



Governance

# Corporate governance

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.

## Structure

At Sonova, corporate governance is based upon and structured to conform with relevant international standards and practices. The company fulfils its legal duties under the relevant articles of the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information Relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. The present chapter describes the principles of corporate governance for the Sonova Group and provides background information with a special focus on environment, social and governance (ESG) issues. Additional information can be accessed at the Corporate Governance chapter of the Annual Report 2018/19 and at the corporate governance section of the Sonova website.

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



### Sonova and the United Nations Sustainable Development Goals (SDGs)

By adhering to good corporate governance and strictly ethical business practices, Sonova contributes to the SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: [Sustainable Development Goals](#).



[Corporate Governance Report 2018/19](#)

[GRI 102-18, GRI 102-19](#)



[Sonova Organizational Regulations \(OrgR\)](#)

## Composition of the highest governance body and its committees

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

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

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

## Nomination and selection for the highest governance body and its committees

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

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

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

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

## Roles, policy, and strategy

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

The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. It approves policy and strategy.

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

GRI 102-18, GRI 102-22, GRI 102-23



[Corporate Governance Report 2018/19: Board of Directors](#)

GRI 102-24



[Sonova Committee Charters](#)



[Corporate Governance Report 2018/19: Management Board](#)

GRI 102-25

GRI 102-26

## Competencies and performance evaluation

GRI 102-28

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

## Consultation between stakeholders and the highest governance body

GRI 102-21, GRI 102-29

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

## Compensation and incentives

The Compensation Report is an integral part of the Annual Report and covers the compensation principles, system and key components, with a focus on the Board of Directors and Management Board as the governing bodies. Sonova complies with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Corporations, which amongst other things stipulates annual binding votes on the compensation of the Board of Directors and Management Board.



[Compensation Report 2018/19](#)

We are committed to equal pay for equal work and we are taking the necessary steps to ensure a fair compensation system. Thus, based on our grading and position management processes we are certainly committed to equal pay. We are also reviewing compensation in the context of the relevant local legal and regulatory equal pay requirements as they continue to evolve globally.

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

## Risk management

GRI 102-11, GRI 102-30

The Group has implemented an efficient system to identify and assess strategic, operational, financial, legal, reputational and compliance risks related to the Group's business activities. The risk management function categorizes risks by impact and likelihood and supports the Management Board in determining the measures necessary to address or mitigate them. In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk assessment prepared by Risk Management before it is presented to the Board of Directors. The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis. Currently, Sonova's Group Risk Map consists of 36 risks, of which 14 are designated as key risks.

ESG issues are an integrated part of Sonova's strategic risk management process. Human rights and environmental risks are evaluated in the regular risk assessment process together with all other business risks. Human rights and environmental risks are currently not considered key risks and are thus not included in the Group Risk Map.

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

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

## Corporate responsibility organization

Our sustainability program aligns closely with our business strategy; its topics and their impacts, risks and opportunities as well as reporting are reviewed both at the highest management level and biannually at meetings of the Board of Directors.

The Corporate Responsibility (CR) function develops the sustainability program and provides expertise and advice to the management board on relevant topics. It implements the strategy approved by the management board and coordinates group-wide initiatives in close collaboration with experts from the CR network.

CR country champions represent one or all Sonova Group companies in a given territory and are responsible for gathering data and implementing CR initiatives locally. CR functional champions are linked to group-wide business functions; they report to the CR function on relevant functional issues.

GRI 102-18, GRI 102-19, GRI 102-20, GRI 102-26, GRI 102-27, GRI 102-29, GRI 102-31, GRI 102-32



CR Report 2018/19: Sustainability program

## Association membership and external initiatives

GRI 102-12, GRI 102-13

Sonova actively participates in associations to share its specialist knowledge and to ensure highest quality standards for hearing instruments and cochlear implants.

We are a member of the European Hearing Instrument Manufacturing Association (EHIMA), the Hearing Instrument Manufacturers' Software Association (HIMSA), the Hearing Industries Association (HIA) and the Hearing Instrument Manufacturers' Patent Partnership (HIMPP). Arnd Kaldowski, CEO of the Sonova Group, is member of EHIMA's Board of Directors. Founded in 1985, EHIMA represents the six major European hearing instrument manufacturers.

In 2018/19, Sonova contributed around 450,000 CHF in membership fees to trade associations and non-commercial organizations. Amongst the largest contributions are membership fees and contributions to EHIMA, Bluetooth SIG, Inc., and IngCH Engineers Shape our Future.

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



Governance

# Ethics and integrity

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

## Values, principles, standards, and norms of behavior

### Corporate values

Our shared core values shape the corporate culture that defines and unites us as a company across all brands and regions:

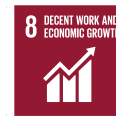
- Innovation
- Engagement
- Responsibility

### Code of Conduct and internal regulations

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

Sonova’s Code of Conduct defines general principles for ethical behavior; it applies to all employees of the Sonova Group, its subsidiaries, and any contractors or vendors performing work for the Sonova Group or any of its subsidiaries. Written acknowledgment of the Code of Conduct is part of each new employment contract and inherent part of each supplier contract. The Code of Conduct is available in 15 languages. The Code of Conduct was prepared by the office of the Group General Counsel in consultation with relevant stakeholders and approved by the Board of Directors.

The entire workforce was trained on the Sonova Code of Conduct when it came into force; all new employees of the Sonova Group including its subsidiaries are trained on its principles as part of their initial orientation. Suppliers are regularly instructed to ensure that they adequately understand and are able to comply with the Sonova Code of Conduct. Sonova’s



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GRI 102-16



[Sonova Code of Conduct](#)

internal audit function performs independent performance assessments on ethical standards and reports these to the Audit Committee.

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

### Trainings

Our continuing efforts to help us live our values of ethical behavior and unquestionable integrity were further underpinned during the 2018/19 financial year with the following training programs rolled out to all employees worldwide:

- Global compliance training
- Anti-bribery training
- Data protection training
- Online security training
- Passwords and information technology devices training

## Mechanisms for advice and concerns about ethics

### Compliance program

GRI 102-17

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

During the 2018/19 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on the integration of our acquired businesses into our compliance culture, along with training sessions and process enhancements in ethics and anti-bribery compliance. The compliance program covers all employees, including part-time workers and contractors.

No fines or non-monetary sanctions for non-compliance with laws and regulations were levied against the company in the 2018/19 financial year.

GRI 416-2, GRI 419-1

### Internal grievance procedures

Sonova maintains an internal compliance helpdesk for general questions and advice regarding Sonova Group policies as well as a compliance hotline, which enables employees around the world to call to voice concerns related to potential violations of the Code of Conduct. The hotline is operated by an independent, qualified, third-party service partner and allows employees to raise concerns anonymously. The compliance hotline covers all main languages and is available 24/7 to internal and external stakeholders.

In 2018/19, we intensified our efforts to support Code of Conduct compliance with an internal communication and training campaign, “Speak-Up!”, that was rolled out globally across the Sonova Group. The campaign included mandatory global compliance online training, which focused on the Sonova Code of Conduct and anti-bribery laws. We also established a new internal online platform as an additional channel to help employees understand Sonova’s Code of Conduct and to make it easy for everyone to report any violations. The “Speak-Up!” platform is available 24/7 in 15 languages.

All reports to the compliance hotline or “Speak Up!” online platform are forwarded to designated functions in the Sonova Group and followed up in a timely manner for further investigation and clarification. Reports are kept confidential to the greatest extent possible, and no complainant or witness will suffer retaliation because of a report made in good faith. The Audit Committee is updated quarterly on any concerns received through the hotline and the measures taken.

The requirements for conflict resolution, including e.g. the use of independent arbitration, are determined on a case by case basis.

## Human rights and labor standards

### Commitment and policies

Sonova respects and supports human rights, and not just in our business. This commitment is reflected in our Code of Conduct and Group Supplier Principles (SGSP) and embedded in the company culture. We believe in treating everyone with respect and fairness at all times. We value the varied experiences and backgrounds of individuals from around the world, different walks of life, and orientation. We are committed to conducting business in accordance with, and to aligning our codes and principles according to, internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic Cooperation and Development (OECD).

Sonova is committed to ensuring that its operations and supply chain are free from modern slavery practices, including child labor, forced and bonded labor, and human trafficking.

As a sign of our commitment, Sonova became a signatory to the UN Global Compact in 2016, endorsing its ten principles in the areas of human rights, labor, the environment, and anti-corruption. All employees of the Sonova Group, as well as its business partners, are expected to comply with the Compact's principles.

### Principles

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

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

### Human rights due diligence

Sonova takes a systematic approach to managing corporate responsibility risks, both in its supply chain and in its own operations. Identifying and mitigating human rights risk is an integral part of our strategic risk management process, and it is reviewed and assessed together with all other business risks. Human rights risks are not currently included in the Group Risk Map, as we do not consider them key risks.



[Sonova Group Supplier Principles \(SGSP\)](#)



[Sonova UK Modern Slavery Statement](#)

GRI 412-1



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

**Assessments**

In the 2018/19 financial year, no concerns were raised relating to human rights violations. Sonova's internal audits and supplier assessments found no operations or supplier businesses in which the right to exercise freedom of association and collective bargaining may have been violated or put at significant risk. No operations or suppliers were identified as posing a significant risk for incidents of child labor, forced or compulsory labor, or illegal labor. As a consequence, no remediation or mitigation actions needed to be taken.

GRI 408-1, GRI 409-1

**Training**

In the 2018/19 financial year, Sonova rolled out a major global training program on its Code of Conduct for employees worldwide, as a reminder of the rights and obligations contained in it. The training also concerned aspects of human rights, such as nondiscrimination and nonharassment. As mentioned above, Sonova also launched the "Speak-Up!" campaign, opening additional reporting channels for employees to reporting concerns.

## Anti-competitive behavior

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

In the 2018/19 financial year, Sonova was not involved in any legal actions related to anti-competitive behavior or violations of anti-trust and monopoly legislation.

GRI 206-1

## Corruption and bribery

**Commitment, policies and guidelines**

Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws, including the Swiss Criminal Code, the UK Bribery Act, and the US Foreign Corrupt Practices Act. Sonova's Anti-Bribery Policy was updated in 2018, refining the rules under the Code of Conduct and prohibiting all forms of corruption. The Policy, like the Code of Conduct, is available in 15 languages.

GRI 102-16, GRI 205-2



[Sonova Global Anti-Bribery Policy](#)

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

## Key elements

Key elements of Sonova's Anti-Bribery Policy are:

GRI 415-1

- **Bribes:** As a matter of principle, Sonova avoids dealing with third parties known or reasonably expected to be paying bribes in any form. Potential bribery/corruption risks are therefore an integral component of our business partner due diligence, which is performed not only before entering a business relationship but also regularly thereafter, following a pre-defined process.
- **Direct or indirect political contributions:** As a general rule, Sonova does not make donations to political parties.
- **Charitable contributions and sponsorship:** Sonova, its employees, and representatives may make contributions to support charitable causes, subject to appropriate due diligence (including the amount contributed, and the nature and purpose of the charity's activities). Contributions should be made for bona fide purposes and only where permitted by local law.
- **Facilitation payments:** Sonova does not permit making facilitation payments.

## Communication and training

The Anti-Bribery Policy has been communicated to all directors, managers, and employees worldwide. All Sonova business partners – such as distributors, consultants, or suppliers – must commit to complying with the principles underlying the Anti-Bribery Policy. The Sonova Group Supplier Principles also cover ethical standards, including compliance with all laws and regulations on bribery, corruption, and prohibited business practices. These have been communicated to all our suppliers.

During the 2018/19 financial year, Sonova intensified its communication and training efforts covering anti-corruption policies and procedures. The publication of the updated Anti-Bribery Policy was accompanied by related online training, which was mandatory for all Sonova directors, managers, and employees. Suppliers are regularly instructed to ensure that they adequately understand and are able to comply with the Sonova Code of Conduct and the Group Supplier Principles. Furthermore, bribery and corruption were key topics raised during the global "Speak-Up!" campaign.

## Data protection and privacy

Sonova protects the confidentiality and integrity of the data it holds, including the data of employees and customers, by technical and organizational means. We adhere to applicable data protection laws and regulations. We closely monitor developments in data protection law and incorporate its principles into our business processes and product design. We continue evolving our data protection program to meet the changing demands of the digital environment.

Sonova issued a Group Data Protection Policy, effective June 1, 2018. The policy is complemented by standard operating procedures and guidelines that break down the various data protection and privacy topics and provide more detailed guidance.

The Sonova Data Protection Office developed a mandatory online Data Protection Global Training for all employees; they are trained, both on Sonova's Data Protection Policy and on the EU General Data Protection Regulation (GDPR) and data protection principles.

## Responsible marketing and sales

### Policies and guidelines

We adhere to strictly ethical sales and marketing practices in all our businesses. Sonova has issued worldwide guidelines to all its Group companies that explain its principles of responsible marketing. Their purpose is to ensure that all our marketing materials, as well as our interactions with customers, provide truthful, accurate, balanced, and non-misleading information, and to prevent inappropriate practices or false claims.

These guidelines are further supported by the worldwide Sonova Group Code of Conduct and the Anti-Bribery Policy. We have implemented refined country-specific codes of marketing and sales practices for Group companies in relevant markets.

### Interactions with healthcare professionals

Sonova is committed to ethical interactions with healthcare professionals (HCPs). We interact with HCPs on a daily basis, in a variety of roles and settings. They include audiologists and acousticians, professors, surgeons, ear nose and throat specialists, or researchers. The following “Four-Leaf Clover Principles” govern our cooperation with healthcare professionals:

- we must strictly separate our sales activities from our engaging of healthcare professionals to provide legitimate services to the company;
- we must properly document their services to us;
- we must not pay them more than the fair market value of their services; and
- we must be transparent about our collaboration with them.

More detailed information on how we ensure ethical interactions with healthcare professionals is provided in the Sonova Global Anti-Bribery Policy as well as internal Standard Operating Procedures and country-specific guidelines for interactions with HCPs.

### Advertising and marketing practices

To make certain that Sonova’s advertising messages to businesses and consumers are properly substantiated, we have established a claims management process and evidence database, maintained by the claims core team. Every claim has to go through a standardized review and approval process by a dedicated committee before being used. This forms an integral part of the end-to-end marketing process and follows formal guidelines on how to identify, substantiate, and administer a claim. The purpose is to ensure both compliance with regulatory requirements and a high quality of marketing communication.



[Overview Sonova Claims Management Process](#)

## Continuous supplier management

### Commitment, policies and guidelines

Our suppliers are an integral part of our international value chain: a risk to them is also a risk to our company and our customers. Sonova requires that all our suppliers be as committed to sustainable development as we are.

The Sonova Group Supplier Principles (SGSP) are based on a range of international standards, customer requirements, and industry characteristics. These principles are non-negotiable; they are the first basis of contact with possible suppliers. Once a supplier has been approved as a Sonova partner, the SGSP, the General Conditions of Purchase, as well as the Sonova Code of Conduct are incorporated into all development and supply agreements. All suppliers have to certify in written form that they will now and at all times in the future comply with these standards and principles in all of their Sonova-related dealings, activities,



[Sonova Group Supplier Principles \(SGSP\)](#)

products, and services. Sonova includes this certification in all supply agreements, and periodically requests suppliers to sign it again in confirmation. The Code of Conduct is available in 14 languages and the SGSP are available in English and German. Both documents are publicly available on the Sonova website.

The Supplier Principles require suppliers to put in place and maintain systems that ensure:

- healthy and safe working environments;
- respectful and dignified working conditions;
- environmentally friendly production; and
- legal and ethical behavior.

### Identification of critical suppliers

In the 2018/19 financial year, we had 10 critical tier-1 and non-tier 1 suppliers. The items or materials we receive from critical suppliers have a direct impact on the performance of our products or come into direct contact with the skin of users. The main criteria for qualification as a critical supplier are related to dependency (critical components, technology, sustainability, quality, regulatory) but other factors, such as high volumes, are also considered. The classification of critical suppliers is carried out at the beginning of each new supplier relationship and is reviewed regularly.

### Supplier risk evaluation and mitigation

The procurement department actively participates in the design and planning of Sonova products, solutions, and services. It makes sure from the earliest development stages that a risk assessment is performed for every component, based on the “Risk and Risk Mitigation Matrix” defined by the procurement department.

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

GRI 308-1, GRI 414-1

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

We are committed not to use any conflict materials for any product supply to Sonova. Since 2007, Sonova has been proactively asking suppliers to review their sources of materials and confirm the absence of conflict minerals.

### Supplier visits and audits

GRI 308-2, GRI 414-2

In the 2018/19 financial year, three critical suppliers were audited by Sonova; a further three critical suppliers were certified or recertified by a notified body, and therefore needed no additional audit by Sonova. All critical suppliers have been visited within the last two years in a less formal manner than an audit and assessed on social and environmental impacts. The Group Supplier Principles were always an important topic during the visits.

## ETHICS AND INTEGRITY

In 2018/19 we have not identified any critical tier-1 or non-tier 1 supplier as having significant actual or potential negative issues related to environmental issues, labor practices, or human rights matters. No suppliers, therefore, had to take corrective or preventive actions.

Examples of key performance indicators, targets and progress related to sustainable supply chain management until 2022/23 are the following:

- Share of new and existing tier-1 suppliers having signed the Sonova Group Supplier Principles (target 2022/23: 100%; performance 2018/19: 100%, 2017/18: 100%, 2016/17, 100%)
- Share of critical suppliers visited or audited at least once per business year (target 2022/23: 100%; performance 2018/19: 100%, 2017/18: 100%, 2016/17, 100%)
- Share of purchase volume coming from suppliers with certified environmental management systems (target 2022/23: 75%; performance 2018/19: 66%, 2017/18: 52%, 2016/17: 50%)

### Long-term supplier collaboration

Sonova strives for long-term collaborations and long-term contracts with its suppliers. In the 2018/19 financial year, 83% of the total purchase volume came from suppliers with more than 10 years of business relationship with Sonova and 96% of the total purchase volume came from suppliers with more than 5 years of partnership.

Sonova also offers its suppliers financial support to buy necessary equipment and technology.

## Taxes

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

### Tax strategy and policies

Sonova is committed to the highest level of tax compliance and directs its international flow of goods in line with all applicable tax regulations. Sonova's tax approach is fully compliant with the spirit as well as the letter of local tax laws and regulations, reporting and filing obligations in all countries of operation as well as in complete alignment with relevant international standards.

As laid down in Sonova's Code of Conduct, Sonova strives to attain the highest standards in complying with laws, rules, regulations, and reporting, filing, and disclosure requirements. This also applies to tax matters. The publicly available Sonova Tax Principles provide high level information on procedures and internal guidelines for tax compliance within the Sonova Group, that is for all legal entities that are majority-owned or otherwise controlled directly or indirectly by Sonova Holding AG.

Sonova's commitment to tax transparency and responsibility is further expressed in policies and processes, mostly for internal use only, that guide compliance with direct and indirect taxes, as well as transfer pricing.



[Sonova Group Tax Principles](#)

## Approach towards taxation

Key elements of Sonova's approach towards taxation are:

- **Taxes follow the business:** Sonova is committed not to transfer value created to low tax jurisdictions. Sonova does not use non-business related offshore structures (so-called "tax havens"), nor does the Group allocate functions or risks to international structures purely for tax reasons. Sonova avoids the acquisition of non-business related offshore structures. An important step during the integration process for newly acquired companies is to unwind acquired tax schemes and bring the tax structure of the new business fully in line with Sonova's tax policy and BEPS (Base Erosion and Profit Shifting) principles.
- **Full compliance:** All taxes fully comply with the spirit and letter of local laws, regulations and are aligned with internationally recognized standards such as the OECD/BEPS and European guidelines. Sonova's complex cross-border operations and added value chains are subject to yearly reviews to align Sonova's Transfer Pricing Processes. Arm's length profit allocation within the added value chains is granted through yearly reviews in line with multiple benchmarking analysis. Inter-company transactions are regularly monitored to ensure complete alignment with international standards and Sonova's internal Transfer Pricing Processes.
- **Cooperation with tax authorities:** Sonova highly values open and proactive cooperation with tax administrations worldwide for any kind of tax matter, irrespective of the fact that Sonova has not entered Advanced Pricing Agreements (APAs). As part of our tax compliance policy, we continuously engage in constructive and transparent dialogue with tax authorities.

## Organization and reporting

The responsibility for tax compliance lies with the Corporate Tax team, located in Switzerland, the US, and Germany. The team reports directly to the Group CFO. This function coordinates, educates, and supports local controllers in all Group companies to ensure that they achieve tax compliance in line with local and international laws, rules, regulations, reporting, filing and disclosures requirements as well as Sonova's standards and policies. A Master Transfer Pricing file is prepared, along with local files that are coordinated with the local organizations according to the OECD guideline Action 13 and Sonova's Transfer Pricing Processes.

Sonova has prepared an external Country-by-Country Report (CbCR) since 2016, and filed this voluntarily with the Swiss Federal Tax Administration in 2017. In 2018, the CbCR filed with the Swiss Federal Tax Administration was made available for automatic information exchange with the tax authorities worldwide, as foreseen by the BEPS initiative.

Information on earnings before tax, reported taxes, reported tax rate, cash taxes paid, and cash tax rate can be found in the Sonova Financial Report 2018/19. Sonova's tax rates might be lower than industry group averages because of group-wide net operating losses and net operating losses from previous periods in subsidiaries of acquired groups. Furthermore, Sonova is a Swiss-based multinational enterprise with large activities, substance, risks and assets in Switzerland, and the Swiss tax rate is lower than the global average tax rate. Cash tax paid is largely influenced by advanced as well as final adjustment payments.

## Bioethics

As a manufacturer of medical devices, Sonova is required by regulatory authorities to demonstrate the biological safety of any product with body contact by complying with the international standard ISO 10993-1. According to this standard, animal tests need to be considered in biological safety evaluations; in some cases, they cannot be completely avoided.

Sonova also provides components of cochlear implants to cochlear implant research centers and universities, where these are tested on animals for basic research concerning e.g. safety, feasibility or efficacy of new technologies.

Sonova does not carry out any animal testing in-house and only works together with third parties. We are committed to the “Three Rs” principle – replacement, reduction, and refinement – to limit animal testing as far as possible:

### Replacement

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

### Reduction

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

### Refinement

- We select those test methods that minimize the distress caused to animals.
- We conduct all animal testing for biological safety evaluations through appropriately accredited testing laboratories. All tests are conducted according to recognized valid and current best laboratory and quality practices, such as the OECD Principles of Good Laboratory Practice.
- We conduct animal testing for research collaborations only through universities and research laboratories where experiments are reviewed, approved and overseen by the respective ethics committees.