Lolloz, Audition Santé customer

Barely a quarter of an hour's train ride away from Audition Santé in Versailles, we find Sophie Vouzelaud posing in front of the Eiffel Tower for Sonova's 2018/19 Annual Report photoshoot. This tall young lady with dark curls works as a model – and wears hearing aids made by Sonova brand Phonak. Sophie, who comes from a little town called Saint-Julien in the Limousin region, was born with profound hearing loss; thanks to being fitted with hearing aids since her earliest childhood, she has learned to speak and make her way in the world.

That Sophie has become a model is mainly due to the unstinting commitment of her mother, who entered her daughter into a regional beauty contest shortly after she left school in 2007. Exceeding all expectations, she took first place, thereby qualifying for the final selection of “Miss France”. There may have been only about 70 spectators at her first competition, but this time there were to be no fewer than 12 million viewers watching Sophie hold her own against 37 other contenders. Having spoken just a few sentences in the final, the beauty queen, who is affected by near-complete hearing loss, won the hearts of millions in the TV audience and was crowned “Première Dauphine de Miss France 2007”. Now 30 years old, she has since won supporting roles in feature films, has taken part in a range of popular TV shows in France, and is now even an ambassador for a Christian Dior perfume. The French model is also active in campaigning for greater acceptance of people with hearing loss. This work is close to Sophie Vouzelaud's heart: “I always had to struggle – but I have proved that I can achieve the same as anybody else.”

- 1) https://www.ehima.com/wp-content/uploads/2018/07/EuroTrak_2018_FRANCE.pdf
- 2) © 2017 Gallileo Business Consulting, «Panorama 2017 du marché de l'audioprothèses». Survey conducted on behalf of Sonova, detailed results available free on request.
- 3) Stewart, E., Rakita, L. & Drexler, J. (2019). StereoZoom Part 1: The benefit of wirelessly connected narrow directionality in Phonak hearing aids for speech intelligibility. Phonak Compendium, retrieved from www.phonakpro.com/evidence, accessed February 5, 2019.
- 4) Winneke, A., Latzel, M. & Appleton-Huber (2018). Less listening- and memory effort in noisy situations with StereoZoom Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed February 5, 2019.



Strategy and businesses

Hearing instruments business

A driving force in hearing care, we measure our success by the positive impact our technologies have on the ability of consumers to communicate and enjoy life to the fullest.

It is a very exciting time to be in the hearing instruments business: the market is changing faster than ever before as the baby-boomer generation arrives at the age when hearing loss becomes common. These new consumers are more self-reliant and demanding, seeking optimal performance and connectivity, choice of sales channel, and excellent, flexible support. Developing countries such as China represent large untapped demand with a track record of rapidly adopting advanced technology. The digitalization of our solutions gives our consumers seamless contact with the media and experiences they enjoy, while our online eSolutions provide new opportunities for us to offer services and enhancements.

We are grasping the potential of this rapidly evolving market through our commitment to remain at the forefront of innovation and proven hearing performance. We have the industry's broadest portfolio of hearing care products, providing a solution for every type of hearing loss. Our three hearing aid brands – Phonak, Unitron, and Hansaton – maintain their distinctiveness, but advance together by sharing R&D, improvements in processes, and new paths to the consumer.

At the center of our hearing instruments business stands the Phonak brand, available around the world through all our sales channels, including our own audiological care businesses. Phonak represents the leading edge of hearing aid technology, regularly setting new industry standards for hearing performance while introducing major advances in connectivity and remote support. Unitron, with its innovative Flex eco-system, supports the businesses of hearing care professionals, while Hansaton is positioned as an exclusive brand focused on independent audiologists.

Key areas of activity

Innovation



The highlight of this financial year was the launch of Phonak Audéo™ Marvel, powered by our new leading-edge technology, based on Sonova's proprietary SWORD™ Made For All wireless chip. It allows virtually all users, irrespective of the type of phone or other Bluetooth enabled device they own, to stream high quality stereo sound to both ears. This means genuinely hands-free phone conversations, access to all streamed music, voice, and video content, and hassle-free connection to wireless microphones. But Marvel's most important feature is a hearing experience so impressive, even at the initial fitting¹, that we call it "*Love at First Sound*." With Marvel, Phonak has once again taken a major step to significantly improve the audiological performance of hearing aids.

That is not all: Connection to a phone allows instant, easy access to a suite of eSolutions, from remote audiologist support and direct consumer feedback to real-time voice-to-text transcription of phone conversations. And thanks to the low power consumption of the SWORD chip, all of this performance is supported for a full day on a single charge for consumers who have chosen our proven lithium-ion rechargeable technology.

The market response to the Marvel technology has been very positive, further strengthening our market share and average selling price. As always with Sonova innovations, the new technology will be introduced in a phased way across our product portfolio.

1) Jansen, S., & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. *Phonak Insight*, retrieved from www.phonakpro.com/evidence, accessed October 16, 2018.

Market and consumer access

Sonova has direct access to over 90% of the global hearing care market through its own wholesale companies, and reaches over 100 countries when partner distributors are added. Hearing care is a diverse market with individual, national, and regional variations, so we set our distribution strategy to reach consumers in their preferred way. We offer our brands through multiple sales channels – large store networks, independent audiologists, managed care providers, and government healthcare institutions – to assure each consumer the broadest access to optimal hearing solutions.

We have strengthened our strategic focus on two areas with the greatest potential for increased demand for innovative hearing solutions: the baby-boomer generation of consumers in developed countries and the under-served but quickly increasing middle class in developing, high-growth countries.

Success in these markets depends, not just on excellent performance and technological innovation, but on close engagement with each consumer, ensuring that our solutions make a strong contribution to a seamless hearing experience in everyday life. Here, eSolutions have an important role to play, maintaining the relationship between the consumer, the hearing care professional, and Sonova throughout the lifetime of the product. The consumer gains from continuously optimized performance, convenience, and support; we gain deeper market knowledge and a permanent presence on each user's hearing journey.

Continuous improvement

Market growth is one source of future success, but there are also opportunities to further increase productivity and profitability in our current business. Such a wide product portfolio distributed through so many channels offers many areas where processes and structures can be further streamlined. For example, we have optimized our operations structure in the US, folding three separate facilities into one. We are also consolidating the highly-skilled production of our custom products into fewer, advanced centers in each major region. Each of these operational improvements frees up capital for investment in growth opportunities, such as our new dedicated support organization for managed care providers.

We continually assess *how* we sell, not just *what* we sell, and are further optimizing our sales and marketing efforts. The marketing launch of our Marvel technology was the largest ever in the industry, and we are capitalizing on that effort through repeat campaigns (including television advertising) throughout the product life cycle. These campaigns are supported by claims from clinical and consumer studies that substantiate the real-life benefits of our solutions, and ensure that we sustain market awareness, fill gaps in distribution, and keep bringing in new customers throughout the innovation cycle. Targeted digital lead generation gives us the ability to pinpoint where we have the greatest potential to generate demand. All in all, we intend that our business processes should live up to our products in their sophistication and performance.



Hearing instruments business

Close connections

The launch of Phonak's Audéo™ Marvel has brought a hearing aid to the French market that sets new standards for rechargeable solutions and direct connectivity. Fashion journalist Barbara Markert from Paris is an enthusiastic wearer and has been writing about her experiences.

Three short text messages are all that is required to set up the appointment: "Is Thursday about 2pm OK for you? – Yes! – Great. I'll give you a call!" A few days later, a little push message appears at the agreed time on the myPhonak app on Barbara Markert's smartphone. The busy freelance journalist and mother of a 9-year-old boy clicks on the link and is directly connected to her audiologist.

The employee at a specialist audiology store works in the Paris suburb of Créteil, while Barbara Markert is based in the middle of Paris, not far from the Louvre and the Pompidou Center. The metro journey from her home office to Créteil would take over an hour, the return trip, two hours. The elegant 52-year-old can now save herself this time; thanks to remote support for her new Phonak Marvel aids, her audiologist can access her devices via the app and fine-tune them remotely. "The sound quality is super inside a room, but there is still a bit of an echo outdoors. Can you fix that?" asks his customer. The audiologist alters the settings from his computer and asks her to try out the adjustment over the next few days before getting back to him.

Barbara Markert, a German national who has settled in Paris, has been wearing Phonak's multi-functional Marvel hearing aid since January 2019. "I'm constantly amazed by all the things the new devices can do," says the lively journalist. She is especially taken with the option to link it with her computer via Bluetooth. "I often spend whole days working at the computer, typing up interviews I've done. In the past, I had to laboriously take my hearing aids off and plug in headphones, but that's no longer necessary, thanks to Marvel. Everything is transmitted to my ears via the hearing aids." Skype interviews and videos of fashion shows with lots of music, which she watches for research purposes, are transferred directly to the devices, no longer bothering her husband, who is also a freelancer and has his office right next door to her work room in the flat they share.



Barbara Markert, journalist

Being able to slot the device effortlessly into its charging dock at night is another bonus for the journalist. “Not having to change single-use batteries all the time is right up my street, as I’m particularly concerned about ecology and environmental protection,” says Barbara Markert. Despite its Bluetooth connectivity, the device uses very little power thanks to its powerful lithium-ion battery technology, and it only has to be recharged in the evenings before going to bed.

It took Barbara Markert a long time to come to terms with her hearing loss. A friend of hers who is an ENT physician discovered her hearing loss, originating from damage to her inner ear, not long after she had turned 30. It had probably been caused by a childhood illness. “After the diagnosis, I stubbornly refused to wear a hearing aid for the longest time; for aesthetic reasons in my career as a fashion journalist, I simply couldn’t imagine it. Back then – this was in the 1990s – I felt the devices were still too large and obtrusive.”

The journalist muddled through her daily life for almost 20 years. She had particular difficulty with high-pitched sounds, would set her cellphone’s ringer to maximum volume, and developed a predilection for foreign language films with subtitles. Eventually the time came when she had to ask someone to repeat themselves in a conversation once too often. “I was ready for a second hearing test.” The new diagnosis identified mild hearing loss in speech ranges and moderate hearing loss at high frequencies. Some very high and very low pitches had disappeared beyond her acoustic perception entirely. “She could have saved all of these facets of her hearing if she had taken the advice of my colleague back then. Indeed, her hearing would probably be better now than it was back then,” is the ENT doctor’s no-nonsense conclusion, adding that there is no longer any chance of repairing anything once a person has reached the end of their 40s; from that point on, he says, it is just a question of trying to preserve what is left.

After such a clear wake-up call, Barbara Markert was finally ready. Her decision was made easier by the discreet design of new models such as Phonak’s Marvel. “Most of my acquaintances have no idea that I wear hearing aids,” she says. The 52-year-old is full of pride at having dared to take this step even though she is “still young”. “It was essential for me to do something,” she remembers, adding that while she had put up with hearing less over the years, she had also gotten used to hearing better very quickly. “I would never have imagined that a hearing aid could also be genuinely cool. Who else can make a call and leave their smartphone in their pocket? Or watch a film on their computer with no earphones in and their partner asleep in bed beside them?”

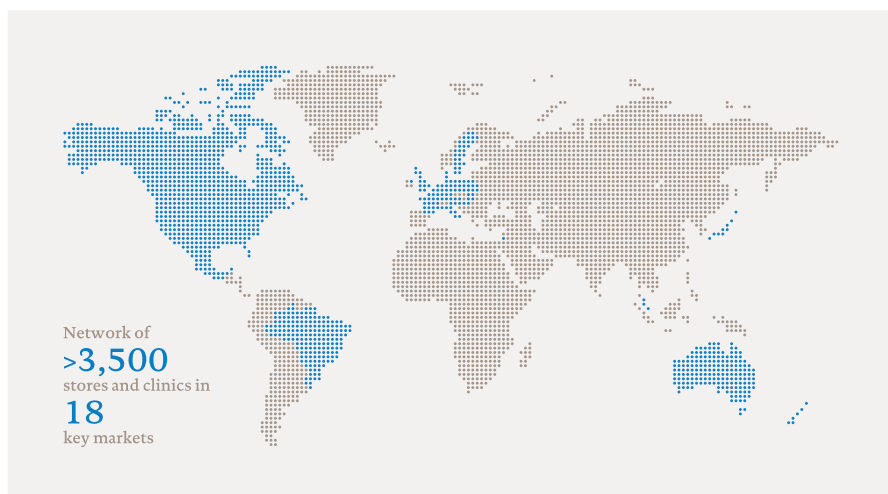


Strategy and businesses

Audiological care business

We deliver excellent service and expertise with the most technologically-advanced solutions for all types of hearing loss through one of the world's largest store networks.

Sonova's audiological care business is expanding through a combination of organic growth, new store openings, and acquisitions. We bring together respected local audiology networks and develop them through shared product lines, training, processes, and support functions into a lean, efficient, and capable global growth platform.



Our organic growth strategy calls for increased productivity through efficient lead generation and improved in-store conversion rates. We are also raising the pace of new store openings, using geo-targeting to identify the most suitable locations to fit with our existing operations. Today we have over 3,500 stores and clinics, employing more than 7,000 people across 18 key markets.

The consumer is at the center of all our activities. We draw on Sonova's deep expertise to offer the best audiological solution for each consumer need. We focus intensely on service to ensure the best consumer experience at every point of contact. And we spread the benefits of Sonova's uniquely broad product portfolio by offering the best value-to-price ratio at every technology level.

We changed the name of our business from "retail" to "audiological care" for one simple reason: care is what we deliver. By far the largest proportion of value we add, both for the consumer and for our business, comes from the dedicated work of our trained audiologists: diagnostics, fitting, counseling, after-care. The hearing instruments we sell are the means to establish life-long relationships based on service and expertise. This defines us far more than simply retail distribution.

Key areas of activity

Innovation

The launch of Phonak's industry-leading Marvel technology platform was the first to be rolled out globally under the Phonak brand in our audiological care business. Our network was deeply involved in the launch process from the first R&D presentations, allowing our audiologists to be fully trained in Marvel's capabilities and familiar with its suite of eSolutions before the surge in consumer demand. It was a vivid demonstration of the potential of our vertically integrated business model: consumers receive the most up-to-date solutions and services at the moment each new innovation appears on the market, and all of our hearing care professionals have full access to the well-respected Phonak brand.

We are also sharing our wealth of expertise with consumers by extending the range of services we offer from treating hearing loss to related areas like tinnitus, balance problems, and hearing protection. Our World of Hearing store concept, now being piloted in the Netherlands, presents us as the provider of comprehensive solutions for anything to do with the ear; we plan to expand this concept in other major markets during the coming year.

Market and consumer access

As a consumer-centered business, we are keenly aware of the broader social trends that affect our market. Most important is the technological sophistication and self-determination of the fast-growing baby boomer segment. They are internet-savvy, although many still prefer face-to-face in-store service to online selling. They are interested in performance and features more than brands, expect excellent sound quality and connectivity, and are willing to pay for superior services. Most of all, they want choice about how and when they have contact with their hearing care professional – so we offer an omni-channel experience right across our stores, call centers, and online presences. It means that we are accessible, with consistent services and messages, at all times and places: the consumer controls the choice of channels throughout the consumer journey.

We engage with this sophisticated consumer base through advanced lead generation systems and targeted marketing campaigns, including television advertising. As an example, we marked the launch of Phonak's Marvel technology by a television campaign specific to our network in Germany, highlighting the fact that our audiological care business is the place to find the latest hearing technology.

Our broad digital presence and suite of eSolutions, from eScreening to remote support, mean that our relationship with the consumer can go beyond simply selling a hearing instrument. We see this as life-long service: not only do we support the experience of using our solutions throughout the life of each product, but we gain familiarity with each consumer's individual situation; we can anticipate how that changes and be ready to assist through the next stage.

We also know, from in-depth research, how a consumer's family and friends influence the choice and successful use of hearing instruments. So we practice what we call "family-centered care," where we invite family members or friends to accompany consumers to every appointment. This helps to build mutual understanding about the consumer's needs and social environment and about the value of good hearing care. By involving the family throughout the consumer's hearing journey we realize higher uptake of our solutions, better adherence to treatment plans, and ultimately greater satisfaction, creating a win-win situation for the consumer and our business.

Continuous improvement



World of Hearing store in Dordrecht, Netherlands

As a business dedicated to providing outstanding care, we want to make optimal use of our hearing care professionals' skills and time. This means matching each consumer's need with the appropriate service. As we roll out our World of Hearing store concept, we will link each of these full-spectrum stores in a "hub-and-spoke" structure with a number of surrounding stores that are optimized for more routine business. This means that consumers have convenient access to more sophisticated services, while audiologists in both types of store have a full yet manageable workload. We are currently expanding this structure to the US with other major markets to follow.

Vertical integration with consistent, best-in-class consumer service depends on a solid shared IT backbone. Having grown by acquisitions over several years, we are determined to achieve the complete unification of our systems. We have begun development of a cloud-based IT platform that will streamline all our operations around the world, supporting our consumer-related digital tools and data, our business processes, and our customer relationship management, sales and marketing functions, including a global consumer database for enhanced lead generation. The pilot version is up and running in Italy and we expect to complete the global project within three years.



Audiological care business

A service almost fit for a king

Audition Santé's specialist audiology store in Versailles is a shining example of the success that has been achieved in the audiological care business in France. The secret? Bespoke service that offers customers comprehensive solutions.

There is never a dull moment at Audition Santé's specialist audiology store in Versailles, located in the middle of the Old Town in a small, bustling square lined with cafés and restaurants just a few hundred yards from the famous royal palace. Jacques Lillioz is leaning on the welcoming reception desk. Now 77, he spent more than two decades as mayor of a small town before volunteering in adult education and working in schools, where he teaches children about human rights. "I'm still active, so I need to be able to hear well." He has recently started to wear the latest generation of Phonak hearing aids.

Another customer strolls in. Walburg de Vernisy is 74 years old. Her hearing was damaged when a generator supplying electricity to pasture fences exploded near the budding showjumper and former horse-breeder. Her hearing had deteriorated over the years and eventually, she says, "I could no longer make out what they were saying on stage at the theater." She likes dropping by the Audition Santé branch: "I get very good advice here. Karin Beuchot, who looks after me, is patient, charming, and puts her heart and soul into her work. She really pulls out all the stops to ensure her customers hear better. She's a professional."

She has hit the nail on the head: Karin Beuchot has been working as a professional audiologist for more than 25 years and has managed the branch in this upmarket suburb of Paris since 2013, having previously spent many years working in other regions of France. "When I started in Versailles, I noticed that things are a little different here straight away." She doesn't just mean the area's rich history, which is woven around Louis XIV's world-famous chateau; the town has a high concentration of specialist audiology stores and there are many long-established and well-off families living here. "The clients have high expectations, so it's important for us to be able to address their wishes on an bespoke basis. Customers who have bought something from us once almost always come back again at some point in the future."



Walburg de Vernisy, customer and Karin Beuchot, audiologist at Audition Santé in Versailles

Eight staff work at Audition Santé in Versailles, and business is brisk. The key to this success is the consistent consultation and customer experience offered by Audition Santé in its network of specialist audiology stores across France. The reception area of each store houses the first surprise: as customers enter, they leave the noise of the street behind them completely. They are met with peace and quiet, not to mention a comfortable armchair to relax in until their turn is called.

With over 1,800 square feet of retail space spread over two levels, the audiology store on the rue Saint-Simon is currently Audition Santé's largest branch in the country. There are three sound booths for hearing aid fittings, two repair desks, two waiting rooms for customers, and a spacious meeting room that is also used for the company's regional in-house education and training sessions. Branch manager Karin Beuchot thinks that the secret to its professional customer support lies in generous opening times, cutting-edge technical equipment, and a strong team. She deals with some 50 appointments a week herself: "People once used to go to the audiologist that was around the corner from the doctor's; nowadays most of them do some internet research first. They are really well-informed before they even arrive at the store." And, ultimately, customers end up making purchases where they get the best service and special offers.

This is why the branch in Versailles is one of the few specialist audiology stores in France to offer Phonak's Lyric™, the only 100% invisible hearing aid, which can be worn for several months at a time and provides a unique sound. "Lyric is especially popular with customers who are still actively involved in the world of work and want a discreet device." Among other things, special fitting equipment had to be installed in order to be able to offer Lyric.

The branch has also been successful in acquiring new customers: "Some people find us through word of mouth. You can test new devices here on special open days. A lot of people turn up for these and then often buy a hearing aid on the spot. Accessories for the TV or for meetings, such as Phonak's Roger™ external microphone, are also very popular," explains Beuchot. Their in-house repair and cleaning service is likewise a key touchpoint for maintaining customer relations: "We check devices every three months and use the appointment to fine-tune the settings. This ensures we stay in constant contact with our clientele."



Strategy and businesses

Cochlear implants business

At Advanced Bionics, we are committed to continuously developing our cochlear implant systems to improve the lives of those with the most significant hearing loss.

An Advanced Bionics cochlear implant is a life-long solution for significant or complete hearing loss. Unlike hearing aids which amplify sound, cochlear implants electrically stimulate the hearing nerve, bypassing the damaged part of the ear; a wearable processor captures sound and converts it into an electrical signal which is transmitted to the implant. We work to optimize each component of this sophisticated system, offering recipients excellent hearing performance and helping surgeons and audiologists with their vital work.

Our business operates in more than 50 countries and is based on close cooperation with the surgical clinics that perform implantation, the hearing care professionals who serve our recipients before and after surgery or throughout their whole patient journey, and the researchers who study hearing function and further advance our solutions. We also work with potential recipients and their families, not just by providing our technology, but through advice, information, support groups, and online communities.

Advanced Bionics began its close R&D collaboration with Phonak nearly a decade ago, and this has been very fruitful. Each significant advance in Phonak hearing aid technology – in sound quality, speech intelligibility and directionality, connectivity, and automatic adaptive sound programs – has been extended to our sound processors, giving recipients an ever-more natural experience of life's sounds, music, and conversations.

Key areas of activity

Innovation

It is increasingly required for health reasons that people should have an MRI (magnetic resonance imaging) scan at some time during their life, but this has long been a challenge for cochlear implant recipients: the implant contains a magnet, and the powerful magnetic fields generated by the scanner can cause pain if the implant magnet is not fully aligned with them. Bandaging the head to keep it still is not always possible and is particularly hard for children. Until now, it was often necessary to remove the magnet surgically to ensure a pain-free scan, which also meant that recipients were not able to hear until it was replaced. With the launch of Advanced Bionics' HiRes™ Ultra 3D implant this year, these challenging issues are a thing of the past: its magnet can rotate to orient itself in three dimensions, aligning perfectly with the surrounding magnetic field. Recipients can move in the scanner without pain or discomfort; the need for surgical removal or head bandaging is gone. What should be a routine procedure is now exactly that: routine.



Continuing the benefits of the close R&D relationship between Advanced Bionics and Phonak, the new Naída CI Connect accessory for our Naída CI Q90 sound processor incorporates Sonova's SWORD chip, providing direct Bluetooth connectivity with phones, tablets, laptops and MP3 players. From hands-free phone conversation to streaming media, Naída CI Connect offers a seamless experience of today's digital world.

Cochlear implants are advanced technology but they have now been available for many years, and we want to ensure that those who chose us in the past can still benefit from our innovations. We therefore introduced the Chorus™ sound processor, which provides several thousand recipients of our first generation implants the up-to-date benefits of all-day battery charge and integrated wireless reception, thus renewing our life-long connection with this established consumer base.

Market and consumer access

A significant growth area for cochlear implants is among adults whose hearing loss has gone beyond the point where hearing aids are effective. Here our collaboration with Sonova's hearing instruments and audiological care businesses is a highly valuable route to these potential recipients. One good example is provided by the events that audiological care's Vitakustik network in Germany hosted this year. They generated excellent ratings from participants, strongly positive feedback from clinics, and a more than 10% rate of direct sign-up for clinic appointments from those who attended.

When a child is born with severe hearing loss, there is generally a 12-month period before surgeons will consider a cochlear implant operation. This is not just a waiting time – it is an essential period for a child's sensory and social development, where family interaction can make a great difference to the eventual success of the hearing solution. Our Baby Beats™ app focuses on encouraging activities that engage babies in the sensory world – the vibration and breath-patterns of speech and singing, the sight of chimes and drums – and informs families about what our solutions can do for them.

Continuous improvement

A cochlear implant is a complex system whose production requires many advanced processes. We can achieve economies of scale as our market continues to grow, but there is also a wealth of opportunities to continuously improve the efficiency of our production process and reduce the costs of the goods we sell. As an example, we achieved significant cost savings in producing core electronic components for our sound processors by bringing their manufacture in-house and making use of Sonova's production expertise and efficiency. We are increasingly automating our manufacturing, designing to cost, optimizing our supplier base, and increasing yield.

We already benefited from such efficiency projects this year, and there are many more projects planned for the coming years. This has not just resulted in significant profitability improvement but also freed resources to invest further in innovation and expand our market and consumer access.



Cochlear implants business
“This way I can hear,
that way I can’t!”

Little Léa Corbin has been wearing bilateral cochlear implants made by Sonova brand Advanced Bionics since she was a baby. Her language development has been impressive, and her parents and Sonova employee Adrian have been with her every step of the way.

Little Léa is running backwards and forwards between kitchen and sitting room in excitement. Visitors will be here any minute and she wants everything to look nice. “Have I got everything, mom? Where shall I put it all? Oh, I’ll put everything over there.” This bright little girl in a colorful floral blouse celebrated her fourth birthday in August 2018. She is now four-and-a-half and can already read a little. Her language development is also coming on in leaps and bounds. “She spoke very well at an early age, starting to formulate sentences at two. People on the street are always telling me how impressed they are with her speech,” explains Marlène Corbin, her mother, with justifiable pride, as Léa has had profound hearing loss since birth. That she has learned to speak so well is all down to the work her parents have put in – and to her Advanced Bionics cochlear implant system.

Adrian Travo, the visitor Léa has been awaiting in such excitement, is Advanced Bionics’ Clinical Engineering Manager in France. In October 2015, he personally activated the devices for the girl from the small town of Nogent-sur-Seine, about 60 miles southeast of Paris, and since this first meeting at the clinic, he has followed the little girl’s progress with great interest. He too is full of admiration: “Léa is extraordinary. She’s an excellent example of how a young person can develop when all the parameters mesh together perfectly.” The close, trust-based cooperation between her parents and Advanced Bionics has also been key. Adrian Travo says he has tremendous respect for Léa’s mother in particular: “Her commitment has been exemplary.”

Marlène Corbin, who has three children, discovered her youngest’s profound hearing loss herself. “Everything seemed OK at the newborn hearing screening, and they had told me at the birth that she could hear. I began to have my doubts as she turned four months, however; she didn’t react if the dog barked or I called her. She would only jump once she could see me.” Marlène Corbin went to several doctors, virtually all of whom told her she was mistaken. Her suspicions were not confirmed until they visited the pediatric hospital in Paris: Léa could hear nothing in either ear.



Marlène and Léa Corbin

After the diagnosis, her mother did some internet research, gathered information via special Facebook groups such as CISIC, contacted other similarly affected mothers, and learned games and listening exercises from a speech therapist to promote her daughter’s language skills. The parents soon realized that Léa would need hearing implants: “We definitely wanted Léa to learn how to speak so she would also have the same opportunities in the future as other children.”

In September 2015, Léa Corbin was finally operated on in Paris at the age of 13 months – initially, one ear was treated, followed by the other, four months later. The family met Adrian Travo at Léa’s device activation, where she heard noises and sounds for the first time in her life. He himself wears Advanced Bionics cochlear implants that are clearly visible on a scalp he has shaved specially for the purpose. “We were extremely impressed the first time we saw an adult with a cochlear implant system. It gave us confidence and reassurance for Léa’s future,” recounts Madame Corbin, thinking back.

Travo got to know the family better at regular follow-up examinations, and took a close interest in Léa’s aftercare over the next few years. This contact has developed into a strong bond of friendship with the Corbin family that is very special to Adrian, not least as he has monitored the little girl’s progress since her very first experiences with hearing.

Léa goes to the normal kindergarten in her neighborhood, and the little girl puts on her mother-of-pearl-colored transmitter coils herself every morning. These devices, which look like little buttons, are fixed magnetically to the scalp, where they relay the digitized sounds from the sound processor to the implant’s receiver. Léa self-confidently declares she has brought her classmates up to speed on her hearing equipment: “When I put these buttons on my head I can hear, when I take them off, I can’t.” Her cuddly toy, a monkey called Lulu gifted to her by Advanced Bionics, has the same buttons on his head as she does – only his are blue. “Lulu has already come to school with me. I showed him to everyone. Now my friend wants the same devices as Lulu and me!”



Business report

Corporate governance

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

Our shared values and beliefs of innovation, engagement and responsibility reflect the corporate governance that defines and unites us as a company across all brands and regions. Good corporate governance is essential for Sonova and we strive for high standards in this field. The meaning of “good corporate governance” is an evolving matter and we constantly monitor the latest changes to the requirements.

At Sonova, corporate governance is based upon, and structured to conform with, relevant standards and practices. The company meets its legal duties under the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. This report describes the principles of corporate governance for the Sonova Group and provides background information on the Group’s executive officers and bodies as of March 31, 2019. All relevant documents can be accessed at the corporate governance section of the Sonova website: www.sonova.com/en/commitments/corporategovernance. For clarity and transparency, the [compensation report](#) is presented as a separate chapter of the annual report.

Group structure

Operational group structure

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 100 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving additional markets. Details of its business segments can be found in Note 2.2 to the consolidated financial statements.

Listed companies

Sonova Holding AG is listed on the SIX Swiss Exchange. Of all the companies in the Sonova Group, only the ultimate parent company of the consolidated Sonova Group, Sonova Holding AG, is listed on any stock exchange.

Key data for the shares of Sonova Holding AG as of March 31, 2019:

| | 2019 | 2018 | 2017 |
|--------------------------------------|--------|--------|--------|
| Market capitalization in CHF million | 12,870 | 9,917 | 9,087 |
| In % of equity | 542% | 401% | 426% |
| Share price in CHF | 197.00 | 151.80 | 138.90 |

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

Non-listed companies

Note 7.6 to the consolidated financial statements provides a list of the significant companies of the Sonova Group as of March 31, 2019.

Shareholders

Registered shareholders

As of March 31, 2019, the shareholdings of registered shareholders were distributed as follows:

| Number of shares | Registered shareholders 31.3.2019 | Registered shareholders 31.3.2018 |
|--------------------------------------|--------------------------------------|--------------------------------------|
| 1 – 100 | 7,538 | 7,387 |
| 101 – 1,000 | 8,223 | 9,729 |
| 1,001 – 10,000 | 1,138 | 1,277 |
| 10,001 – 100,000 | 211 | 214 |
| 100,001 – 1,000,000 | 42 | 35 |
| > 1,000,000 | 6 | 6 |
| Total registered shareholders | 17,158 | 18,648 |

Significant shareholders

The following overview shows the registered shareholdings of significant shareholders as of March 31, 2019. Nominees are registered without voting rights. Significant shareholders may also hold non-registered shares which are reported under "Not registered":

| | 2019 | 2019 | 2018 | 2018 |
|--|-------------------|---------------|-------------------|---------------|
| | No. of shares | In % | No. of shares | In % |
| Beda Diethelm ¹⁾ | 6,654,759 | 10.19 | 6,657,509 | 10.19 |
| Chase Nominees Ltd. ²⁾ | 5,906,307 | 9.04 | 5,610,620 | 8.59 |
| Family of Hans-Ueli Rihs ³⁾ | 3,704,307 | 5.67 | 3,733,000 | 5.71 |
| Nortrust Nominees Ltd. ²⁾ | 3,799,076 | 5.82 | 2,878,139 | 4.41 |
| Bank of New York Mellon Nominee ²⁾ | 2,724,420 | 4.17 | n/a | <3.00 |
| Fidelity Funds | 2,241,202 | 3.43 | n/a | <3.00 |
| Andy Rihs ⁴⁾ | n/a | <3.00 | 2,009,979 | 3.08 |
| Registered shareholders with less than 3% of shares | 19,332,634 | 29.59 | 23,475,488 | 35.93 |
| Not registered | 20,968,182 | 32.10 | 20,966,152 | 32.09 |
| Total shares | 65,330,887 | 100.00 | 65,330,887 | 100.00 |

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

²⁾ Registered without voting rights.

³⁾ Hans-Ulrich Rihs, Gabriela Rihs and Stefan Rihs as a group jointly control 3,704,307 registered shares (corresponding to 5.67% of total Sonova share capital) as of December 24, 2018. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.

⁴⁾ Andy Rihs deceased on April 18, 2018.

For information on shareholders of Sonova Holding AG that have reported shareholdings of over 3% or a reduction of shareholdings below 3% in the financial year (FY) 2018/19, please refer to the website of the Disclosure Office of the SIX Swiss Exchange www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Cross-shareholdings

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

Articles of Association

The Articles of Association of Sonova Holding AG remained unchanged in FY 2018/19 and are available at www.sonova.com/en/investors/articles-association.

Capital structure

Share capital

As of March 31, 2019, the ordinary share capital of Sonova Holding AG was CHF 3,266,544.35 fully paid up and divided into 65,330,887 registered shares with a par value of CHF 0.05 each.

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

With the exception of the treasury shares held by the company itself, each share represents one vote at the General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2019, the company held 966,324 treasury shares (3,622 in the previous year).

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

Authorized and conditional capital

Authorized capital

Sonova Holding AG has no authorized capital.

Conditional capital

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

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

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

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

Options

In FY 2018/19, a total of 249,760 options and Stock Appreciation Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2017/18, the number of options (including performance options) and SARs granted totaled 389,358. As of March 31, 2019, there were 1,260,889 options, performance options and SARs outstanding (compared with 1,299,812 in the previous year). Each of the options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05 at the respective exercise price and upon meeting certain performance criteria, while the SAR entitles to receive a cash settlement equal to the option value. The EEAP is described in greater detail in the [compensation report](#) and in Note 7.4 to the consolidated financial statements.

Convertible bonds

Sonova Holding AG has not issued any convertible bonds.

Changes in capital

As of March 31, 2019, the capital of Sonova Holding AG comprised the following:

| | 2019 | 2018 |
|------------------------------|------------|------------|
| Ordinary capital (in CHF) | 3,266,544 | 3,266,544 |
| Total shares | 65,330,887 | 65,330,887 |
| Conditional capital (in CHF) | 266,107 | 266,107 |
| Conditional shares | 5,322,133 | 5,322,133 |

Of the 8,000,000 maximum approved conditional shares, a total of 5,978,987 shares with a par value of CHF 0.05 each was issued prior to FY 2018/19. Starting in FY 2014/15, Sonova decided to purchase shares on the market to fulfill its obligations under the long-term incentive plans and not to issue shares out of the conditional share capital. The maximum conditional share capital reserved for long-term incentive plans therefore remained unchanged at 2,021,013 shares.

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

Share buyback program

On August 31, 2018, Sonova announced a new share buyback program that started in October 2018. The program is targeted to buy back shares worth up to CHF 1.5 billion and runs up to 36 months. The buyback is conducted via a separate trading line on the SIX Swiss Exchange. The shares are repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings.

As of March 31, 2019, Sonova has repurchased a total of 932,750 registered shares through this buyback program (equivalent to 1.4277% of the share capital at the beginning of the program) for a total amount of CHF 157.8 million at an average purchase price of CHF 169.16 per share. Maintaining a conservative financial policy, Sonova expects to have sufficient funds to further invest in R&D and capital expenditure, to expand the Group's distribution network and market reach, and to undertake bolt-on acquisitions in addition to the new share buyback program. In the event of an attractive larger acquisition opportunity, the program can be suspended.

The transactions conducted as part of the share buyback program are available at www.sonova.com/en/investors/share-buyback-programs.

Limitations on transferability and nominee registrations

Limitations on transferability for each share category

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

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

Exceptions granted in the year under review

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

Admissibility of nominee registrations

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

Procedure and conditions for cancelling statutory privileges and limitations on transferability

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

Board of Directors

Introduction

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

Board of Directors independence

Members of the Board of Directors are considered to be independent, according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally or in association with related persons have not been a member of the Management Board during the last three years, and have no or only comparatively minor business relations with the company. According to these rules all members of Sonova's Board of Directors are considered to be independent with the exception of Lukas Braunschweiler, former CEO and member of the Board of Directors since the 2018 AGM. He will for the time being not be a member of any board committees (for more details see [section 3.1](#) of the compensation report).

Executive management positions

No member of the Board of Directors holds an executive management position with Sonova Holding AG or any of its subsidiaries.

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

In the 2018/19 financial year, there were no business connections between individual Board members, including companies or organizations represented by them, and Sonova Holding AG.

Other activities and vested interests

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

Mandates outside Sonova Holding AG

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

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

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

Board of Directors competence and Board evaluation

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

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

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

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

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

Elections, terms of office and biographies

Election procedure and limits on the terms of office

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

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

First election and remaining term of office

The following table shows the date of first election for each member of the Board of Directors. The Articles of Association require that the term of office of a Board member ends after completion of the next ordinary General Shareholders' Meeting. As a consequence, each Board member will have to be re-elected annually at the General Shareholders' Meeting. All previous Board members were re-elected by the 2018 General Shareholders' Meeting (the Articles of Association are available at www.sonova.com/en/investors/articles-association). Lukas Braunschweiler was newly elected to the Board of Directors for the first time at the AGM in 2018 after he stepped down on March 31, 2018 as CEO of the Sonova Group.

| Name | Position | First elected |
|----------------------|---------------|---------------|
| Robert F. Spoerry | Chairman | 2003 |
| Beat Hess | Vice Chairman | 2012 |
| Lynn Dorsey Bleil | Member | 2016 |
| Lukas Braunschweiler | Member | 2018 |
| Michael Jacobi | Member | 2003 |
| Stacy Enxing Seng | Member | 2014 |
| Ronald van der Vis | Member | 2009 |
| Anssi Vanjoki | Member | 2009 |
| Jinlong Wang | Member | 2013 |

Robert F. Spoerry

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

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

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

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

Outside mandates:

- Member of the Board of Conzzeta Holding AG
- Non-executive Chairman of the Board of Mettler Toledo International Inc.



Beat Hess

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

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

With his broad international and legal experience, including in the areas of compensation, corporate governance, compliance and risk management, Dr. Beat Hess adds substantial insight into these topics.

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

Outside mandates:

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



Lynn Dorsey Bleil

(born in 1963, US citizen) has been a non-executive member of the Board since 2016. She retired as Senior Partner (Director) from McKinsey&Company in the US in 2013 after more than 25 years of advising senior management and boards of leading healthcare companies on corporate and business unit strategy, mergers and acquisitions, and public policy across all segments of the healthcare value chain. She was also a member of the Board of Directors of Auspex Pharmaceuticals until its sale to Teva in March 2015, and DST Systems until its sale to SS&C in April 2018. Lynn Dorsey Bleil is also a member of the Board of Directors of Alcon Inc., a newly formed company spun off from Novartis AG.

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

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

Outside mandates:

- Member of the Board of Directors, the Audit Committee, and the Innovation Committee of Alcon Inc.
- Member of the Board of Directors, Nominating & Governance Committee, and Compensation Committee of Stericycle, Inc.
- Member of the Board of Directors, the Compensation Committee, and the Nominating & Governance Committee of Amicus Therapeutics, Inc.
- Vice Chairman of the Governing Board of Intermountain Healthcare Park City Hospital



Lukas Braunschweiler

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

Lukas Braunschweiler brings broad CEO experience from a variety of companies and industries. Having served as CEO of Sonova from 2011 to 2018, he has not only a comprehensive knowledge of Sonova as a company and its business but also a broad experience in the global hearing aid industry.

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

Outside mandates:

- Chairman of the Board of Directors of Tecan Group AG
- Member of the Board of Directors of the Schweiter Technology Group
- Member of the Board of Directors of Sulzer Ltd.
- Member of the Board of Directors of private, non-listed BURU Holding AG
- President of Swiss Management Association SMG

Michael Jacobi

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

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

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

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

Outside mandates:

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

Michael Jacobi is proposed to be re-elected as a member of the Board, but is not designated to be Chairman of the Audit Committee for the upcoming 2019/2020 term.



Stacy Enxing Seng

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

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

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

Outside mandates:

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



Ronald van der Vis

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

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

Ronald van der Vis graduated from the Nyenrode Business University in the Netherlands and received his Master's degree in business administration from the Alliance Manchester Business School in the UK. He has gained significant financial expertise both through his education and through his business experience as CEO and private equity partner.

Outside mandates:

- Operating Partner, Co-Investor and Industry Advisor
- Chairman of the Supervisory Board of European Dental Group Holding BV
- Member of the Supervisory Board of HEMA BV



The Board intends to change the Chairmanship of the Audit Committee after the AGM in June 2019 appoint Ronald van der Vis to the position for the upcoming 2019/2020 term.

Anssi Vanjoki

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

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

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

Outside mandates:

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

Anssi Vanjoki will not stand for re-election at the Annual General Shareholders' Meeting in June 2019 when his term of office expires.



Jinlong Wang

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

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

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

Outside mandates:

- Chairman and CEO of PizzaExpress Group Holding Limited



Internal organizational structure

Allocation of tasks within the Board of Directors

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

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

Tasks and areas of responsibility of Board of Directors' committees

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

Audit Committee

The members of the Audit Committee are Michael Jacobi (Chairman), Ronald van der Vis, Anssi Vanjoki and Lynn Dorsey Bleil. The Board intends to change the Chairmanship of the Audit Committee after the AGM in June 2019 appoint Ronald van der Vis to the position for the upcoming 2019/2020 term.

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

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

Nomination and Compensation Committee

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

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

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

Working methods of the Board of Directors and its committees

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

| | BoD ¹⁾ | AC ²⁾ | NCC ³⁾ |
|----------------------------|-------------------|------------------|-------------------|
| No. of meetings in 2018/19 | 6 | 4 | 4 |
| Robert F. Spoerry | 6 | 4 ⁴⁾ | 4 |
| Beat Hess | 6 | – | 4 |
| Lynn Dorsey Bleil | 6 | 3 ⁵⁾ | – |
| Michael Jacobi | 6 | 4 | – |
| Stacy Enxing Seng | 6 | – | 4 |
| Anssi Vanjoki | 6 | 4 | – |
| Ronald van der Vis | 6 | 4 | – |
| Jinlong Wang | 6 | – | – |
| Lukas Braunschweiler | 6 ⁶⁾ | 1 ⁴⁾ | 1 ⁴⁾ |
| Average meeting length | 9 h ⁷⁾ | 3 h | 3 h |

¹⁾ Board of Directors

²⁾ Audit Committee

³⁾ Nomination and Compensation Committee

⁴⁾ As guest

⁵⁾ From Annual General Meeting 2018

⁶⁾ 4 meetings as guest

⁷⁾ Excluding telephone conferences

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

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

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

During the 2018/19 business year, the six meetings of the Board of Directors were attended by the CEO and the CFO. Other members of the Management Board were present during four meetings of the Board of Directors to review, amongst other topics, performance against plan, key initiatives, and strategic matters. If necessary, the Board of Directors also consults with other internal experts (such as the Group General Counsel) or external advisors, although no external party was invited to nor attended a Board meeting in the last business year.

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

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

Definition of areas of responsibility

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

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

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

Internal audit, risk and compliance

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

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

The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis.

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

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

Corporate Responsibility

Corporate Responsibility is integrated into Sonova's core values and under constant oversight by the Board of Directors. Accordingly, the Management Board regularly proposes topics related to corporate responsibility, which are subject to consultation and review on a yearly basis by the full Board of Directors (see the comprehensive [Corporate Responsibility Report](#)).

Responsible behavior includes full compliance with tax laws and regulations at all times. Sonova's tax principles (available at www.sonova.com/en/investors/tax-principles) provide high level information on procedures and internal guidelines for tax compliance throughout the Sonova Group.

Diversity

A comprehensive diversity report is prepared by Corporate Human Resource Management and reviewed annually by the full Board of Directors (see the relevant chapter in the [Corporate Responsibility Report](#) for more information).

Management Board

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

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

Arnd Kaldowski

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

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



Hartwig Grevenner

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

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



Claudio Bartesaghi

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

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



Claude Diversi

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

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



Hansjürg Emch

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

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

Victoria E. Carr-Brendel took over the position as Group Vice President Cochlear Implants of Sonova and President of Advanced Bionics from Hansjürg Emch as of April 1, 2019. Victoria E. Carr-Brendel's biography is available at www.sonova.com/en/investoren/management-board.



Christophe Fond

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

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

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



Martin Grieder

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

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



Hans Mehl

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

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

Hans Mehl completed his education in business administration in Germany.

Ludger Althoff succeeded Hans Mehl as Group Vice President Operations as per April 1, 2019. Ludger Althoff's biography is available at www.sonova.com/en/investoren/management-board.



Andi Vonlanthen

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

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



Other activities and vested interests

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

Mandates outside Sonova Holding AG

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

Management contracts

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

Compensation, shareholdings and loans

Details of Board and Management compensation are contained in the [compensation report](#).

Shareholders' participation rights

Voting rights and representation restrictions

Voting rights restrictions

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

Exceptions granted in the year under review

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

Statutory rules on participation in the General Shareholders' Meeting

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

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

Independent Proxy and electronic voting

Andreas G. Keller was elected as the Independent Proxy by the AGM 2018 for the period until completion of the AGM 2019.

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

Statutory quorums

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

Convocation of the General Shareholders' Meeting

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

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

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

Inclusion of items on the agenda

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

Registration in the share register

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

Changes of control and defense measures

Duty to make an offer

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

Clauses on changes of control

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

Securities trading policy

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

Auditors

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

At the AGM on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the AGM 2018, PricewaterhouseCoopers AG was re-elected for another one-year term. Sandra Boehm has served as lead auditor for the existing auditing mandate since June 18, 2013. At its February 2019 meeting the Audit Committee discussed the relationship with external auditors and agreed to issue tenders to newly assign the audit mandate for the 2020/21 financial year, permitting PricewaterhouseCoopers AG to participate in the process.

Fees

PricewaterhouseCoopers charged the following fees during FY 2018/19 and 2017/18:

| 1,000 CHF | 2018/19 | 2017/18 |
|------------------------|--------------|--------------|
| Audit services | 1,848 | 1,974 |
| Audit-related services | 4 | 6 |
| Tax services | 39 | 59 |
| Non-audit services | 9 | 25 |
| Total | 1,900 | 2,064 |

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

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

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

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

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

Informational instruments pertaining to the external audit

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In FY 2018/19, the external auditors attended 3 out of 4 Audit Committee meetings physically or by telephone conference. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

Information policy

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

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

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

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

More information tools, permanent sources of information, and contact addresses are shown at the [end of this annual report](#).



Compensation report

Sonova is all about people: we strive to be a strong team working together, with and for our customers, to succeed in the market. This is why we need to be able to attract and retain skilled, dedicated, and ambitious colleagues to continuously improve and grow the company for all our stakeholders.

This compensation report describes Sonova's compensation principles, system, and key components, as well as the method of determining the compensation of members of the Board of Directors and the Management Board. It also explains the roles, responsibilities, and governance process in the design, approval, and implementation of compensation plans. Furthermore, it provides information on the organization of the Board of Directors. More information on topics such as Board composition, independence, diversity, competence, evaluation, and risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

The compensation report provides the context for the shareholder votes on the compensation of the Board of Directors and the Management Board, submitted for approval at the 2019 Annual General Shareholders' Meeting (AGM). It has the following structure:

1. [Introduction by the Chairman of the Nomination and Compensation Committee](#)
2. [Compensation policy and principles](#)
3. [Compensation governance](#)
4. [Compensation components and system](#)
5. [Compensation for the financial year](#)
6. [Share ownership information](#)

For ease of reference, abbreviations are also summarized in a glossary at the end of this report.

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

Dear Shareholders,

I am pleased to present to you the 2018/19 compensation report, which describes how our compensation system links to the company strategy and business results, and how it aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. It also explains how we in the Nomination and Compensation Committee (NCC) carried out our objectives and responsibilities in the financial year.

All efforts of employees, the Management Board, and the Board of Directors during the financial year have again been focused on achieving the ambitious targets we set ourselves.

Our compensation framework is continuously reviewed, with adaptations made as and when deemed appropriate, taking into consideration our ongoing dialog with our shareholders and with proxy advisors, and reflecting our business strategy as well as relevant market trends and best practice. This review is to ensure our compensation framework is attractive, effective in achieving what we need, and sustainable. Transparency is key for us and we continuously work on improving clarity of disclosure.

During the reporting year, following last years' amendments to the Executive Equity Award Plan (EEAP), the previous introduction of claw-back and forfeiture provisions on the Variable Cash Compensation (VCC), as well as the update of the share ownership guidelines, the NCC focused on overseeing implementation and execution. It also conducted a compensation benchmark review for both the Board of Directors and the Management Board, as well as deciding on the following changes:

- Board of Directors: Disclosure of the restricted shares based on their tax value is discontinued with this compensation report, and future overall Board of Directors compensation will be reduced to approximately offset this change in reporting.
- Management Board: We pursue a pragmatic, moderate course in our compensation approach, making changes only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization, with exceptions in cases such as a change to a position. There were therefore no major changes made to the Management Board compensation components beyond those disclosed in the 2017/18 compensation report, including the one-time transition arrangement in February 2019 under the EEAP.

Further details are provided below in this compensation report.

As announced on February 15, 2019, Anssi Vanjoki does not stand for re-election at the AGM 2019. At the beginning of the 2018/19 financial year, and as outlined in the last compensation report, Arnd Kaldowski took over as Chief Executive Officer (CEO) from Lukas Braunschweiler, who in turn became a member of the Board of Directors. Other changes at the Management Board level were announced but will only be effective for the 2019/20 financial year.

The NCC continued to perform its regular activities throughout the year, such as succession planning for positions on the Board of Directors and the Management Board, performance goal setting at the beginning of the financial year and performance assessment at its end, determination of compensation for members of the Management Board, and preparation of the compensation report and of the say-on-pay votes at the AGM.

COMPENSATION REPORT

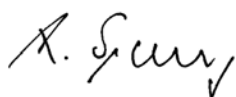
As outlined in this compensation report, the total compensation awarded to the members of the Board of Directors for the term of office is expected to be within the limit approved by the AGM 2018. The compensation awarded to the members of the Management Board is also within the limit approved by the AGM 2017.

At the AGM 2019, 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 compensation amounts for the Board of Directors for the next term of office and for the Management Board for the 2020/21 financial year.

Transparency remains high on our agenda and building further on prior year improvements we continue to enhance disclosure of targets and achievements under the VCC and the EEAP.

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 remain confident that our compensation system rewards for performance in a balanced and sustainable manner, and aligns well with our shareholders' interests. We look forward to our continued dialogue and to meeting you at the AGM.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'R. Spoerry', with a stylized flourish at the end.

Robert Spoerry
Chairman of the Nomination
and Compensation Committee

2. Compensation policy and principles

To support the objective of engaging the best talent needed to ensure our success and to maintain our position as globally leading manufacturer and provider of innovative hearing care solutions and services, Sonova's compensation system is based on the following principles:



The compensation of the Board of Directors consists of fixed compensation only, paid partly in cash and partly in the form of 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 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 assessed at the end of the term, and not revisited during the respective incentive period.

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 both the short-term and the long-term variable compensation component and claw-back provisions are applicable on the VCC. 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 our 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 61 years and the average length of service is 8 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

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 three years, and have no or only comparatively minor business relations with the Company.

Lukas Braunschweiler, former CEO and member of the Board of Directors since the AGM 2018, is not considered as independent according to these rules. For the time being, he will not be a member of any board committees.

Given the overall balance in Sonova's Board of Directors in terms of professional skills and expertise, background, international experience, length of service, and general diversity, and as all other members are considered to be independent, the Board of Directors remains confident that it is well-positioned and experienced in ensuring that the members as part of this governing body exercise independent control and supervision.

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 with shareholders' interests.

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

3.2 Nomination and Compensation Committee

As determined in the Articles of Association, the Organizational Regulations, and the NCC Charter of Sonova Holding AG, the NCC supports the Board of Directors in the fulfilment 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 the VCC and the EEAP
- 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
- Selection and nomination of candidates for the role of the CEO, for membership of the Management Board as proposed by the CEO, as well as pre-selection of suitable candidates for the Board of Directors; and
- Periodical review of the employment terms and policies.

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 the Management Board | | 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 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 the 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 AGM. For the period under review, the NCC consisted of Robert F. Spoerry (Chairman of the Board of Directors), Stacy Enxing Seng, and Beat Hess.

COMPENSATION REPORT

The NCC meets as often as business requires but at least three times per year. In the 2018/19 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 compensation proposal for the following financial year – Approval of EEAP grant size and plan regulations | – Reconfirmation of EEAP target group 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 targets for the new financial year – Approval of individual targets for CEO and MB | – Review of MB compensation benchmarks | – Review of Sonova's succession planning at MB level as covered in the full BoD – Diversity at Sonova | – Equity valuation (options and Performance Share Units/PSU) – Target compensation (including the EEAP grant) review for the following financial year |
| Board of Directors (BoD) matters | | – Review of BoD compensation benchmarks | | |
| Governance | – AGM preparation – Approval of the corporate governance and the compensation report as well as the compensation part of the AGM invitation – Proposal of the maximum aggregate amount of compensation of the MB and the BoD – Share ownership status review | – Review of proxy advisor/ shareholder feedback on compensation report – Board self-assessment | | – Review draft compensation report – NCC agenda for the following financial year |

Special ad-hoc items such as personnel changes at executive level are covered as and when appropriate.

As a general rule, the Chairman of the Board of Directors, the CEO, and the Group Vice President (GVP) Corporate Human Resource Management & Communications (HRM) participate in the meetings of the NCC. However, they do not participate during 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.

External advisors

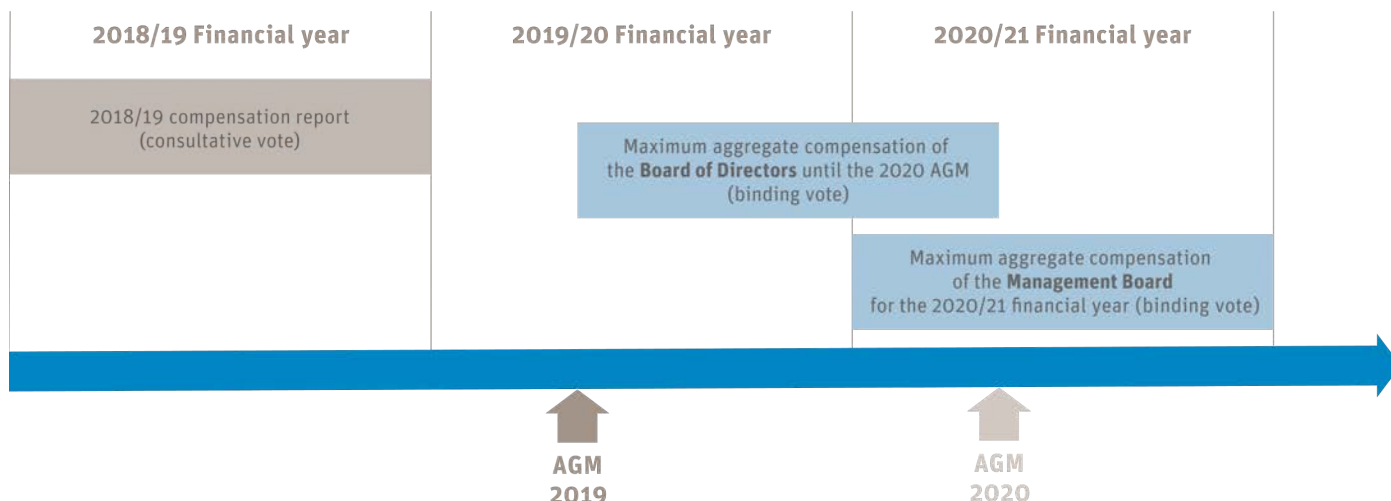
The NCC may decide to consult external advisors for specific compensation matters. In the reporting year, Willis Towers Watson was mandated to conduct the above mentioned two compensation benchmarking analyses. Aon Hewitt is tasked with the PSU valuation and performance measurement under the EEAP and Algofin performs the option valuation. In addition, support and expertise is provided by internal compensation experts such as the GVP HRM and the VP Compensation & Benefits.

3.3 Governance and shareholders' involvement

Authority for decisions related to compensation of the members of the Board of Directors and the Management Board is governed by the Articles of Association:

The prospective maximum aggregate compensation amounts to be awarded to the Board of Directors and the Management Board are subject to a yearly binding shareholder vote at the AGM. The provisions of the Articles of Association foresee that shareholders vote prospectively: on the maximum aggregate compensation for the Board of Directors for the period until the next ordinary AGM, and for the Management Board for the following financial year. In addition, Sonova annually submits the compensation report to a consultative shareholders' vote, so that our shareholders have an opportunity to express their opinion on 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 to continuously improve its compensation disclosure in terms of transparency and level of detail provided about its principles and system of compensation.



Matters to be voted on at the 2019 Annual General Shareholders' Meeting:

The maximum aggregate compensation amount for the Board of Directors comprises fixed compensation components, including a cash retainer and restricted shares as well as committee fees and travel allowance (as applicable).

The maximum aggregate 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).

Therefore, the maximum aggregate 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 awarded to the 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 AGM.

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

Articles of Association

The Articles of Association were revised in 2014 regarding the compensation of the members of the Board of Directors and the Management Board and approved by the shareholders at the AGM 2014. The Articles of Association include the following provisions on compensation:

- Powers and duties (Art. 24)
- Approval of compensation by the General Shareholders' Meeting (Art. 10 para. 5/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

Sonova periodically reviews the total compensation of members of the Board of Directors and of the Management Board. The benchmark reviews for the Management Board take into consideration our principles of both market and performance related compensation.

A thorough review was conducted in this reporting year to help determinate appropriate compensation for the Board of Directors and the Management Board both in terms of structure and overall levels.

For the Board of Directors, the review considered companies in the SMIM (Swiss Market Index Mid), which comprises the 30 largest mid-cap stocks in the Swiss equity market that are not included in the blue-chip SMI index. The analysis (also incorporating input of shareholders and proxy advisors) revealed the preference to change the historic disclosure practice of the restricted shares at tax value; it also showed that, although the overall fees paid to members of the Board of Directors are in line with the market, they should be re-aligned in terms of the structure of board retainer and committee fees (see section 4.2 for more information).

For the Management Board, the analysis showed that the compensation structure at Sonova is more performance oriented (and less fixed) than at other companies, and that levels are generally in line with prevalent market practice. A balanced peer group of companies was considered for the review, consisting of Swiss general industry companies that are comparable in terms of market capitalization, revenue, industry, number of employees, geographic reach, etc. These included Bucher Industries AG, dormakaba Holding AG, EMS-Chemie Holding AG, Geberit AG, Georg Fischer AG, Logitech International S.A., Straumann Holding AG, and Sulzer Ltd.

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:



4. Compensation components and system

4.1 Overview of compensation components

The table below provides an overview of the compensation components for the Board of Directors and the Management Board, with more details on both included later in the report:

| | Management Board ¹⁾ | Board of Directors ¹⁾ |
|---|--------------------------------|----------------------------------|
| | CEO/CFO/GVPs | BoD |
| Fixed compensation components | | |
| Fixed base salary | | |
| Benefits ²⁾ | | |
| Expense allowance ³⁾ | | |
| Cash car allowance ^{3) 4)} | | |
| Cash retainer (fixed fee) | | |
| Restricted shares | | |
| Committee fee ⁵⁾ | | |
| Meeting attendance fee ⁶⁾ | | |
| Travel allowance | | |
| Pension benefits | | |
| Pension Fund | | |
| Variable compensation components (performance related) | | |
| Short-term cash incentive award | | |
| Variable Cash Compensation (VCC) | | |
| Long-term equity incentive award⁷⁾ | | |
| Executive Equity Award Plan (EEAP) | | |
| Social and other benefits | | |
| Other benefits | | |

¹⁾ Mandatory social security contributions (AHV/ALV or for the international MB the local equivalent company costs) are paid by Sonova and disclosed in the compensation report.

²⁾ MB members under a non-Swiss employment contract receive benefits in line with local practice.

³⁾ Only for MB members with a Swiss employment contract

⁴⁾ Flat rate cash car allowance

⁵⁾ If applicable

⁶⁾ Only until the end of this term of office, discontinued going forward

⁷⁾ Awarded in the form of options, PSUs and the one-time transition arrangement in the form of RSUs

4.2 Board of Directors compensation system

Role, responsibility and commitment

Sonova needs to be able to attract and retain members of the Board of Directors who are highly experienced and motivated to contribute their specific business expertise and perform a critical role in the strategic oversight of the company. Their compensation must enable this, while taking account of the way their contribution to Sonova's success differs from that of the members of the Management Board.

Requirements, in terms of qualifications, skills, and experience, for directors of international listed companies are becoming ever more stringent. Sonova's Board of Directors has the relevant and necessary skill set, including international, industry, and subject specific experience, to ensure proper professional supervision.

The structure of fees paid reflects varying responsibilities, committee memberships, workloads and time commitments, so individual levels of pay are not the same. The Chairman of the Board of Directors, for example, devotes a substantial amount of his time to duties including: leading the Board of Directors and committees, coordinating Board and committee meeting agendas and topics with committee chairs, and managing as well as contributing to and participating in committees. As NCC chairman, he takes the lead on topics such as Board and CEO evaluation, Board skill and competence definition and composition, new Board member recruitment and on-boarding, and participating in recruitment of Management Board members – as well as overseeing all compensation related matters.

The Chairman is also responsible for the continued development and adaptation of Sonova's governance to meet regulatory and corporate requirements, preparing for and conducting the AGM, and overseeing the annual and compensation reports, as well as advising the CEO on key strategic, financial, HR, and operational matters. His role also encompasses third party interactions such as shareholder inquiries and requests about corporate governance and corporate responsibility as well as meetings with proxy advisors. His sound understanding of the company, developed over many years of service, is a unique and valuable qualification that we believe provides a substantial benefit to Sonova and its shareholders.

More details on the Board of Directors' composition, diversity, competencies, evaluation, risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

Compensation structure

It is important that compensation components are structured to achieve a strong alignment with the interests of our shareholders. In line with best practice, a significant portion of the compensation for the Board of Directors consists of restricted shares, and they receive no variable or performance-based compensation and are not eligible to participate in the occupational pension plan.

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 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). In addition, members of the Board of Directors receive a committee fee (if applicable), a meeting attendance fee, and a travel allowance.

Compensation structure AGM 2018 to AGM 2019

| 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 (AC) | n.a. | 25,000 |
| Chairman of NCC | Included in cash retainer | 15,000 |
| Member of NCC/AC | 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 |
|-------------------------------------|----------|------------------------------|
| Market value at grant ³⁾ | 400,000 | 200,000 |

¹⁾ Including work and attendance in the NCC and AC

²⁾ Multiplied by the number of meetings attended

³⁾ The tax value at grant differs from the market 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 circumstances that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period.

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.

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.

Sonova Share Ownership Guidelines

To further align the interests of the Board of Directors with those of our shareholders, the Sonova share ownership guidelines require the members to hold a fixed value in shares.

Members of the Board of Directors are required to maintain a minimum shareholding equivalent to CHF 200,000. They have five months from the first grant of restricted shares to achieve 80 percent of the required shareholdings, and one year and five months from the same point in time to achieve the full required shareholdings. The guidelines can be met through shareholdings in the form of the restricted shares awarded as part of compensation and, if applicable, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the NCC.

Changes in compensation

As mentioned, the structure and level of compensation of the Board of Directors was reviewed in the reporting year, and the following amendments were approved:

2018/19 compensation report: The restricted shares were historically disclosed based on their tax value; they are now disclosed based on their market value as at the date of grant. The compensation of the Board of Directors was significantly reduced in 2011 and no changes have been made since. The aforementioned disclosure change could lead to the conclusion that the compensation was increased. However, this is not the case, as changes are purely a result of the combination from the change in reporting as well as the additional member of the Board of Directors (see also section 5.1).

Fees for the next term of office from the AGM 2019 to the AGM 2020 (subject to AGM approval): The meeting attendance fee will be discontinued and the overall compensation will be reduced to approximately offset the higher value due to the change in reporting: The cash retainer for the Chairman as well as the restricted shares for both the Chairman and the other Board members are reduced. The committee fees are increased in alignment with ever increasing requirements and the market.

Compensation structure AGM 2019 to AGM 2020

| Annual fees in cash in CHF | Chairman ¹⁾ | Board members excl. Chairman |
|--------------------------------|---------------------------|------------------------------|
| Cash retainer | 470,000 | 100,000 |
| Vice-Chairman | n.a. | 15,000 |
| Chairman of AC | n.a. | 40,000 |
| Chairman of NCC | Included in cash retainer | 40,000 |
| Member of NCC/AC | n.a. | 20,000 |
| Travel allowance ²⁾ | 500 | 500 |

| Restricted shares in CHF | Chairman | Board members excl. Chairman |
|--------------------------|----------|------------------------------|
| Market value at grant | 370,000 | 160,000 |

¹⁾ Including work and attendance in the NCC and the AC

²⁾ Multiplied by the number of meetings attended

Further information regarding the planned total compensation amounts of the Board of Directors for the period from the AGM 2019 to the AGM 2020 is provided in the invitation to the AGM 2019.

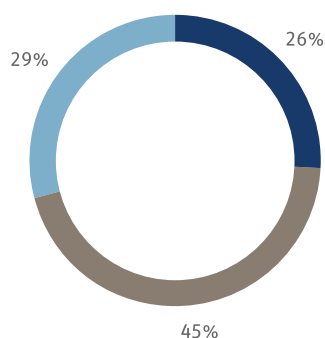
4.3 Management Board compensation system

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

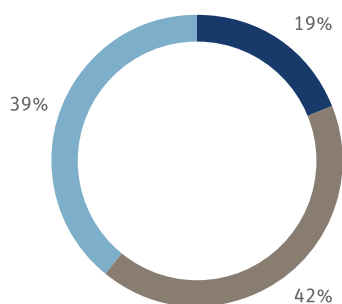
- A fixed base salary
- A short-term cash incentive award (VCC)
- A long-term equity incentive award (EEAP); and
- Employee benefits, such as pension benefits, flat rate cash car allowance, expense allowance, relocation benefits for certain affected members, as well as social security contributions.

The charts below illustrate the compensation mix excluding employee benefits at target for the CEO, Arnd Kaldowski, and the Management Board in the 2018/19 financial year:

Compensation mix of the CEO, Arnd Kaldowski



Compensation mix of the other members of the Management Board¹⁾



■ Base salary ■ VCC ■ EEAP

■ Base salary ■ VCC ■ EEAP

¹⁾ average mix

The table below provides an overview of the compensation components of the Management Board, with more details on the following pages:

| | Fixed compensation components | | Variable compensation components | | |
|--|---|--|--|--|-------------------|
| | Fixed base salary | Benefits | Short-term cash incentive award (VCC) | Long-term equity incentive award (EEAP) | |
| Purpose | Ensures a predictable payment, depends on the market value of the role and the profile of the incumbent | Establishes level of security in line with local market practice Mandatory and voluntary benefits plans offered by the employer | Rewards performance against key performance indicators (KPIs) at Group and business unit level as well as the achievement of individual objectives | Rewards long-term value creation and reinforces alignment with 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 |
| Cap | n.a. | n.a. | yes | yes | |
| CEO Ratio in % of fixed base salary: | n.a. | n.a. | Target of fixed base salary: 89% Range of fixed base salary: 0%–178% | Target of fixed base salary: 153% Range of fixed base salary: 0%–210% | |
| MB (excl. CEO) Ratio in % of fixed base salary: | n.a. | n.a. | Target of fixed base salary: up to 50% Range of fixed base salary: 0%–100% | Target of fixed base salary: up to 132% Range of fixed base salary: 0%–198% | |

Fixed base salary

The fixed base salary ensures a recurrent payment in cash in regular instalments. 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 on market developments and the economic environment.

Short-term cash incentive award (Variable Cash Compensation)

Sonova's VCC aims at aligning a significant part of compensation to budget achievements in a given financial year.

The VCC is an integral component of the compensation for members of the Management Board, defined as a percentage of the annual fixed base salary. At target, it amounts to 89% of fixed base salary for the CEO and up to 50% for the other members of the Management Board.

The Board of Directors determines annually the target performance level for each 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 reward for expanding the business, gaining market share, and 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 total weight of the three to five individual performance objectives for each member of the Management Board is generally 20% of the overall VCC. The weight can be increased up to 40% for exceptional reasons, such as supporting key strategic initiatives.

Ranges of performance objectives for members of the Management Board

| Performance Objective | CEO/CFO | Other members of the MB | Minimum payout (threshold) | Target payout (target) | Maximum payout (cap) |
|-----------------------------------|-------------------|-------------------------|----------------------------|------------------------|----------------------|
| Group objectives | | | | | |
| Sales | 20% | 10% – 20% | 0% | 100% ¹⁾ | 200% |
| EBITA | | 10% – 20% | | | |
| FCF | 10% – 20% | 10% – 20% | | | |
| EPS | 30% – 40% | | | | |
| Business objectives ²⁾ | | | | | |
| Sales | | 20% – 30% | 0% | 100% | 200% |
| EBITA | | 20% | | | |
| OPEX | | 10% – 20% | | | |
| ASP | | 10% | | | |
| Individual objectives | | | | | |
| Initiatives/Projects | 20% ³⁾ | 20% ³⁾ | 0% | 100% | 200% |

¹⁾ At target the VCC amounts to 89% of base salary for the CEO and up to 50% for the other members of the Management Board.

²⁾ Not all of the business objectives apply to all members of the Management Board.

³⁾ In exceptional circumstances, up to 40% (e.g. to support key strategic initiatives)

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

The purpose of the EEAP is to ensure long-term value creation for the company, alignment of the interests between shareholders and the members of the Management Board, and the long-term retention of 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 members of 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 PSUs and the other members of the Management Board are awarded 50% in options and 50% in PSUs.

Options

As part of last years' EEAP review it was decided to continue with a split award with a portion allocated in the form of performance options: This reflects the growth-focused strategy and the desire to further strengthen the alignment of the Management Board compensation with our shareholders' interests.

Options granted under the EEAP vest in four equal annual instalments 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, and the life of the options is 10 years (grants before the 2017/18 financial year: 7 years).

The fair value of the options is calculated at the grant date by a third party using the "Enhanced American Pricing Model." Additional information is available in Note 7.4 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 is 34 months. Options have usually been exercised approximately one and a half years after the vesting date. In this way 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 uses ROCE as its performance criterion because it reflects multiple KPIs, including 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

From February 2018 onwards, the EEAP comprises of options and PSUs (the latter replacing the previous Restricted Share Units). PSUs vest based on achieving relative Total Shareholder Return (rTSR). This external criterion, measured against a peer group of relevant companies, provides a performance assessment against these companies designed to incentivize members of the Management Board to achieve strong 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 SLI¹⁾ 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.

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

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) TSR 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 a third party by using the "Monte Carlo Pricing Model." Additional information is available in Note 7.4 to the consolidated financial statements.

One-time transition arrangement under the previous EEAP

As approved by the AGM 2017, a one-time RSU transition grant was awarded to members of the Management Board in February 2019. The purpose of this transition grant was to compensate affected members of the Management Board in office as of April 1, 2017 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 2019 | | | |
|--|--|--|--|
| Equity | Options | PSUs ¹⁾ | RSUs (one-time transition arrangement) ²⁾ |
| Grant Date | February 1, 2019 | February 1, 2019 | February 1, 2019 |
| Fair Value (to derive number of instruments granted) | Based on Enhanced American Model valuation | Based on Monte Carlo Model valuation | Sonova closing SIX share price on February 1, 2019 adjusted for expected dividends and interest rate |
| Exercise/Strike Price | CHF 182.40 (Sonova closing SIX share price on February 1, 2019) | n.a. | n.a. |
| Vesting Date | 25% vests on June 1, 2020 25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023 | 3 years + 4 months cliff vesting 100% vest on June 1, 2022 | 25% vests on June 1, 2020 25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023 |
| 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, 2029) | No restriction after vesting | No restriction after vesting |

¹⁾ PSUs applicable to all members of the Management Board

²⁾ RSU's applicable as one-time transition arrangement for MB members in office as of April 1, 2017 only

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, unvested options and RSUs vest immediately and unvested PSUs according to the regular vesting schedule. The vested options are exercisable within a period of 12 months commencing on the date of death or termination.
- In case of retirement, the unvested options and RSUs 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.
- For PSUs, in case of a qualified retirement as specified in the plan rules and subject to further requirements, any then unvested PSUs will vest on a pro-rata basis. However, the performance assessment will only be determined upon completion of the performance period.
- In case of a termination of employment by a participant or by Sonova (except for termination for cause) for Management Board members in office April 1st, 2017 whose date of termination occurs between the grant date and May 31st, 2021 (transition period), any then unvested PSUs will vest on a pro-rata basis. However, the performance assessment will only be determined upon completion of the performance period.

- 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. 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 clearly comment on the different target achievements and respective payout at the end of the relevant period. The overall target achievement for VCC and EEAP as well as the target achievement of rTSR will be disclosed (see section 5.2 for more information related to the overall quantitative achievements).

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 strategic and financial plans and as communicated to the capital market.

Sonova Share Ownership Guidelines

To further align the interests of the Management Board with those of our shareholders, the Sonova share ownership guidelines require Management Board members to hold a fixed value in shares.

The members of the Management Board are required to maintain a minimum shareholding equivalent to the following amounts:

- CEO: CHF 1,000,000
- Other members: CHF 200,000

They have three years and five months after receiving the first grant as Management Board member to build up the shareholding, with a required progression of one year and five months for a 12.5% achievement, and two years and five months for a 25% achievement. Only shares in the form of fully vested shares awarded as part of compensation and, if applicable, share purchases on the open market are counted. Compliance with the shareholding requirement is reviewed annually by the NCC.

Benefits

As the Management Board is international in its nature, the members participate in the benefit plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to retirement income, healthcare provision, and coverage against the risk of disability or death.

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 other 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 compensation of members of the Management Board who are under Swiss employment is subject to mandatory employer social security contributions (AHV/ALV).

The benefits and company contributions covered by Sonova are disclosed in the compensation report in compliance with Sonova's reporting obligations.

The CEO and selected members of the Management Board are entitled to a flat rate cash car 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 AGM if the proposed aggregate compensation of the members of the Management Board is not approved.

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 and there are no change of control provisions other than those highlighted in the EEAP termination provisions.

Claw-back

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.

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 2018/19 financial year (9 members from the AGM 2018) and for the 2017/18 financial year (8 members). The total compensation in the 2018/19 financial year was CHF 3.4 million based on the grant value of the restricted shares (2017/18: CHF 3.1 million).

Board of Directors compensation

in CHF

| | | | | | | 2018/19 |
|--|------------------------------|---|----------------------------|--|-------------------------------|--|
| | Cash retainer (fixed fee) | Meeting attendance fee/ expenses ¹⁾ | Total cash compensation | Grant value of restricted shares | Total compensation | Employer's social insurance contribution (AHV/ALV) ²⁾ |
| Robert F. Spoerry³⁾ Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee | 500,000 | 2,500 | 502,500 | 399,821 | 902,321 | 54,808 |
| Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee | 122,500 | 8,000 | 130,500 | 199,910 | 330,410 | 17,007 |
| Lynn Dorsey Bleil⁴⁾ Member of the Audit Committee | 106,000 | 7,500 | 113,500 | 199,910 | 313,410 | 19,033 |
| Lukas Braunschweiler⁵⁾ | 80,000 | 3,500 | 83,500 | 199,910 | 283,410 | 157,567 |
| Stacy Enxing Seng Member of the Nomination and Compensation Committee | 107,500 | 8,000 | 115,500 | 199,910 | 315,410 | 19,169 |
| Michael Jacobi Chairman of the Audit Committee | 125,000 | 8,000 | 133,000 | 199,910 | 332,910 | 17,164 |
| Ronald van der Vis Member of the Audit Committee | 107,500 | 8,000 | 115,500 | 199,910 | 315,410 | 19,169 |
| Anssi Vanjoki Member of the Audit Committee | 107,500 | 8,000 | 115,500 | 199,910 | 315,410 | 33,031 |
| Jinlong Wang | 100,000 | 6,000 | 106,000 | 199,910 | 305,910 | 18,525 |
| Total (active members) | 1,356,000 | 59,500 | 1,415,500 | 1,999,101⁶⁾ | 3,414,601⁶⁾ | 355,473 |

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⁾ 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 3,321,011 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).
- ³⁾ Including work and attendance in the Nomination and Compensation Committee and Audit Committee.
- ⁴⁾ New member of the Audit Committee since June 2018
- ⁵⁾ New member of the Board of Directors since June 2018
- ⁶⁾ Equals CHF 1,550,038 for the value of the shares and CHF 2,965,538 for total compensation, each based on the tax value of the restricted shares at grant. The tax value at grant differs from the market 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, as described before. Calculation of the tax value of restricted shares: The tax discounted value per restricted share at grant date for the Chairman of the Board of Directors was CHF 134.93, and for the other members of the Board of Directors CHF 143.05 (approach applied for the purposes of the AGM 2018 vote).

| in CHF | 2017/18 | | | | | |
|--|------------------------------|---|----------------------------|--|-------------------------------|--|
| | Cash retainer (fixed fee) | Meeting attendance fee/ expenses ¹⁾ | Total cash compensation | Grant value of restricted shares | Total compensation | Employer's social insurance contribution (AHV/ALV) ²⁾ |
| Robert F. Spoerry³⁾ Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee | 500,000 | 2,500 | 502,500 | 402,769 | 905,269 | 54,572 |
| Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee | 122,500 | 8,000 | 130,500 | 201,310 | 331,810 | 16,912 |
| Lynn Dorsey Bleil | 100,000 | 5,500 | 105,500 | 201,310 | 306,810 | 18,434 |
| Stacy Enxing Seng Member of the Nomination and Compensation Committee | 107,500 | 8,000 | 115,500 | 201,310 | 316,810 | 19,076 |
| Michael Jacobi Chairman of the Audit Committee | 125,000 | 8,000 | 133,000 | 201,310 | 334,310 | 42,408 |
| Ronald van der Vis Member of the Audit Committee | 107,500 | 7,500 | 115,000 | 201,310 | 316,310 | 39,245 |
| Anssi Vanjoki Member of the Audit Committee | 107,500 | 8,000 | 115,500 | 201,310 | 316,810 | 19,076 |
| Jinlong Wang | 100,000 | 6,000 | 106,000 | 201,310 | 307,310 | 18,434 |
| Total (active members) | 1,270,000 | 53,500 | 1,323,500 | 1,811,939⁴⁾ | 3,135,438⁴⁾ | 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⁾ Employer social security contributions on the cash retainer, the tax value of income derived from 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 based on the tax value of the restricted shares (approach applied for the purposes of the AGM 2017 vote).

³⁾ Including work and attendance at the Nomination and Compensation Committee and Audit Committee.

⁴⁾ Equals CHF 1,390,054 for the value of the shares and CHF 2,713,554 for total compensation, each based on the tax value of the restricted shares at grant. The tax value at grant differs from the market 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, as described before. 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 market value per share corresponds to the closing price at grant date. Calculation of the value of restricted shares: The 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 (approach applied for the purposes of the AGM 2017 vote).

Explanatory comments to the compensation tables

After the compensation reduction in 2011 no structural Board compensation changes have been made. The restricted shares were historically disclosed based on their tax value. As outlined before, this practice is now aligned with market practice to a disclosure based on the grant market value as at the date of allocation. The data is disclosed on a comparable basis in the tables above for both the financial year 2017/18 (including restatement) and for the financial year 2018/19 using the grant market value for the restricted shares with the tax value provided in the footnotes.

Note that the Board of Directors 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 term of office and hence the period between AGMs.

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

The total compensation paid to the Board of Directors for the period from the AGM 2018 to the AGM 2019 is expected to be CHF 3.4 million at grant value and CHF 3.0 million at tax value; this is based on the approach described in the AGM invitation of using the tax value for the restricted shares, which comes to CHF 3.0 million. The total compensation is within the limit of CHF 3.13 million as approved by the AGM 2018.

COMPENSATION REPORT

| in CHF 1,000 | Approved for AGM 2017 – AGM 2018 ¹⁾ | Effective for AGM 2017 – AGM 2018 ¹⁾ | Approved for AGM 2018 – AGM 2019 ¹⁾ | Expected for AGM 2018 – AGM 2019 ¹⁾ |
|--|---|--|---|---|
| AGM approval year | | 2017 | | 2018 |
| Total compensation | 3,000²⁾ | 2,934²⁾ | 3,130³⁾ | 2,991³⁾ |
| Breakdown total compensation: | | | | |
| Fixed fees including meeting attendance and expenses | 1,453 | 1,324 | 1,518 | 1,440 |
| Mandatory employer's social security contributions | 185 | 219 | n/a | n/a |
| Tax value of restricted shares | 1,362 | 1,391 | 1,612 | 1,551 |
| Number of members of the Board of Directors | 8 | 8 | 9 | 9 |

¹⁾ Based on tax value for restricted shares (approach applied for the purposes of the AGM 2018 and the AGM 2017 vote).

²⁾ Including social security contributions (approach applied for the purposes of the AGM 2017 vote).

³⁾ Excluding social security contributions (approach applied for the purposes of the AGM 2018 vote forward).

5.1.2 Other compensation, loans, and credit for members of the Board of Directors and related parties

No other compensation was paid for additional services beyond the total compensation disclosed in the tables above.

In the year under review, no payments were made to individuals who are closely related to any former or current member of the Board of Directors.

No loans were granted by Sonova or any other Group company to present or former members of the Board of Directors in the 2018/19 financial year, and no such loans were outstanding as of March 31, 2019. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Board of Directors.

5.2 Management Board compensation

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

The system of the VCC is outlined in more detail in section 4.3 of this report. The following KPIs are used in addition to individual qualitative targets, to assess the performance of management: at the Group level, sales, EBITA, EPS and FCF; and additionally at the business level, ASP and OPEX.

Group sales were above target. While the hearing instruments and audiological care business exceeded their growth target, the cochlear implants business was slightly below, held back by slow growth in upgrades and lower sales related to government tenders in a number of markets. All regions contributed to organic growth, with EMEA growing the strongest.

EBITA achievement in the hearing instruments segment did not fully meet target, as a result of adverse developments against the currencies as budgeted. Partly due to exchange rate impacts and despite efficiency measures, the EBITA in the cochlear implants segment was below target. However, the results were significantly above the previous year.

As a result of these adverse currency developments, both Group EBITA and EPS fell slightly short of the respective target. For the assessment of these targets, the restructuring costs related to further improvements of the local operating structure in the UK, Germany, and Canada were excluded.

Driven by an increased level of trade receivables and inventory as a result of the strong sales acceleration towards the end of the fiscal year, FCF fell short of target, which is fully reflected in the VCC.

On average, individual qualitative targets for management were slightly over-achieved.

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 of the options is capped at target, namely at 100%. The EEAP target achievement was therefore 100%.

In the 2018/19 financial year and mainly driven by the outlined adverse currency impact, the overall weighted VCC achievement level was 95.5% for the CEO (2017/18: 104.2% for the previous CEO) and between 91.7% – 100.4% (2017/18: 99.6%–112.1%) for the other members of the Management Board. This resulted in an average variable cash payout to Management Board members, including the CEO, of 89.2%, whereas the respective average overall payout ratio was 119.3% in the previous year.

The highest total compensation for a member of the Management Board in the 2018/19 financial year was paid to Arnd Kaldowski, who took on the role of CEO on April 1, 2018 (the beginning of the financial year). A one-time replacement award for forfeited deferred compensation entitlement awards granted by his former employer was awarded in February 2018 and disclosed in the 2017/18 compensation report.

Two new members of the Management Board were announced on November 16, 2018 and have taken on their roles as of April 1, 2019. Their compensation will be included in next year's compensation report.

The following tables show the compensation of the CEO and of the other members of the Management Board for the 2018/19 financial year (9 members) and for the 2017/18 financial year (10 members).

Only modest changes to current levels of compensation are foreseen for the 2019/20 financial year. As a basic principle, any changes are kept small and specific, and aligned with those across the organization, as well as with data from executive compensation surveys and published benchmarks from companies of similar size.

Management Board compensation

| in CHF | | | | | | | | | | 2018/19 |
|-------------------------|-------------------|-------------------------------------|-----------------|---------------------------------|-------------------------|-----------------------------|--------------------------------|--|--------------------|---|
| | Fixed base salary | Variable compensation ¹⁾ | Fringe benefits | Employer's pension contribution | Total cash compensation | Value of PSUs ²⁾ | Value of options ³⁾ | Value of one-time RSU transition award ⁴⁾ | Total compensation | Employer's social security contribution ⁵⁾ |
| Arnd Kaldowski, CEO | 890,848 | 677,717 | 166,650 | 107,002 | 1,842,217 | 515,401 | 859,374 | – | 3,216,992 | 114,480 |
| Other members of the MB | 3,184,873 | 1,598,769 | 301,394 | 589,553 | 5,674,589 | 1,251,816 | 1,252,428 | 658,249 | 8,837,082 | 904,191 |
| Total | 4,075,721 | 2,276,486 | 468,044 | 696,555 | 7,516,806 | 1,767,217 | 2,111,802 | 658,249 | 12,054,074 | 1,018,671 |

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

- ¹⁾ The variable compensation will be paid out only when the Group's audited financial statements for the financial year have been publicly disclosed by the Group in its consolidated financial statements.
- ²⁾ Fair value per PSU at grant date CHF 224.38. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior the vesting in June 2022.
- ³⁾ Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" of CHF 26.12.
- ⁴⁾ Includes the one-time RSU transition award of February 1, 2019 with a fair value per RSU at grant date of CHF 174.14.
- ⁵⁾ Employer social security contributions including the tax value of income derived from 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 13,072,745 (approach applied for the purposes of the AGM 2017 vote).

| in CHF | | | | | | | | | 2017/18 |
|---------------------------------------|-------------------|-------------------------------------|-----------------|---------------------------------|-------------------------|------------------------------------|--------------------------------|--------------------|---|
| | Fixed base salary | Variable compensation ¹⁾ | Fringe benefits | Employer's pension contribution | Total cash compensation | 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.

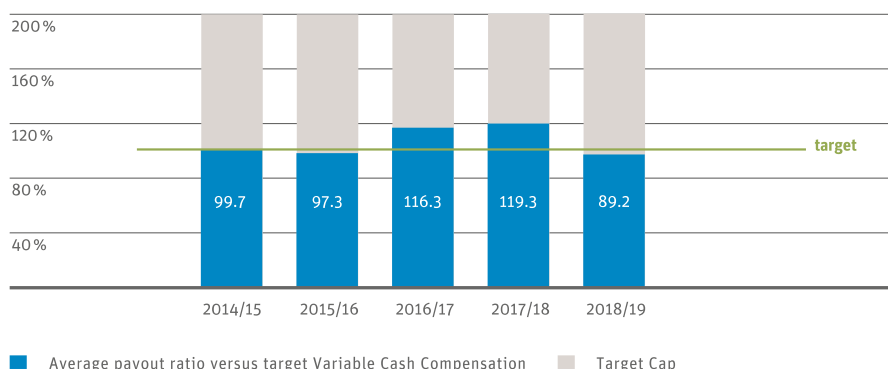
- ¹⁾ The variable salary will be paid out only when the Group's audited financial statements for the fiscal year have been publicly disclosed by Sonova Group HQ and publicly disclosed by the Group in its consolidated financial statements.
- ²⁾ Fair value per PSU at grant date CHF 118.63. Fair Value on 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.

Explanatory comments to the compensation tables:

- The total compensation of CHF 13.1 million for the 2018/19 financial year is below the total of CHF 16.8 million for the previous year.
- The financial year 2017/18 included reduced compensation for the previous CEO to reflect his reduced responsibilities during transition period, the total compensation of the new CEO in his previous role as COO, and his one-time replacement grant of performance options for forfeited deferred compensation entitlements from his previous employer.

- The fixed compensation has decreased by 10% compared to the previous year. This is also due to the different composition of the Management Board, as mentioned above.
- The lower VCC payout based on the Group, business, and individual objective achievements is outlined in the paragraphs above the tables.
- The total EEAP grant value awarded decreased, due to a combination from the different composition of the Management Board, the one-time replacement award for the new CEO in the previous year as well as the one-time transitional RSU arrangement as a result of changing from RSU to PSU.
- The fringe benefits, the employer's pension contributions as well as the social security contributions decreased in line with the changes mentioned above.

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



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 actual total compensation for the Management Board for the 2018/19 financial year, CHF 13.1 million (including social security contributions as per historical practice), is below the maximum aggregate compensation amount of CHF 16.9 million approved at the AGM 2017 for the 2018/19 financial year.

The approved compensation for EEAP applies fair value at grant, which is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement for the PSUs. 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.

Additional information to support the shareholder votes on compensation can be found in the invitation to the AGM 2019.

5.2.3. Other compensation, loans and credits for members of the Management Board and related parties

No other compensation was paid beyond the total compensation disclosed in the tables above.

In the year under review, no payments were made to individuals who are closely related to any former or current member of the Management Board.

No loans were granted by Sonova or any other Group company to present or former members of the Management Board in the 2018/19 financial year, and no such loans were outstanding as of March 31, 2019. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present or former members of the Management Board.

6. Share ownership information

6.1 Shareholdings of members of the Board of Directors

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

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

| | 31.03.2019 | | | | 31.03.2018 | | |
|--|---------------|---------------------------------|--------------|----------------|---------------|---------------------------------|--------------|
| | Shares | Restricted Shares ¹⁾ | RSUs | Options | Shares | Restricted Shares ²⁾ | Options |
| Robert F. Spoerry, Chairman | 34,446 | 17,498 | | | 29,780 | 18,972 | |
| Beat Hess, Vice-Chairman | 3,438 | 7,140 | | | 1,833 | 7,649 | |
| Lynn Dorsey Bleil, Member | | 3,961 | | | | 2,865 | |
| Lukas Braunschweiler, Member ³⁾ | 19,862 | 1,096 | 7,152 | 165,577 | n/a | n/a | n/a |
| Stacy Enxing Seng, Member | | 7,140 | | | | 6,044 | |
| Michael Jacobi, Member | 2,481 | 7,140 | | | 4,876 | 7,649 | |
| Ronald van der Vis, Member | | 7,140 | | | 2,355 | 7,649 | |
| Anssi Vanjoki, Member | 5,481 | 7,140 | | | 3,876 | 7,649 | 2,558 |
| Jinlong Wang, Member | 1,605 | 7,140 | | | | 7,649 | |
| Total (active members) | 67,313 | 65,395 | 7,152 | 165,577 | 42,720 | 66,126 | 2,558 |

¹⁾ These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.

²⁾ These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.

³⁾ New member of the Board of Directors since June 2018.

For further details see also Note 7.4 in the consolidated financial statements.

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

The following table shows a detailed breakdown of the outstanding options of the members of the Board of Directors of the previous option plan for members of the Board of Directors which has been phased-out in the meantime.

| | 31.3.2019 | 31.3.2018 |
|-------------------------------|----------------------------------|----------------------------------|
| | Options EEAP 12 ¹⁾ | Options EEAP 12 ¹⁾ |
| Anssi Vanjoki | | 2,558 |
| Total (active members) | – | 2,558 |

EEAP 2017 and 2018, no options or warrants were granted for members of the Board of Directors as of the applicable grant dates – 100 % restricted shares. The outstanding options granted to the former CEO, Lukas Braunschweiler, are not included in the option table above but summarized in the overall equity table.

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.

6.2 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.

| | 31.03.2019 | | | | 31.03.2018 | | | |
|---|----------------------|---------------|---------------|----------------------|----------------------|---------------|---------------|---------------------|
| | Shares ¹⁾ | PSUs | RSUs | Options | Shares ¹⁾ | PSUs | RSUs | Options |
| Arnd Kaldowski ²⁾ | 6,599 | 6,406 | | 119,444 | 6,599 | 4,109 | | 86,543 |
| Hartwig Grevenner | 6,991 | 2,834 | 3,280 | 36,603 | 5,209 | 1,854 | 4,431 | 61,680 |
| Claudio Bartesaghi ³⁾ | 325 | 1,440 | 425 | 13,542 ⁵⁾ | 1,032 | 872 | 718 | 8,661 ⁵⁾ |
| Claude Diversi | 3,000 | 2,856 | 3,080 | 35,665 | 2,250 | 1,854 | 3,971 | 36,207 |
| Hansjürg Emch | 7,696 | 1,854 | 2,649 | 57,680 | 8,544 | 1,854 | 4,431 | 62,710 |
| Christophe Fond | 0 | 2,943 | 1,989 | 29,764 | 0 | 1,896 | 1,790 | 24,078 |
| Martin Grieder | 3,000 | 2,834 | 3,280 | 45,136 | 2,000 | 1,854 | 3,980 | 36,714 |
| Hans Mehl | 3,118 | 1,854 | 3,280 | 28,181 | 5,036 | 1,854 | 4,431 | 39,464 |
| Andi Vonlanthen | 16,943 | 2,856 | 3,280 | 70,294 | 15,161 | 1,854 | 4,431 | 66,231 |
| Total (active members) | 47,672 | 25,877 | 21,263 | 436,309 | 45,831 | 18,001 | 28,183 | 422,288 |
| Lukas Braunschweiler ⁴⁾ | | | | | 17,061 | | 9,953 | 191,152 |
| Total (including former members) | 47,672 | 25,877 | 21,263 | 436,309 | 62,892 | 18,001 | 38,136 | 613,440 |

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 until March 31, 2018.

⁵⁾ includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares). For further details see also Note 7.4 in the consolidated financial statements.

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

COMPENSATION REPORT

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 |
| Arnd Kaldowski, CEO | 900,000 | 1,000,000 | 1,292,744 | 129 | 1.4 |
| Other members of the MB ³⁾ | 397,735 | 200,000 | 903,662 | 452 | 2.3 |

¹⁾ Share requirements to be achieved for the CEO as of December 31, 2017 and for all other members of the MB after 41 months.

²⁾ Calculated with Sonova closing share price of March 29, 2019.

³⁾ Average of other members of the MB with shareholding requirements.

The calculation of fulfillment and the ratio to base salary of the share ownership shown above are included for illustration purposes only.

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

| 31.03.2019 | | | | | | | | |
|--------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|----------------|
| | Options EEAP 19 ¹⁾ | Options EEAP 18 ²⁾ | Options EEAP 17 ³⁾ | Options EEAP 16 ⁴⁾ | Options EEAP 15 ⁵⁾ | Options EEAP 14 ⁶⁾ | Options EEAP 13 ⁷⁾ | Total options |
| Arnd Kaldowski | 32,901 | 86,543 ⁸⁾ | | | | | | 119,444 |
| Hartwig Grevenner | 8,422 | 10,594 | 9,711 | 5,158 | 2,718 | | | 36,603 |
| Claudio Bartesaghi | 4,881 | 4,984 | 2,148 ⁹⁾ | 1,529 | | | | 13,542 |
| Claude Diversi | 8,614 | 10,594 | 9,381 | 5,158 | 1,918 | | | 35,665 |
| Hansjürg Emch | | 10,594 | 12,948 | 10,315 | 10,869 | 4,687 | 8,267 | 57,680 |
| Christophe Fond | 8,996 | 10,835 | 9,933 | | | | | 29,764 |
| Martin Grieder | 8,422 | 10,594 | 12,948 | 7,737 | 5,435 | | | 45,136 |
| Hans Mehl | | 10,594 | 9,711 | 5,158 | 2,718 | | | 28,181 |
| Andi Vonlanthen | 8,614 | 10,594 | 12,948 | 10,315 | 10,869 | 8,687 | 8,267 | 70,294 |
| Total | 80,850 | 165,926 | 79,728 | 45,370 | 34,527 | 13,374 | 16,534 | 436,309 |

¹⁾ Exercise price CHF 182.40, vesting period 1.2.2019–1.6.2023 whereas one tranche being vested each year, exercise period 1.6.2020–31.1.2029.

²⁾ 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.

³⁾ 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.

⁴⁾ 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.

⁵⁾ 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.

⁶⁾ 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.

⁷⁾ 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.

⁸⁾ 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.

⁹⁾ SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

31.3.2018

| | 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 |
| Hartwig Grevenner | 10,594 | 12,948 | 10,315 | 10,869 | 8,687 | 8,267 | | 61,680 |
| Claudio Bartesaghi ⁸⁾ | 4,984 | 2,148 ¹⁰⁾ | 1,529 | | | | | 8,661 |
| 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 |
| Christophe Fond | 10,835 | 13,243 | | | | | | 24,078 |
| Martin Grieder | 10,594 | 12,948 | 7,737 | 5,435 | | | | 36,714 |
| 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 |
| Total | 197,529 | 131,263 | 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 – 30.9.2017.

¹⁰⁾ SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

Glossary

| | |
|--------------------------------|--|
| AC | Audit Committee |
| 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 |
| EEAP | Executive Equity Award Plan |
| EPS | Earnings Per Share |
| FCF | Free Cash Flow |
| GVP | Group Vice President |
| HRM | Human Resource Management |
| 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 |
| SMIM | Swiss Market Index Mid |
| VCC | Variable Cash Compensation |



Report of the statutory auditor on the compensation report

We have audited the accompanying remuneration report of Sonova Holding AG for the year ended 31 March 2019. 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, 6.1 and 6.2 excluding tables: 5.1.1 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.

Opinion

In our opinion, the remuneration report of Sonova Holding AG for the year ended 31 March 2019 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG



Sandra Böhm Uglow
Audit expert
Auditor in charge



Dominik Hattrup
Audit expert

Zürich, 17 May 2019

Enclosure:

- Compensation report