sonova
HEAR THE WORLD

FINANCIAL REPORT

Annual Report 2019/20

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Dear shareholders,

Decisive action in a time of uncertainty

Building on its strong growth momentum over the last two years, Sonova performed well above expectations until mid-March, when the global health and economic crisis resulting from the COVID-19 pandemic severely affected the hearing care market and with it the Group's business activities. We expect to see a very significant drop in revenue during the crisis but remain confident that demand will rebound thereafter.

These are unprecedented times for every one of us – so allow us to begin by hoping that all of you and your families are well, and successfully managing the impact of the COVID-19 pandemic. We also hope that the measures being taken will slow the spread of the virus, reduce the burden on health care systems, and allow the research community to develop effective diagnostics, treatments, and vaccines.

The restrictions on movement imposed in most markets have had a negative influence on the entire hearing care industry. Audiology stores, the primary consumer channel for hearing care products and services, are either closed or operating with significantly reduced hours. The great majority of hearing instrument consumers are seniors, the age group that has specifically been asked to remain at home to avoid infection. The Cochlear Implants business is also affected, as the majority of healthcare providers have decided to defer all non-essential surgery.

Challenging times demand quick, decisive action. For Sonova, our first priority is protecting the health of our global team, followed immediately by assuring that our operations can continue while complying with emergency regulations. Under our business continuity plan, most employees are currently working remotely, while others come to work under strict safety standards. All our manufacturing centers remain operational. Group management is helping our companies execute their COVID-19 plans and contingency measures.

In close coordination with the Board of Directors, management has implemented strict cost-reduction programs across the Group to ensure ample liquidity in this interim period. These measures include government-subsidized work time reductions, cuts in discretionary spending, robust working capital management initiatives, and tapping further sources of liquidity. In this context, Sonova suspended its share buyback program, successfully issued a bond in April 2020, and will propose a stock dividend for approval at the Annual General Shareholders' Meeting. Coupled with a solid balance sheet, these actions should put us in a good position to withstand challenging times. In solidarity with our employees and

> We have taken decisive action to ensure that Sonova continues to deliver for all its stakeholders.
>
> Robert Spoerry

shareholders, the Board of Directors and the Management Board have also decided to take a number of compensation related measures including an immediate voluntary reduction in their cash compensation for the duration of the crisis.

On the other side, our investment in R&D will continue as planned, maintaining Sonova's innovation leadership in hearing care. Our firm intention is to keep Sonova optimally prepared for when markets return to more normal levels.

Despite the temporary challenges, we have a positive longer-term outlook. The attractive fundamentals of our market are very much intact, and we are confident that it will rebound strongly as the crisis passes. Hearing is a fundamental human need and hearing solutions therefore remain a vital segment of the global health care sector. As market leader, Sonova is well positioned to benefit.

> I am convinced that Sonova will successfully navigate the current market challenges and maintain our leadership in hearing care.
>
> Arnd Kaldowski

A year of good progress on many fronts

Sonova saw strong growth in 2019/20, with sales up 8.7% in local currencies and 5.6% in Swiss francs. This included rises across all businesses and regions until mid-March, when the business was severely affected by the COVID-19 pandemic. A key contributor to growth was the sustained high consumer demand for products supported by the Phonak Marvel™ platform. After a strong start to the year, the development in our Cochlear Implants business was affected by our decision in February 2020 to retrieve un-implanted devices from the initial version of the HiRes™ Ultra and Ultra 3D cochlear implants. The step was initiated in an abundance of caution, and a new version of the device has been deployed.

As outlined in more detail in the strategy and businesses section of this year's annual report, we have made good progress with our strategic initiatives, including raising our R&D investment to a new record level, thus assuring a strong innovation pipeline. We have made advances in commercial excellence and significant investments to expand our sales force in key markets. We have assembled the key skills and resources needed to strengthen our lead generation capabilities. A range of continuous improvement projects are bearing fruit and optimization of our operating structure is on track.

As in previous years, we highlight in our annual report the way Sonova's commitment to better hearing makes a difference in the life of one specific person. This year, we feature the story of Natália Martins from Brazil, who, with the help of our hearing solutions, is fulfilling her dream of becoming a professional volleyball player – and is thus able to live a life without limitations.

Hearing Instruments segment

Sales in our Hearing Instruments segment grew by 9.6% in local currencies and 6.4% in Swiss francs, driven by strong organic growth in both the Hearing Instruments and Audiological Care businesses and supplemented by bolt-on acquisitions expanding our global store network. Reduced operating hours and temporary closures of audiology stores – both our own and third-party owned – in major markets presented a significant headwind in the final weeks of 2019/20.

The key growth driver in the Hearing Instruments business was the Phonak Marvel platform, with its industry-leading combination of exceptional sound quality, universal Bluetooth® connectivity powered by the proprietary SWORD™ (Sonova Wireless One Radio Digital) wireless chip, and proven rechargeable technology. Marvel reached the milestone of two million devices fitted less than 16 months after launch, making it the most successful product in Sonova's history.

The introduction of Marvel 2.0 in the fall of 2019 extended Marvel's functionality just as we made it available across the complete range of form factors. The new functions include direct integration of our Roger™ wireless technology, bringing RogerDirect™ to virtually all Marvel hearing aids and bridging the understanding gap in loud noise and over distance. Marvel 2.0 also introduced the next generation of our myPhonak app, optimized to give wearers a more personalized hearing experience with enhanced customization options.

The strategy of Sonova's Audiological Care business is to provide best-in-class consumer access to hearing care, backed by exceptional professional expertise and the full spectrum of Sonova's leading products and solutions. The business made good progress in 2019/20, significantly growing same-store sales while further expanding its global footprint through greenfield openings and bolt-on acquisitions.

Consumers increasingly demand choice and convenience in how they interact with hearing-care providers. We have therefore made further advances in establishing an omni-channel approach that seamlessly integrates face-to-face, remote, and online contact throughout the sales and support journey. The social distancing required in many markets by the COVID-19 pandemic has significantly increased the value and visibility of our remote support channels to consumers.

Cochlear Implants segment

Sonova's Cochlear Implants segment saw strong performance through most of 2019/20, but this was more than offset toward the year-end by lower demand related to the postponement of non-essential surgeries in countries affected by COVID-19, as well as our voluntary field corrective action in February 2020. Overall, adjusted sales were up 3.4% in local currencies and 1.4% in Swiss francs. The principle growth driver was the continued success of our HiRes Ultra 3D cochlear implant, whose innovative design allows recipients to have MRI scans without potential pain or the need for complex bandaging.

Another highlight for the year was receiving regulatory approval in the United States and Europe for our Active Insertion Monitoring (AIM™) System, an innovative solution for implant surgery that enables the procedure to be monitored in real time, reducing the risk of damage to delicate cochlear structures.

In an abundance of caution and reflecting our commitment to put patients first, we took a voluntary field corrective action in February, retrieving un-implanted devices from the initial versions of the HiRes Ultra and Ultra 3D cochlear implants. The reason was an observed increase in reports of reduced hearing performance. The action presented a substantial headwind to performance in the latter part of the year and resulted in significant one-time costs. Approved new versions of the devices were available and were quickly rolled out in major markets.

Financial performance

The Group achieved consolidated sales of CHF 2,917 million, representing a rise of 8.7% in local currencies and 5.6% in Swiss francs. This was driven both by organic growth and bolt-on acquisitions.

The reported EBITA increased by 1.0% in local currencies but declined by 4.8% in Swiss francs to CHF 554.3 million. As in the previous year, we initiated further measures to improve our operating structure. The costs associated with these measures, as well as returns for credit and one-time costs related to the voluntary field corrective action, are excluded from the adjusted result. Adjusted operating profit before acquisition-related amortization (EBITA) stood at CHF 620.8 million, up 10.4% in local currencies and 4.5% in Swiss francs. Basic earnings per share (EPS) reached CHF 7.61 (2018/19: CHF 6.98), an increase of 9.0% from the prior year. Adjusted earnings per share (EPS), which excludes the impact of Swiss tax reform, restructuring costs, as well as the returns for credit and one-time costs mentioned above, reached CHF 7.39, up 11.6% in local currencies and 4.0% in Swiss francs.

The solid earnings development, coupled with targeted initiatives to improve working capital management, resulted in a strong cash flow and a marked improvement in Sonova's cash conversion ratio to 103%.

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. This would be met from shares bought back under the recent share buyback program, which have not yet been canceled. We believe that this represents an attractive alternative for our shareholders during these challenging times. Coupled with the successful CHF 330 million bond issue in April 2020, the proposal represents a further important measure to ensure good liquidity levels in the current situation.

Corporate responsibility – environmental, social, and governance (ESG)

At Sonova, we view corporate responsibility as a commitment to make a positive impact on society while conducting our business in a sustainable, responsible manner in accordance with established ESG standards. This commitment is closely aligned with our long-term business strategy and is endorsed at every level of the company.

We have made progress towards achieving our group-wide environmental targets. Through continuous efficiency improvements and increased use of renewable energy, we reduced our carbon emissions intensity by 11% compared to the prior year. A new slim packaging solution has allowed us to reduce the carbon footprint per shipped hearing aid pair by 40%. Each year, we plan further initiatives to address the challenge of global climate change.

We also work to improve people's lives around the world by supporting the Hear the World Foundation with funding, expertise, and hearing solutions. In 2019/20, the foundation trained 190 professionals in 24 programs globally and reached 35,000 children in low- and middle-income countries.

We are proud and grateful that our ESG efforts are regularly acknowledged by a number of relevant organizations in the field, including the internationally recognized Dow Jones Sustainability and FTSE4Good indices. Sonova has received an A- leadership level ranking from the Carbon Disclosure Project (CDP) for the second year in a row, recognizing our environmental transparency and climate change related actions.

You find more information about our activities and performance in the Corporate Responsibility Report, which is part of the Sonova Annual Report.

Changes to the Board of Directors

The Board of Directors has nominated Adrian Widmer for election as a new Board member at the 2020 Annual General Shareholders' Meeting. Mr. Widmer has served since 2014 as Group CFO of Sika AG, a global specialty chemical company based in Switzerland. With his broad management and financial background, as well as his experience in M&A and business development, he is a valuable addition to the Board of Directors. If elected, Mr. Widmer will become a member of the Audit Committee. His nomination marks a further step in succession planning and the targeted reduction of the average age of Board members.

Change in auditor

In 2019/20, as part of its commitment to good Corporate Governance, Sonova invited tenders for its audit services. After a carefully conducted review process, the Board decided to follow the Audit Committee's suggestion and propose a change in auditor to the 2020 Annual General Shareholders' Meeting. It is proposed that Ernst & Young AG be appointed to audit the financial statements of Sonova Holding AG as of the 2020/21 financial year.

Our thanks

Growing, innovating, continuously improving: these strategic objectives call on the skills and commitment of every Sonova employee, every day. We knew already how much we gain from the motivation and enthusiasm of our people, but are even more impressed by the understanding, flexibility, and initiative they have shown in these testing times: together we will come through the challenges even stronger. We are grateful to the hearing care professionals and academic researchers whose collaboration informs our innovation, and the consumers whose hopes for a life without limitations drive us constantly forward. Especially, we recognize our obligation to our shareholders, whose firm support is so important, especially during this global crisis – our thanks to you all.

Outlook

Hearing is an essential human need, even – especially – during a time of physical distancing. Hearing care is a vital aspect of health care. Demographic changes, economic progress, and technological innovation are combining to open up new growth opportunities in hearing care around the world, even during the challenges that face the global economy. Sonova is well prepared to capture these opportunities and has taken decisive action to maintain its leadership position in preparation for the market rebound. Global uncertainty about the development of the COVID-19 pandemic prevents accurate guidance on short-term performance. Nevertheless, we remain confident that Sonova will continue to grow faster than its market and increase its market share.

Robert Spoerry
Chairman of the
Board of Directors

Arnd Kaldowski
CEO

Our product and service offering

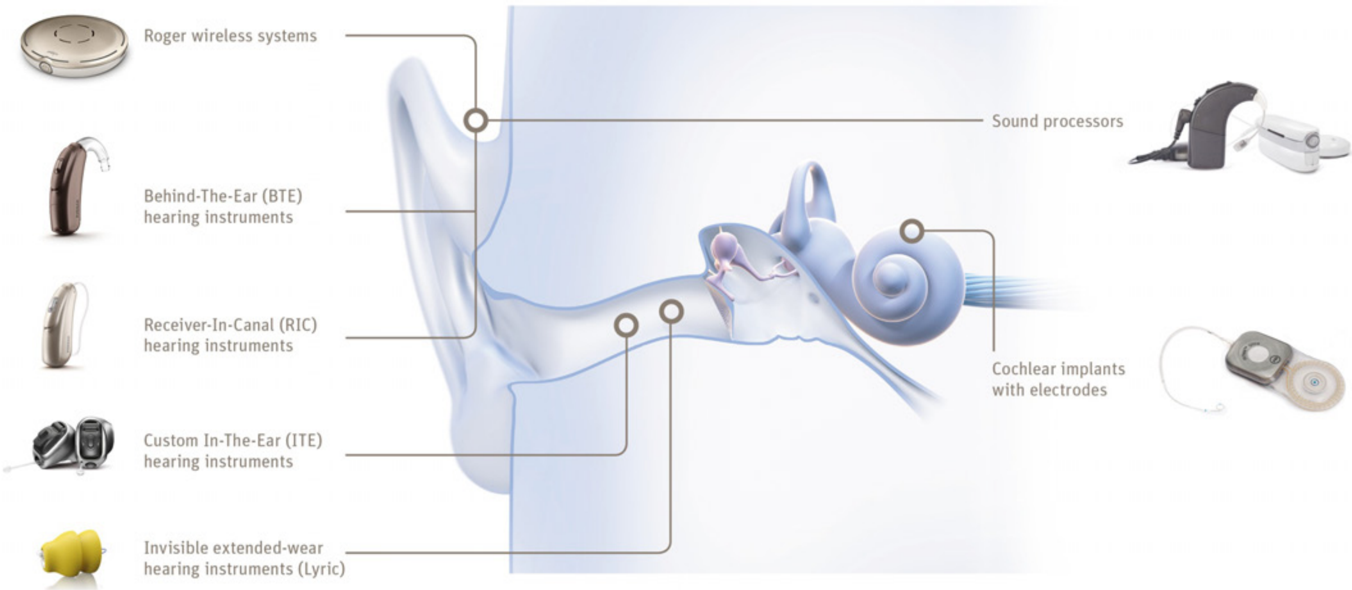
The Sonova Group is a leading global provider of hearing solutions and committed to offering the most comprehensive range of industry-leading solutions. Our product brands – Phonak, Unitron, Hansaton and Advanced Bionics – create compelling new products to offer the optimal solution for every user, provided 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

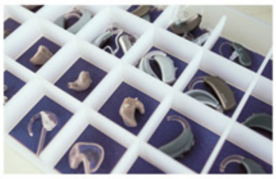
Cochlear Implants Business

Advanced Bionics



Audiological Care Business – Professional audiological services






Phonak

Marvel 2.0 & Apps

With Marvel 2.0, Phonak expanded its portfolio with the introduction of the Phonak Audéo™ M-RT Receiver-In-Canal (RIC) hearing aid with integrated T-Coil as well as the Phonak Bolero™ M Behind-The-Ear (BTE) and Phonak Sky™ M pediatric product families. Thanks to the next generation Marvel technology, all new products combine industry-leading features including direct connectivity with iOS® and Android™[1], lithium-ion rechargeability, and outstanding sound quality while adding RogerDirect™ for unparalleled hearing performance in loud noise and over distance for all launched hearing aids. Since 2013, Roger™ technology has served as the standard that bridges the understanding gap in loud noise and over distance by wirelessly transmitting a speaker's voice directly to the listener. However, until now, hearing aid wearers had to plug an extra receiver and/or audio shoe into their hearing aids or use an intermediary streamer to receive the Roger signal. Marvel hearing aids with RogerDirect eliminate the need for extra components or accessories needed to receive the Roger signal, resulting in a device that's up to 42% smaller.

Phonak also introduced a fully comprehensive updated myPhonak app that is designed to give wearers a more enhanced and personalized hearing experience. In addition to existing Remote Support and Hearing Diary functionality, the enhanced myPhonak app now features more advanced customization options including noise reduction, speech focus and more.

1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions

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IOS is a trademark of Cisco, Inc.
The Bluetooth® word mark is a registered trademark owned by the Bluetooth SIG, Inc. and any use of such marks by Sonova AG is under license.

Phonak Virto™ Black

Phonak Virto Black was launched in February 2020 and was designed to blur the lines between a hearing aid and a hearable and help people seek treatment sooner thanks to the stylish design and innovative hearing aid technology. After its initial reveal at the Consumer Electronics Show (CES) in Las Vegas, Phonak Virto Black received the Engadget Best of CES: Best Accessibility Tech Award. It is the world's first custom-made hearing aid with hands-free calls that directly streams from both iOS®, Android™, or virtually any other Bluetooth®-enabled audio device. Virto Black comes with the benefits of Marvel technology including a personalized hearing experience via the myPhonak app and it is powerful enough to meet the needs of even severe hearing losses. When paired with a Roger accessory, Virto Black wearers can also experience up to 10x better-than-normal hearing in noisy situations and over distance by streaming the Roger signal directly into both ears.[1]

1) Thibodeau, L. (2014). Comparison of speech recognition with adaptive digital and FM wireless technology by listeners who use hearing aids. American Journal of Audiology, 23(2), 201-210

Unitron

Stride™ P R and Moxi™ Jump R

With Stride P R (BTE) and Moxi Jump R (RIC) Unitron expanded its portfolio based on the Discover platform. The new products, Stride P R (BTE) and Moxi Jump R (RIC) with T-Coil were launched in October 2019 and offer ultimate ease and convenience with hands-free phone calls, video calls, media streaming to both ears (on mobile phones with iOS® and Android™[1]), proven Sonova lithium-ion rechargeable batteries, and a virtual coach that helps wearers adapt to the care and maintenance of their hearing instruments with ease. Additionally, Unitron's unique FLEX™ experience innovations, like coach in the Remote Plus app, are focused on removing barriers and accelerating acclimatization to the new devices. People with hearing loss are empowered to act as modern healthcare consumers to self navigate important features.

1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions

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Advanced Bionics

Active Insertion Monitoring (AIM™) System

Advanced Bionics this year introduced a new, powerful innovation, the AIM system. The challenge with CI surgery today is that surgeons have no objective means of monitoring the function of the cochlea during electrode insertion. The AIM system addresses this by using the AB implant to perform an ECochG recording, a proven measure of cochlear health, during insertion. Electrocochleography (ECochG) is a technique for recording potentials generated by the inner ear and the auditory nerve in response to acoustic stimulation. Utilizing the advanced measurement capabilities of the AB implant technology, AIM is able to measure ECochG potentials in real-time and provide the surgeon continuous awareness of these during electrode insertion.

Strategy and businesses

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

Hearing is essential to fully enjoying and participating in life. Sonova thus remains committed to deliver, with market-leading innovation, ever better hearing performance and consumer experience to ever more people, through the industry's broadest portfolio of products, applications, and services.

Addressing the challenges of COVID-19

Restrictions necessary to slow the spread of the coronavirus have disrupted business and our ability to bring better hearing to more people since mid-March. Audiology stores – the primary consumer channel for hearing care products and services – have much reduced operating hours or are temporarily closed. Senior citizens, the largest segment of hearing care consumers, are a high-risk group for COVID-19 and have been asked to stay at home to protect their health. The Cochlear Implant business is also affected, because many countries are deferring non-essential surgeries.

These developments pose a challenge to the entire hearing care industry, and therefore also to Sonova, the market leader. As a global company, we regularly assess conditions in every market where we do business and react to change in a swift and effective way. The alignment of clear Group strategy with local initiative and know-how has enabled Sonova to adapt and improve in this fast-changing environment. These are useful qualities in a crisis – but also essential to the way we do business in more normal times.

The crisis has not changed the fundamental positives of the hearing care market. Hearing is a basic human need. Hearing care is an essential and expanding segment of health care. Innovation will provide ever better hearing performance from hearing instruments, and a broader range of solutions that enrich the lives of consumers. And Sonova is determined to sustain its position as the innovation leader.

We have taken the decisive short-term measures necessary to protect the health of our employees and customers, maintain our operations, reduce cost, and preserve working capital through this interim period. We are maintaining our planned increase in R&D investment, because we are confident that our market will rebound strongly and we are determined to be prepared for that. We are already seeing developments that will shape the future of our industry, including greater consumer acceptance of distance support tools and the potential for further consolidation in the retail hearing care market. Our strategy is calibrated, not merely for the challenges of today, but for the opportunities of tomorrow – and it is this primarily long-term strategy, with the steps we are taking to implement it, that we describe in this section of the Annual Report.

The Sonova Group

Sonova operates through three core businesses: Hearing Instruments, Audiological Care, and Cochlear Implants. The Hearing Instruments business develops, manufactures, and distributes the hearing aids and wireless communications devices that provide the exceptional hearing performance upon which all our businesses are founded. Audiological Care operates one of the world's largest networks of stores and clinics, supporting consumers with advanced services, a comprehensive product range, and deep audiological expertise. Cochlear Implants allow us to extend our offering to address severe forms of hearing loss that even the most powerful hearing aids cannot help. The three businesses work closely together, exchanging technology and talent – giving Sonova the depth and flexibility to capitalize on new opportunities.

Sonova has a uniquely integrated business model, offering solutions for every form of hearing loss, covering the whole value chain from product to consumer, and providing an omni-channel experience, where consumers have the full choice of where, when, and how they engage with the professionals who provide their hearing care.

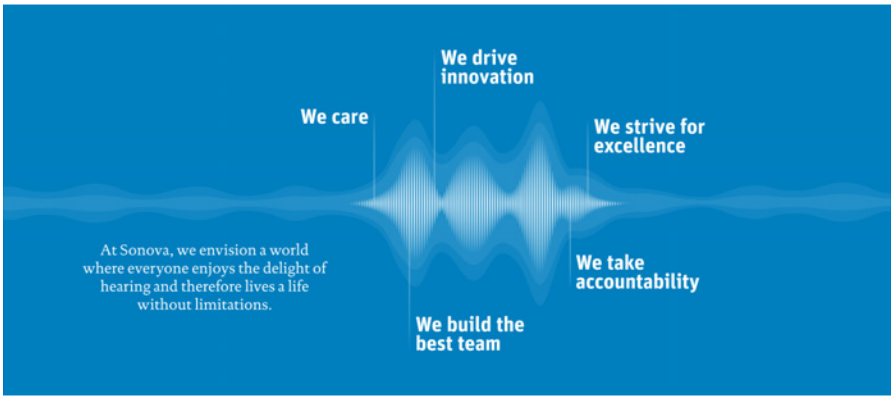
Our consumers are increasingly from the baby-boomer generation: computer-literate, active, self-reliant people who demand continued improvement in hearing performance, a broad choice of channels to hearing care, and control of how their hearing instruments connect with the rest of their digital lives.

Our innovation framework addresses the needs of this growing consumer base by broadening the capabilities of our products: continuing to improve hearing performance while optimizing comfort and fit, then leveraging connectivity and the range of new applications that it enables – including, in the future, providing additional health-related functions, so that our products can serve as versatile tools for healthy, enjoyable living. Sonova's integrated range of solutions and services gives us detailed insight about consumer aspirations, which then inspires and informs our continuous cycle of innovation.

Our strategy drives us to seize opportunities at every phase of this cycle: leading innovation, extending consumer and market access, improving our processes, and optimizing our corporate structure.

The Marvel technology platform shows this strategy in action. Having now sold over two million units just 16 months since being introduced in November 2018, Marvel is the most successful product launch in our history. Consumers have responded enthusiastically to its rich, detailed sound experience, both in conversation and music, and to its ease of fitting and use, true to the slogan “Love at First Sound.” Now available across Phonak’s entire hearing aid range, Marvel has delivered exceptional sales for both our Hearing Instruments and Audiological Care businesses, and its technology promises great future benefits for our cochlear implant users. And we continued to improve it, delivering important new functionality in 2019 that adds value for both new and existing consumers.

To operate with the agility that our customers demand and offer the working environment that our employees deserve, we need a shared culture: uniform values that define how we work anywhere in the world. This year we completed a broad-based internal effort, including focus groups and the HearMe employee survey, synthesizing the five core values that guide all we do:



We see these values as combining clear statements of the principles by which we have always worked in the past with the aspirations we all share for a transformative future.

Key areas of activity

Innovation

Building on Phonak's innovative Marvel platform, we made it available across our entire hearing instrument product range, bringing Marvel's excellent audiological performance, universal Bluetooth® connectivity, and rechargeability to all the consumer groups we serve.

We also upgraded the platform with Marvel 2.0, adding important new capabilities like dual Bluetooth® connection and integrated Roger™ wireless communication. The myPhonak app, launched this year, provides a digital environment where users can take even more control, both of their hearing aids and of the support they receive. The consumer response has been overwhelmingly positive with over half a million downloads since the launch of the Marvel platform.

To complement our strong R&D hubs in Stäfa and around the world, we announced in November 2019 the opening of the Sonova Innovation Lab in Waterloo, Ontario, Canada, where we will explore new digital capabilities in one of the leading consumer app development centers in North America, bringing together experts from our various specialties with people from the mobile industry to accelerate our app development.

Phonak Audéo M-R hearing aids based on Marvel 2.0 platform

Market and consumer access

Commercial excellence is a vital component of our strategy. We are committed to being as innovative and efficient in how we market and sell our products as we are in designing and making them. This year, we launched a strategic initiative to systematize how we identify and classify customers, how we help them through the sales process, and how we support our salesforce with the right marketing tools at every step. It is being rolled out, along with an expansion of our salesforce, in the UK, Germany, France, and the US.

We continue to pursue a focused M&A strategy, complementing our network's bolt-on acquisitions through additional openings of greenfield shops. This ensures that our geographical profile fits well with our target market. It also fits with our commitment to train more audiologists, both for our own network and for the industry as a whole. In high-growth markets, which are often more internet-accepting than developed markets, our omni-channel strategy will allow us to make best use of our available talent even in the absence of a large physical shop network.

Improvement and optimization

Sonova has made many strides this year in the multi-year journey to implement our continuous improvement and structural optimization program. We have begun with our manufacturing operations and now have dedicated continuous improvement resources and infrastructure in place at every major site. We involve all our employees in the quest to continuously improve our processes.

We are fostering commercial excellence by extending process-focused improvements to the sales process, and are taking active steps toward structural improvement, optimizing our global footprint to eliminate duplication.

The aim of these programs is to free up resources that can be reinvested in the growth and improved returns of the Group. Every function has a role to play in this and every part of the business will benefit.

Feature story: “Being able to hear makes me feel alive”

Natália Martins is a professional volleyball player who wears hearing aids made by Sonova brand Phonak. Having worn hearing instruments since losing her hearing in childhood, she is able to interact freely with the outside world and has even secured a place on the Brazilian national team. She is now bidding her home country farewell to begin a career in Europe.

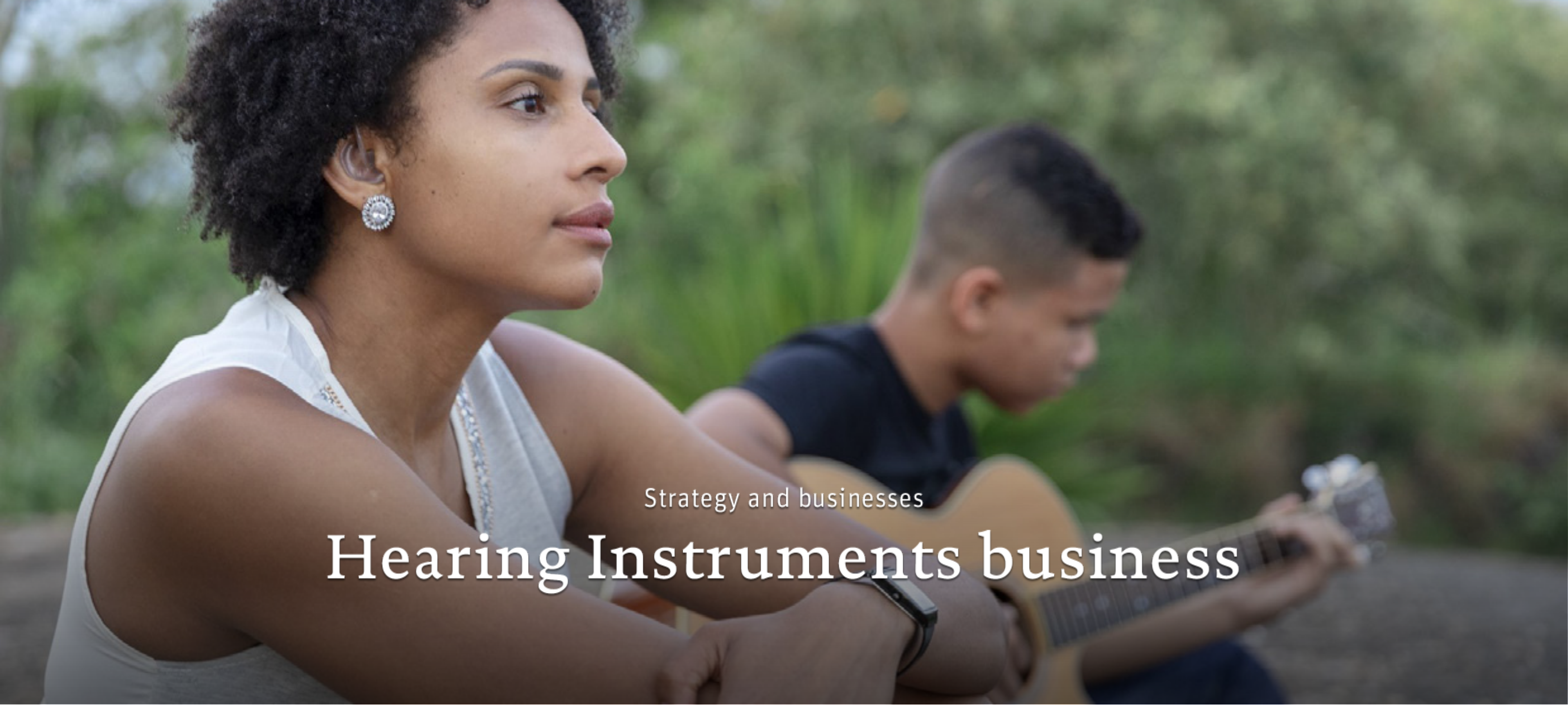
A young woman in cream shorts is dancing in the middle of a group of samba drummers, a faraway look in her eyes. The bewitching Brazilian beats have brought a beaming smile to her lips. Natália Martins loves samba, but the hypnotic rhythm would be no more than a distant murmur for her without her hearing aids. Natália was four when a doctor diagnosed her with 70% hearing loss and, at the age of six, the little girl was fitted with her first hearing aids, which she tried very hard to look after. “Even back then, I had a sense that the world was just a black void if I couldn’t hear,” she explains. Despite taking the best of care, she lost one of the devices a few years later and had to wait twelve long months for a replacement. Throughout this time, she was obliged to sit in the front row at school, keeping the teacher’s mouth in eyeshot in order to read her lips. Her balance was also adversely affected during this period.

Natália's mother wanted to give her daughter the chance to lead an independent life, even with hearing loss, so she sent her child to a regular school and nurtured her talent for sport. As Natália was pushing 5 foot 7 inches in height at the age of 11, one day her gymnastics teacher suggested, "You should try volleyball!" From that moment on, life for the tall adolescent changed forever, and she soon realized that she wanted to make a career of the sport. She had the talent – but would she be able to make the cut with her hearing loss? One day, she gathered up the courage to post this question on the website of her idol, Bernardo Rocha de Rezende, Brazil's greatest volleyball trainer of all time: "I want to achieve what you have achieved, but I have hearing loss – do I still stand a chance?" A single click, and the question was sent out– and an answer received. "You will need determination, perseverance and strength – you can achieve anything with that," wrote the seasoned pro, and Natália felt like she was walking on air. She has become Brazil's first professional volleyball player living with hearing loss and has managed to make the leap from a local side to the Super League and the country's national team. She says she will never forget her hero's advice as long as she lives.

She is helped on court and in training by her regularly upgraded hearing aids, which are capable of differentiating individual sounds ever more clearly. Natália has been experiencing hitherto unknown noises and tones: "It felt almost miraculous that I could suddenly understand the words of the songs the fans of our club, Osasco, were singing – previously I had only been able to make out melodies," says the grown woman with childlike excitement. A number of her teammates have jokingly claimed she deliberately turns off her hearing aids during training so she can't hear the trainer's criticism. Natália bats away the accusation with a laugh: "Come on, it's been ages since I've done that!"

Natália loves her job, and her humorous, helpful personality have made her popular with her teammates. Everything seems easier when she's around, as Natália has a rare talent for being happy. She loves the silence in the changing room before the game, when she summons up her concentration and the adrenaline is pumping through her veins, giving her goosebumps. The roar of the cheering fans is one of her absolute favorite sounds. Her hearing aids have long since become part of her body. She puts them in first thing after getting up in the morning and takes them out only when she goes to bed. The Phonak Naída™ hearing aids are invisible to the outside world under her shoulder-length hair, but when she turns them on, it is like inviting the whole world into her life. She was initially unable to make phone calls with her hearing aids because there were too many echoes, but the devices' constantly evolving technology soon fixed that problem. Whenever she meets people with reservations about opting for a hearing aid she asks them: "Why not? It gives you far greater quality of life and makes you feel alive."

Despite her positive demeanor and formidable will power, Natália is still grateful for the support of her mother – and her husband. She met 6 foot 7 inches tall Peterson Henrique when she was in her mid-20s, and they married in 2012. The 40-year-old self-employed businessman has been by her side wherever her career has taken her – first to Brasilia, then to Osasco near São Paulo, and now on to Europe. Even the thought of leaving her family and friends behind is making "Nati", as the fans call her, feel a little uneasy, but she is not one to waste time dwelling on gloomy thoughts: "I'm working up my courage and looking forward to the new challenges ahead!" Before her departure, she took a trip to Rio de Janeiro with Peterson to say goodbye to her friends and the familiar sounds of home: she is saying her farewells to Brazil. They stroll through the bustling artists' quarter of Santa Teresa, where Natália drinks in every noise, from the engine sounds of the familiar old trams to the jokey banter at the market, in the melodic cadences of Brazilian Portuguese. Natália listens intently to the waves on the beach at Copacabana and enjoys the view of Rio from the hill at Morro da Babilônia. She makes her way down to where more than three dozen samba drummers await. The members of Batucada Abençoada, who have made it into the Guinness Book of Records as the world's largest samba band, have prepared a farewell serenade in a surprise organized for her by her husband. Natália listens entranced as the rhythm takes over. Dancing sensuously amongst the drummers, she spins round and round, showing life her beaming smile.



Strategy and businesses

Hearing Instruments business

We continuously innovate to deliver the best possible hearing performance, connectivity, and convenience with complete accessibility, across a broad spectrum of consumer needs and markets.

The natural place for a Sonova hearing aid is at the center of a full and active life, one without limitations. Consumers expect ever better hearing performance, seamless connection with their digital lives, convenient, stylish designs, and professional hearing care support through a range of channels. We respond to and anticipate their expectations, continuously improving the performance and capabilities of our products, services, and business.

On the product side, Phonak's Marvel platform is the perfect example of how we work to fulfil our consumer's needs. They value audiological performance: recent studies rate Marvel highest in overall sound quality[1]. They value connectivity: Marvel is rated the best and easiest connectivity solution[2] – the only hearing aid offering hands-free calling on iOS™ and Android™ cellphones. They value convenience: Marvel rates highest in first fit acceptance among first time wearers[3]. It is not surprising that 95% of hearing care professionals would recommend Marvel hearing aids to their peers[4].

Marvel has sold more than two million units in just 16 months after its launch. It is the most successful product in the history of our business. It was planned from the outset as a no-compromise hearing solution, where each benefit is optimized without limiting the others.

Continuous innovation, however, means that there is always a way to improve, and so we have launched further upgrades to Marvel this year, now allowing it to pair two Bluetooth® audio devices at the same time and adding powerful new capability with invisibly and seamlessly integrated RogerDirect™ wireless communication. As we continue to add new applications and functions, we bring our products ever closer to the goal of being a healthy living companion.

Just as we are working to accelerate and enrich the innovation cycle with upgrades between major platform launches, we have introduced initiatives to further leverage all marketing tools at our disposal and extend and deepen our customer reach through what we call "commercial excellence." This supports our product innovation through targeted growth investments to refine sales and marketing excellence, while also boosting coverage in high-potential markets.

Sonova's Hearing Instruments business operates through four brands. Phonak, which is available worldwide through all of Sonova's sales channels including our own Audiological Care business, is committed to delivering industry-leading technology and hearing performance, backed by an ever richer consumer experience. Unitron helps hearing care professionals build their businesses with its unique Flex trial and upgrade solutions. Hansaton operates as an exclusive regional brand, including through retailers in high-growth markets, while AudioNova is the recently launched exclusive brand for our Audiological Care business.

1) Jansen, S. & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. Phonak Insight. Retrieved from https://www.phonakpro.com/com/en/resources/information-forms/evidence/Library.html, accessed August 28, 2019
2) Knorr, H. & Ritter N. (2019) Market Research ID1359. n=203 HCPs in USA.
3) Rakita, L. & Steward, E. (2018). Best first fit experience from Phonak. Phonak Marvel. Phonak Field Study News. Retrieved from https://www.phonakpro.com/com/en/resources/information-forms/evidence/Library.html, accessed August 28, 2019
4) Phonak market survey #1241 "Marvel Post Launch Research B2B," survey conducted in Canada, Germany, USA, January 2019 (215 participants).

Key areas of activity

Innovation

We called this year's upgrade to the Marvel platform "Marvel 2.0," because it is the equivalent of a new operating system for a computer: the device remains the same, but the capabilities are significantly improved. One of the most important innovations was RogerDirect™, which allows wireless streaming of sound from a remote microphone directly to the hearing aid without any additional accessory. Roger® technology bridges the understanding gap in loud noise and over distance, giving users a better hearing experience than people without any hearing loss in these challenging situations.

To complement RogerDirect™, we launched the Phonak Sky™ M range of hearing aids for children. These offer Marvel's exceptional hearing performance for optimal speech intelligibility and language development, along with the first operating system designed specifically for children. Fully integrated and invisible RogerDirect™ allows wearers to participate fully in conversations, even in very noisy school environments, without the potential stigma of a bulky hearing aid, while universal Bluetooth® connectivity allows them full use of phones and classroom tablets.

Connectivity adds a digital ecosystem to each Marvel hearing aid. A key example of this is the updated myPhonak app, which gives wearers an enhanced and personalized hearing experience, including remote support, fitting and control, a hearing diary, and advanced customization options such as noise reduction and speech focus. More than half a million Marvel users have downloaded our myPhonak app. Many are finding it an invaluable tool during the COVID-19 pandemic, ensuring continued contact with their hearing care providers during times of enforced social distancing.

With Marvel 2.0, Phonak is making RogerDirect™ available to all Marvel hearing aids

Market and consumer access

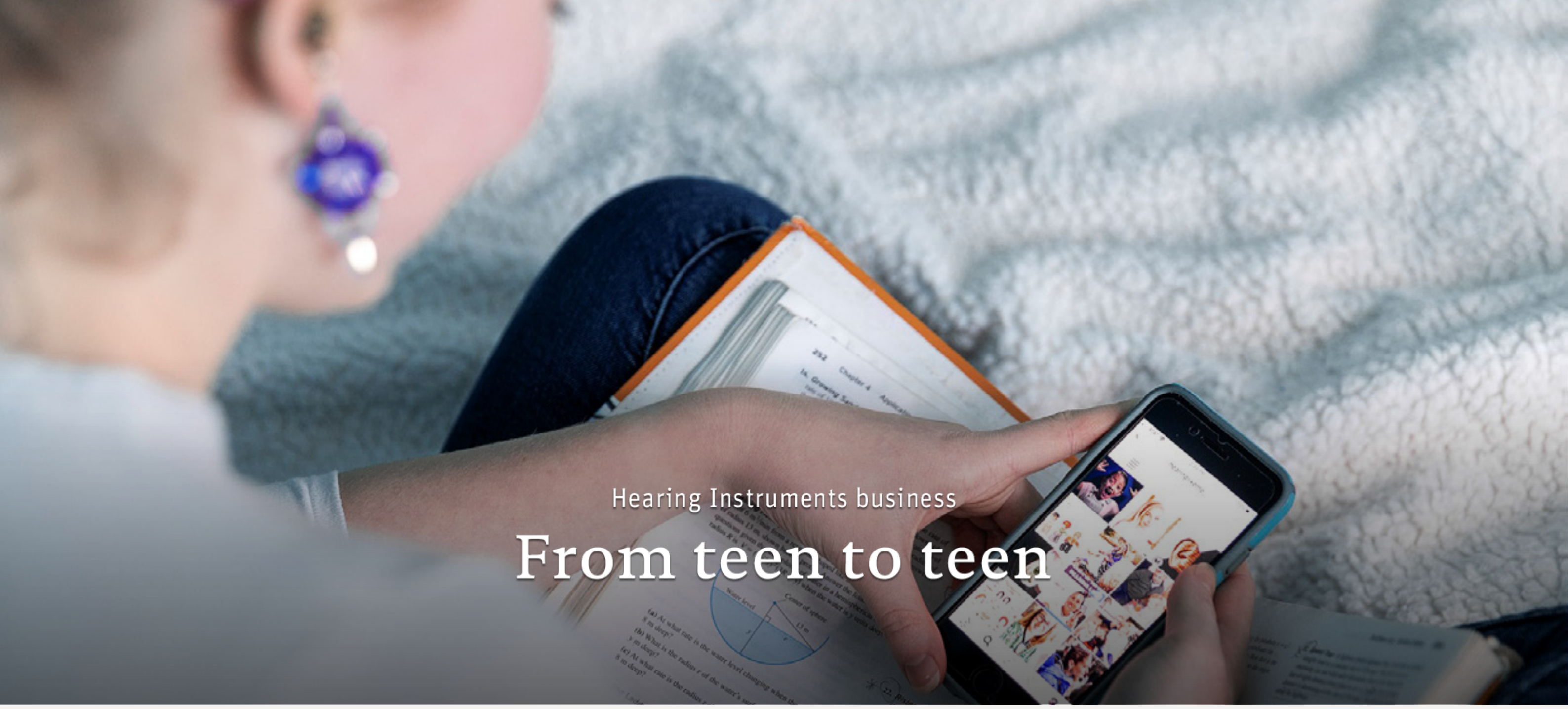
As part of our commercial excellence initiatives, we have been investing in internal capabilities and systems to support our marketing and sales functions. We have expanded our sales force in key markets, putting more “feet on the street” and backing them with the marketing tools and coaching that they need to generate and convert sales leads. In the US, we have seen significant sales successes, doubling our market share with the Department of Veterans Affairs (VA) and gaining a significant contract with a large hearing aid retailer that also offers access to a younger, earlier-adopting market segment.

Sales and marketing excellence is strengthened by our multi-channel approach to consumer support – and by our agility in adapting it to new circumstances. The US Department of Veterans Affairs (VA), for instance, has been faced with a major challenge by the COVID-19 pandemic: although it has not shut down its hearing care clinics, only 20% of the veterans it serves have been able to attend because of social distancing concerns. The VA is therefore adopting Phonak’s own online educational materials and remote support apps to strengthen their remote outreach to the veterans they serve. Phonak is also pre-programming hearing aids to reduce the number of in-person visits. The challenge of this medical crisis has become an opportunity to accelerate new ways of serving our customers.

Improvement and optimization

Process improvement is now a daily activity across the Hearing Instruments business: in R&D, manufacturing, distribution, and sales, we examine what we do and take the steps, large or small, that are necessary to shorten cycle times, reduce goods on hand, cut waste, and improve margins. All our employees have an active role to play, and we draw on their experience during regular intensive problem-solving sessions.

At the same time, we continue to examine ways in which we can make our corporate structure more efficient and reduce our organizational overheads. This year, we shifted certain service and manufacturing activities from our UK service center to the regional center in Spain and to the operation center in Vietnam, both for greater efficiency and to forestall potential risk of disruption due to the UK's departure from the European Union. We have integrated support services for all our hearing aid brands in Germany at a single center in Fellbach and service and repair activities in Canada at Mississauga. We are also initiating the integration of all US back-office functions in our Hearing Instruments segment to a single site. The end goal of each of these initiatives is to increase agility while generating funds for increased investments in growth- and revenue-producing activities.



Hearing Instruments business

From teen to teen

Sonova's Teen Advisory Board has successfully helped its Phonak brand connect more effectively with its Generation Z target demographic. A group of hand-picked youngsters have been encouraging their peers and comparing notes on their experiences of living life with hearing loss.

Ellie Warren inserts a delicate-looking thread through the little apertures in the last few crystals and knots them up. She loves shiny things. The jewelry, which she has designed and created herself, is finished: two stars, made from violet and white crystals. She attaches the trinkets to her hearing aids and tries them on. Ellie calls them "hear rings", earrings for her hearing aids. "Jewelry helps me express myself. Most people notice my creations first and only spot my hearing aids afterwards, so I can start a conversation about hearing loss. Little children in particular like the colorful stones. I explain to them what it means to be hard of hearing and try to do my bit to chip away at prejudices," explains the 16-year-old.

The high school student from Ohio, USA, has been a member of Phonak's Teen Advisory Board for a year. The program, which was launched by Sonova brand Phonak in September 2018, is designed to appeal principally to adolescents and is intended to give them a better understanding of the challenges facing young people with hearing loss. Marketing Communications Manager Cecilia Zugaib, who is in charge of the Teen Advisory Board, explains: "We had had lots of projects for teenagers in the past, and our experiences there had shown that teens are more comfortable communicating amongst themselves than directly with a company. Our teen advisors want to encourage their peers and show them ways of living their best lives with hearing loss. This prompted my colleague Angela Pelosi, Director Global Audiology, to put together an advisory team of teenagers so that they can communicate with their peers, compare notes on their experiences and become role models for other teens and children." A competition to find candidates for the pilot project was announced in the USA and Canada. The application form, which was mainly circulated via NGOs, teachers, ENT specialists and pediatricians, attracted responses from more than 50 candidates who submitted audition videos. The successful applicants for the Teen Advisory Board were selected from these, and there are currently seven on the roster.

Ellie is one of them. "I happened to be at a camp where I do voluntary work when I got the call. I was ecstatic, and very excited about the first meeting with the other participants. I think there's a special connection between people with hearing loss, and this is definitely the case on the Teen Advisory Board. We have made lots of new friendships and when we meet, we end up sitting in the hotel lobby in the evening and talking late into the night."

Cecilia Zugaib explains the key selection criteria for Phonak's team of experts: "We were looking for young people with different types of hearing loss and for a mix of personalities. The idea was that they would act as role models for their peers and take an active role on the board." But what exactly does that mean? The adolescents are encouraged to address topics relevant to teenagers in a range of formats (such as videos and posts) and upload these to their own social media channels and Phonak's sites. The teen advisors also write articles about their lives and daily routines for HearingLikeMe, a news and lifestyle website for people with hearing loss that is sponsored by Phonak. "The goal is for a member of the Teen Advisory Board to publish one article a month," says project leader Cecilia Zugaib.

Ellie has already written several contributions for HearingLikeMe, including pieces about her daily life in a family in which three of the four siblings (including her) are affected by hearing loss.

The project leader believes that Phonak's strategy of reaching out to young people with this kind of communication is paying off. "Based on comments by lots of teenagers who follow our teen advisors on social media, we know that they have been benefiting from the advisors' recommendations and that switching over to Phonak Marvel products has been a game-changer for them."

It is not just in these external communications that the positive effects of the project have become apparent. As all the members of the Teen Advisory Board will receive the newest devices, such as Audéo Marvel, Sky Marvel and Roger microphones, they are simultaneously test subjects as well. Ellie, for example, is scheduled to be fitted with the new Phonak Sky Marvel-SP devices. User experiences with the devices and the specific technical requirements of this target demographic are gleaned from regular telephone conversations and questionnaires – what, for instance, can the devices do for a school student's day-to-day life? What particular extra technical options are on the teens' wishlist?

Ellie speaks on the phone once a month to discuss things with her contacts at Phonak, including Cecilia. She also takes part in webinars and the teen advisors catch up online every two months. The information gathered is useful for a range of departments, says Cecilia Zugaib. "Colleagues from marketing, pediatrics and R&D have come up to me to say so – the whole Sonova community can learn from the experiences of our teen advisors." This success has meant that the pilot project has been recommissioned and is to be extended in a similar form.

After a year on the Teen Advisory Board, Ellie's experience has been extremely positive as well, as she enthusiastically recounts: "Thanks to the program, my self-confidence has improved by leaps and bounds. It has also helped me to find my bearings in certain social situations more easily. The program gives teenagers affected by hearing loss tremendous opportunities to connect with one another."

Strategy and businesses

Audiological Care business

Backed by Sonova's industry-leading portfolio of products and solutions, our experts support consumers along their hearing journey and through their chosen channel of interaction.

Sonova's Audiological Care business is a key contributor to the Group's integrated business model, providing direct access to consumers and insight into their needs, elevating awareness of Sonova's brands and their role in each consumer's journey, and identifying potential candidates for Advanced Bionics cochlear implants. In return, Audiological Care benefits from the Group's combined lead generation, marketing resources, and operational capabilities; it gains by being able to provide the full range of Sonova products and solutions; and it makes use of Sonova's well-known heritage of audiological expertise to attract and retain the best talent.

Audiological Care represents the second-largest store network in the industry, with a clear path to further growth. We operate a global network of about 3,500 stores and clinics with more than 7,000 employees in 19 countries. Largely assembled through complementary acquisitions, the business is well advanced toward operating as a single platform with uniform best practice and globally shared systems, training, processes, and support functions.

Our market is evolving rapidly as a result of demographic changes and retail trends: we are seeing an acceleration of market consolidation, an increasing distinction between basic, high-volume solutions and high-value "medical" solutions, and further emphasis on the preferences of the baby-boomer generation for multi-channel access to services, advanced technology, and personalized care. Our strategy addresses these trends directly, opening paths to growth by anticipating and fulfilling changing consumer needs.

We differentiate our business through expertise: the skills of our audiologists, supported by a comprehensive product range and a broad service offering. We are able to offer exceptional expertise throughout the full network thanks to a cluster concept. This comprises excellence centers offering extended medical services – related, among other treatments, to tinnitus and balance therapy or cochlear implants – linked to satellite offices that provide quick, efficient standard testing and fitting, with straightforward evaluation for referral to the center.

Examples of excellence centers are our World of Hearing stores, already operating in the Netherlands and Denmark with additional countries to follow. They offer an immersive, information-rich consumer experience, backed by conversation with experts. The full range of Sonova products is on display and a specialist team is available to provide a range of medical treatments. The results justify the business case: higher conversion rates and premium product sales. We plan to open further World of Hearing excellence centers in selected markets in the future.

Key areas of activity

Innovation

The continuing market success of Phonak's Marvel technology has also been a success for Audiological Care, as its exceptional hearing performance and supporting apps give our consumers access to world-leading technology. With its immediate positive impact, "Love at First Sound," Marvel is the ideal introduction to the full range of advanced Sonova solutions and a firm foundation from which we can prove our expertise. At the same time, we are aware of the demand for more accessible yet still fully featured products that allow us to serve the whole market; we have therefore introduced the AudioNova product range, exclusive to our store network, to complement Phonak's premium brand value.

We have already set up a variety of channels for engaging consumers before the sale: social media and search engine marketing, self-screening kiosks at partner stores, online portals, and so on. Going forward, we plan to add additional tools to maintain engagement after the sale, including real-time personalized support anytime and anywhere for a seamless, omni-channel consumer experience.

Market and consumer access

Our consumers demand choice in how they work with us at every stage of their journey. The great majority wish to interact directly with a hearing care professional, whether in-store or by phone, at key points such as initial counselling or trying out a hearing aid. Some are comfortable with online resources, others prefer more autonomy and personal control – or are restricted to remote support because of COVID-19 related social distancing. That is why we have our omni-channel strategy: so that our consumers can enjoy a seamless and comfortable experience with us, regardless of how contact is made – and we can understand and anticipate changing consumer needs.

We are well along the way to full implementation of this strategy, building the necessary IT and data analytics capabilities. At the same time, we are in the fortunate position of having acquired in April 2019 a small company with a similar approach: Blamey Saunders hears (BSH), an Australian hearing health provider with a distinctive model that blends online, call center, and clinic. Acquiring BSH will give us valuable real-life insight into the omni-channel approach and marketing techniques for younger and for higher-spending consumers.

Improvement and optimization

We have standardized our systems, training, and processes across the network – and in doing so, we have built in the means for continuous improvement. Our omni-channel model and the valuable data it generates will keep us flexible and responsive in our approach to the market. At the same time, we are taking the opportunity to optimize our structure, which still showed some of the after-effects of the many acquisitions that went into it.

We are committed to having a single store brand for each country where we operate, taking advantage of the “local champion” brand name to build awareness. Like our transition to uniform systems and processes, the now-completed transition to a single brand follows the same key principles in every country. We have also introduced the Phonak brand in all our stores and clinics, identifying our network with a highly respected name offering exceptional hearing performance.

We are completing this consolidation process in Germany, where we have gone from 25 brands and five legal entities in 2017 to one brand, one HQ, one ERP system and one local repair site in 2020, giving us market and brand leadership. The equivalent process in Belgium has delivered growth in net sales and operating margin while confirming our leadership in this market.

Audiological Care business

A new world of hearing

The Sonova Group has been setting new standards in the hearing care industry with innovative store designs. The focus is on interactive experience, innovative products and services for complex hearing conditions such as tinnitus. The world's first specialist audiology store designed according to this model was opened by Sonova brand Schoonenberg in Dordrecht in December 2018.

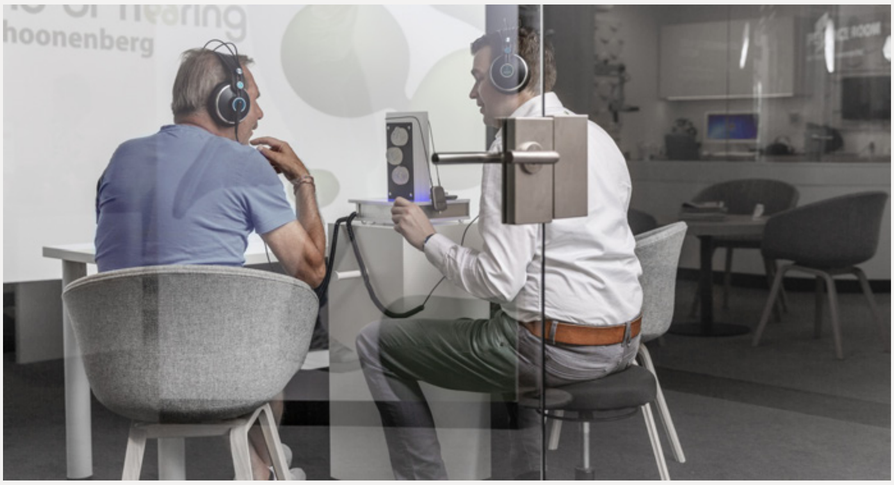
Willem van Gent puts on the headphones. Sitting at a large monitor in a darkened booth known as the "experience room", he is experiencing his hearing loss and the effect of a hearing instrument. A video is running on the screen in front of him – a pop band is playing at full throttle and the piano player is hammering away at the keys. The 64-year-old suddenly stops short, exclaiming in complete astonishment: "I haven't heard these high notes in years. This is just incredible!"

Several weeks have passed since this aural epiphany in the World of Hearing shop in Dordrecht, and Willem van Gent, a quality control inspector for a large agricultural produce company and a passionate fan of blues rock, has since been fitted with a Phonak Marvel. The hearing aid has brought him a new lease on life. "I can hear like I did 25 years ago. When I stream music via Spotify, it sounds really good. It used to sound weird." He had only realized that he was no longer picking up on every sound frequency when the audiologist in the World of Hearing experience room played him the same rock concert – first with no hearing aid, then with a Phonak Marvel device.

Steven Thomas, Managing Director Sonova Audiological Care in the Netherlands

“A lot of our customers have had the same ‘eureka moment’ as Willem van Gent,” explains Steven Thomas, Managing Director Sonova Audiological Care in the Netherlands and co-designer of the innovative “World of Hearing” concept, whose pilot store is located in Dordrecht, South Holland, about 12 miles southeast of Rotterdam. “Back in the day, customers just had to take it on faith when the audiologist told them that a technology or a device was better. Now, they can check it out first-hand in the experience room, or in real-life situations such as a restaurant visit or a concert.”

The high-tech sound booth, which looks like a two-seater private cinema, is not the only special feature at the World of Hearing audiology store, however. Even at first glance, the entire store has little in common with a traditional audiology business: the inviting open-plan store layout, with the sound booths located to the rear, encourages customers to explore the space. As soon as customers enter the store, they encounter the first of several interactive tables. Using the “Lift & Learn” system, they can take products from the shelves and place them on these tables to learn more about them. Here’s how it works: the products – a hearing aid, for example – are presented in little display cases and can be taken out and placed on a particular area of the interactive tables. The technology immediately recognizes the product and sends information to the screen. “At first, lots of young people came in just to play with the interactive tech in the store,” says staff member Conny Polleunis, an audiologist who has specialized in the new shop design.



Customer Willem van Gent in the “experience room”

The store is divided into three thematic areas: hearing protection, hearing innovations and expert solutions. As Conny Polleunis explains, “We didn’t just want to help people with hearing loss; we also wanted to support people with normal hearing – which means that there is something of interest even for folk who have just wandered into the store out of curiosity.” The hearing innovations area presents new hearing solutions such as Phonak Lyric, the first 100% invisible hearing device that can be worn 24/7 for months at a time. Steven Thomas, World of Hearing’s Managing Director, explains: “Our market research has consistently confirmed that it’s the invisibility of a device that seals the deal for customers. This is why it was important for us to be able to offer our customers this kind of technological innovation.”

The third and last thematic area is aimed at people with complex hearing problems such as tinnitus, severe hearing loss, pediatric solutions and staying often in complex listening environments. World of Hearing also works with the Sonova brand Advanced Bionics, which provides cochlear implant solutions. In addition, the store offers consultations for tinnitus. Says Steven Thomas: “It’s crucial nowadays to offer medical services, and we want to expand this in future to include treatments and preventive measures for the vestibular system located in the ear.”

Its new design and the many innovative and interactive features make World of Hearing a specialist audiology store of the future, capable of taking customers on a journey of discovery through their own hearing experiences. The relaxed atmosphere, the option to just drop in and receive a bespoke audiological consultation without an appointment, trying out hearing aids in typical virtual situations in the “experience room”, even with the offer to test them in real life immediately – all this helps to demonstrate the added value offered by high-end hearing aids in a tangible way.

Since the store opened in the middle of Dordrecht’s pedestrianized zone in December 2018, World of Hearing has significantly expanded its share of the private market (i.e. the market for devices not covered by health insurers) within a matter of months; it has also attracted a clientele that is around five years younger on average. Given this success, Sonova is planning to roll out the concept internationally, and further World of Hearing specialist audiology stores are set to open in other countries in the coming years starting in 2020.

The new store’s successful design, with its focus on interactive experiences combined with innovative products and services has also convinced customer Willem van Gent: “After just a few minutes with the Phonak Marvel, I knew I couldn’t bear to be without the device anymore.”

Strategy and businesses

Cochlear Implants business

Advanced Bionics cochlear implants bring the world of sound to those with the most significant hearing loss.

A 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.

Advanced Bionics has a presence in 85 countries and employs more than 900 people across the business in R&D, manufacturing and distribution, and also in the many roles that support consumers throughout their hearing journey. Choosing a cochlear implant is a major life decision, so we work closely with potential recipients and their families, with audiologists, with surgeons and clinics, explaining what our technology can offer, listening to their hopes and concerns, providing support, and planning further innovation.

As with all of Sonova's work, our goal at Advanced Bionics is to provide the best possible hearing performance and consumer experience, and we benefit from in-depth collaboration with the other businesses. Phonak technology lets us offer the sophisticated sound processing and connectivity that sets Sonova's hearing aids apart. The Audiological Care network of stores and clinics, along with the Hearing Instruments wholesale business, let us establish relationships with consumers at the point of need, when their hearing loss has advanced beyond the point where hearing aids can address the loss. And because the cochlear implant processor incorporates the same sound processing as our Phonak hearing aids, these consumers do not have to re-learn the "sound of sound." This joined-up approach means that no-one with severe to profound hearing loss needs to miss out. Consumers and audiologists know that Sonova is there for the whole journey.

Our prime concerns at Advanced Bionics are the safety and hearing experience of our recipients, and the reliability of our products. It is in this spirit that we retrieved from the market in February 2020 the un-implanted initial version of our HiRes™ Ultra and Ultra 3D cochlear implants. The vast majority of these devices function correctly, but we took this step in an abundance of caution, having observed an increase in reports of reduced hearing performance. Most importantly, there have been zero reported safety events relative to this issue with these devices. The initial version of the HiRes™ Ultra 3D implant has been superseded by a new version, which includes several improvements to support consistently good hearing performance.

Key areas of activity

Innovation

The launch last year of Advanced Bionics' HiRes™ Ultra 3D implant addressed a key issue with cochlear implants: what to do when getting an MRI (magnetic resonance imaging) scan. These scans are increasingly required for health reasons, but they can cause pain and anxiety for people with cochlear implants because their strong magnetic fields exert force on the magnet in the implant. Before last year, the choice for most cochlear implant recipients was complex head positioning and bandaging in place to try to minimize the misalignment of the magnet, or even surgically removing the magnet before the scan, depriving the patient of hearing for a time. With HiRes™ Ultra 3D, the magnet array is free to rotate in three dimensions and self-align with the scanner's field, preventing any discomfort. This has been a key factor for recipients and their surgeons in the choice of implant, and will be even more so in the future, as there is increasing scrutiny surrounding claims of MRI compatibility by the US Food and Drug Administration. Advanced Bionics is well placed to meet the requirements of more stringent definitions of this claim.

HiRes™ Ultra 3D implant

In July 2019, Advanced Bionics launched a first in its field: AIM™ (Active Insertion Monitoring), a tablet-based solution that monitors the electrical signals produced by the cochlea in response to acoustic stimuli during implant surgery. It provides surgeons with invaluable insight into how their electrode insertion technique could affect the fine structures within the cochlea, much in the same way that proximity sensors allow us to park a car in a tight space without scratching the paint. Our hope is that less cochlear damage during surgery will correlate to better hearing performance. AIM is objective enough to provide reliable insight, convenient enough to be used in the operating room, and responsive enough to allow reaction in real time without compromising the pace of surgery. Moreover, AIM's speed and objectivity promise to give audiologists a quick and reliable way to gather cochlear implant performance data in a shop environment, bridging the information gap between the retail hearing aid provider and the cochlear implant clinic.

AIM™ (Active Insertion Monitoring) tablet

Market and consumer access

The ten years since Advanced Bionics joined Sonova have combined a drive for innovation with a push to expand sales and geographical coverage. We have greatly increased our investment in clinical trials and research, reinforcing our reputation with key opinion leaders in all major geographical regions. We maintain a strong online presence to connect with current and potential recipients through information, advice, support groups and online communities – particularly important in times like the current COVID-19 pandemic, when recipients can feel isolated from the formal healthcare system.

As part of our collaboration with Phonak in establishing a “continuum of hearing care” for people with significant to complete hearing loss, we are working closely with the Audiological Care business and hearing aid retailers to identify potential candidates for cochlear implants. We follow up these leads through a dedicated consumer outreach salesforce, established this year in the US, which we intend to expand in additional markets. Our increased investment in the sales force follows the principles of commercial excellence, supporting our innovative products with a targeted approach that focuses, with the right messages, on high-potential partners, clinics, and markets.

Improvement and optimization

Like Sonova’s other businesses, Advanced Bionics is committed to continuous improvement: in manufacturing efficiency, in sales effectiveness, and in profitability.

We have implemented daily management in our production sites and conduct intensive collaborative problem-solving sessions to identify bottlenecks or inefficiencies. One such session in our processor assembly unit led to a labor productivity improvement of over 40%, with a reduction of more than 30% in inventory held in the work cell. A similar exercise with colleagues from Audiological Care helped to establish a strong lead-generation framework for major European markets and defined the actions to extend this to other high-potential territories.

Continuous improvement raises profitability from both directions, reducing the cost of goods without compromising quality and raising average selling price through targeted sales and marketing. The increased revenue gives us the flexibility to invest further in R&D and commercial excellence, thus accelerating the virtuous cycle.

Cochlear Implants business

Collaboration based on trust

The First Affiliated Hospital of Anhui Medical University is one of China's leading clinics for cochlear implants, and it is here that Dr. Jianxin Qiu has already fitted hundreds of devices manufactured by the Sonova brand Advanced Bionics. The two organizations work closely together, with four Advanced Bionics team members on site to consult with patients and advise the hospital.

Six-year-old Enhui Dai shakes hands with Dr. Jianxin Qiu before cheerfully answering all the physician's questions. Only the sound processor over the girl's right ear betrays the fact that Enhui wears a cochlear implant – she has been receiving regular follow-up care in the four years since Dr. Qiu fitted her with a device made by Sonova brand Advanced Bionics. 56-year-old Qiu, the highly respected doctor who runs the ear, nose and throat clinic at the First Affiliated Hospital of Anhui Medical University in the city of Hefei, is one of China's leading cochlear implant experts. Lina Yuan from the local Advanced Bionics team occasionally attends his consultations. Today, she has brought a stuffed toy dolphin that Enhui immediately clutches to her. She loves music and dancing and, once a week, joins other children with cochlear implants to sing in the "Little Dolphin Choir" founded by Advanced Bionics.

Anhui Medical University in Hefei, China

The well-being of cochlear implant recipients is of central importance to Advanced Bionics, as team member Lina Yuan explains: “We want to know how patients fare after the implants are fitted and we have set up two chat groups to find out. This allows hundreds of implant recipients to compare notes with one another and get in touch with us any time they have questions.” For Dr. Qiu, the joy experienced by cochlear implant-wearers at their new lives full of sounds and previously unheard voices is a constant source of motivation for his work – especially in the case of children. “They are extremely grateful and are always dropping in to see us. I’ve watched so many grow up until they tower over me.” Aftercare for recipients is just as important as the consultations in the run-up to surgery, says Lina Yuan, who holds clinics every day in the hospital. “I meet Dr. Qiu or advise patients who are waiting for their surgery.”

Enhui Dai with Dr. Jianxin Qiu

Dr. Qiu keeps in close touch with his patients and their parents. “At the time, Dr. Qiu told us that Enhui needs formal speech therapy,” recalls Yongqing Dai, the little girl’s father. He signed her up immediately and “she can now speak with complete ease”. You can see how happy it makes him.

Cochlear implants are fitted in about 200 hospitals in China. Dr. Qiu has been an expert in this innovative technology since 2005 and has himself fitted more than 800 implants manufactured by Advanced Bionics alone. Little Enhui wears the waterproof Neptune sound processor. “My child is going to wear this product for her entire life, so we picked the brand Advanced Bionics for her,” says her father.

“70% of cochlear implant recipients in China are children – something like 35,000 babies are born with hearing loss here every year,” explains Fei Liu, Advanced Bionics’ Country Director. Immediately after birth, every baby undergoes a hearing test that is provided free of charge to the parents. If this indicates potential hearing loss, it is followed up with a second test a few months later. “This is why hearing loss is identified in good time for a lot of children in China,” says Fei Liu. Enhui’s parents also found out early that their daughter would be needing a cochlear implant. “Initially, we felt helpless,” remembers Yongqing Dai. “We didn’t know a single child with such a problem.” The family learnt how a cochlear implant works over a series of consultations with the Advanced Bionics team, and then opted for the surgery. Advanced Bionics is strongly in favor of this kind of informative consultation, and Yuan is on site at the hospital every day to dispense advice, consulting regularly with Dr. Qiu.

One such cochlear implant recipient who comprehensively researched the technology and the various service providers before his surgery is Wei Chen. Now 35, he was diagnosed with hearing loss ten years ago. He had worn hearing aids initially, but these had been unable to provide satisfactory levels of hearing. As soon as he found out about cochlear implants, Chen got up to speed. “I chose Advanced Bionics because the sound is especially clear and the system features the most functions,” explains the qualified chef. His sound processor’s transmitter , which is attached to his scalp using a magnet, is easily visible – Wei Chen confidently sports his implant with short-cropped hair.

Chen’s implant was only activated two months ago, but he can already hold a normal conversation. “I had an interview only 18 days after activation and I got the job,” he says proudly – he can still hardly believe it. He can hear every sound around him in the kitchen where he now works, and can tell them all apart. “Before, I always had the feeling that the others were talking about me.” No wonder Wei Chen is happier and more relaxed these days. At home, he can understand his son much better, family conversations are not a problem and, if he feels like unwinding on his own, he listens to music.

In China, a lot of health insurers cover at least part of the costs for cochlear implants, as Fei Liu explains: “It’s at least 70% in Anhui Province.” As many Chinese citizens on low incomes have no health insurance, however, China’s provincial governments are buying implants for the uninsured and distributing them to hospitals. Service providers such as Advanced Bionics can then bid for these public contracts.

“Advanced Bionics’ market share has been constantly growing since it entered the marketplace in 2003,” reports Liu with satisfaction, adding that she had worked very closely with Dr. Qiu from the outset. “When we first started fitting cochlear implants here, there were still no express trains and it took a little while to get to Anhui,” remembers the doctor. “Even back then, Advanced Bionics were always prepared to support us by providing on-site staff.”

Business report

Corporate governance

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

To operate with the agility that our customers demand and offer the working environment that our employees deserve, we need a shared culture and values that define how we work. Sonova has completed a broad-based internal effort, establishing five core values that guide all we do. These shared values and beliefs–including among others, driving innovation, taking accountability and striving for excellence–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, 2020. All relevant documents can be accessed at the corporate governance section of the Sonova website: www.sonova.com/en/regulations-principles. 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, 2020:

	2020	**2019**	**2018**
Market capitalization in CHF million	11,231	12,870	9,917
In % of equity	538%	542%	401%
Share price in CHF	174.40	197.00	151.80

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

Non-listed companies

Note 7.6 to the consolidated financial statements provides a list of the significant companies of the Sonova Group as of March 31, 2020.

Shareholders

Registered shareholders

As of March 31, 2020, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2020	Registered shareholders 31.3.2019
1 – 100	8,340	7,538
101 – 1,000	7,780	8,223
1,001 – 10,000	1,074	1,138
10,001 – 100,000	211	211
100,001 – 1,000,000	37	42
> 1,000,000	7	6
Total registered shareholders	**17,449**	**17,158**

Significant shareholders

The following overview shows the registered shareholdings of significant shareholders as of March 31, 2020. Nominees are registered without voting rights. Significant shareholders may also hold non-registered shares which are reported under “Not registered”:

	2020	2020	2019	2019
	No. of shares	In %	No. of shares	In %
Beda Diethelm[1]	6,667,002	10.35	6,654,759	10.19
Chase Nominees Ltd.[2]	5,390,989	8.37	5,906,307	9.04
Family of Hans-Ueli Rihs[1][3]	3,679,600	5.71	3,704,307	5.67
Nortrust Nominees Ltd.[2]	3,655,897	5.68	3,799,076	5.82
Bank of New York Mellon Nominee[2]	2,635,460	4.09	2,724,420	4.17
Registered shareholders with less than 3% of shares	20,529,302	31.88	21,573,836	33.02
Not registered	21,839,887	33.91	20,968,182	32.10
Total shares	**64,398,137**	**100.00**	**65,330,887**	**100.00**

1) 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 3,679,600 registered shares (corresponding to 5.71% of total Sonova share capital) pursuant to the last disclosure notice. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.

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) 2019/20, please refer to the website of the Disclosure Office of the SIX Swiss Exchange.

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 2019/20 except for article 3: The share capital as stipulated by the previous version of article 3 was reduced according to the resolution of the 2019 Annual General Shareholders’ Meeting (see section capital structure below; the Articles of Association are available here).

Capital structure

Share capital

As of March 31, 2020, the ordinary share capital of Sonova Holding AG was CHF 3,219,906.85 fully paid up and divided into 64,398,137 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, 2020, the company held 1,970,548 treasury shares (965,824 in the previous year).

More information on the share capital can be found in Art. 3 of the Articles of Association available here.

Authorized and conditional capital

Authorized capital

Sonova Holding AG has no authorized capital.

Conditional capital

The 2005 Annual General Shareholders' Meeting (AGM) 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. As of March 31, 2020, the share capital may still be increased by issue of a maximum of 5,322,133 registered shares of which 2,021,013 registered shares can be issued for distribution to key employees of the Sonova Group through an equity participation program and 3,301,120 registered shares can be issued in connection with exercised option and conversion rights which have been granted in relation to debentures or similar bonds of the Company.

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 here.

Options

In FY 2019/20, a total of 208,245 options and Stock Appreciation Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2018/19, the number of options and SARs granted totaled 249,760. As of March 31, 2020, there were 1,118,053 options, performance options and SARs outstanding (compared with 1,260,889 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, 2020, the capital of Sonova Holding AG comprised the following:

	2020	2019
Ordinary capital (in CHF)	3,219,907	3,266,544
Total shares	64,398,137	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 2019/20. Starting in FY 2014/15, Sonova decided to purchase shares on the market to fulfill its obligations under the long-term incentive plans and not to issue shares out of the conditional share capital. The maximum conditional share capital reserved for long-term incentive plans therefore remained unchanged at 2,021,013 shares.

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

The AGM 2019 approved a reduction of the share capital by CHF 46,637.50 through cancellation of 932,750 registered shares. This capital reduction was the result of the share buyback program as further outlined below, in which the Company repurchased 932,750 registered shares between April 1, 2018 and March 31, 2019.

Share buyback program

On August 31, 2018, Sonova announced a new share buyback program that started in October 2018. The program was targeted to buy back shares worth up to CHF 1.5 billion and was planned to run up to 36 months. On March 16, 2020, as a precautionary measure, Sonova announced to suspend the Group's share buyback program to reflect the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19).

The buyback was conducted via a separate trading line on the SIX Swiss Exchange. As of March 31, 2020, Sonova has repurchased a total of 2,775,840 registered shares through this buyback program (equivalent to 4.25% of the share capital at the beginning of the program).

The transactions conducted as part of the share buyback program are available here.

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 here.

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 here.).

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 here).

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 working methods are reflected in the Organizational Rules (available here) and the Board Committee Charters (available here).

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.

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 2019/20 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 here.

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 (including 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 that 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 on 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 here).

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 here, and Art. 6 of the Organizational Regulations, available here.

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 here). 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
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.

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 of Alcon Inc.
- Member of the Board of Directors of Stericycle, Inc.
- Member of the Board of Directors 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.

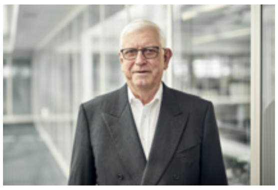
Lukas Braunschweiler brings broad CEO experience from a variety of companies and industries. Having served as CEO of Sonova from 2011 to 2018, he has not only a comprehensive knowledge of Sonova as a company and its business but also a broad experience in the global hearing aid industry.

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 a member 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:

n/a

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 LivaNova, Inc.
- Member of the Board of Directors of PreCardia, Inc.
- Member of the Board of Directors of Contego, Inc.
- Member of the Board of Directors of Cala Health, 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 Chairman of the Audit Committee since 2019. 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

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's 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
- Independent non-executive director of Swire Properties 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 here).

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 here).

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 here). 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 Ronald van der Vis (Chairman), Lynn Dorsey Bleil, and Michael Jacobi.

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 here.

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 here.

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

Working methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held five physical meetings and had four conference calls. 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 physical meetings [1]	**BoD calls**	**AC physical meetings** [2]	**NCC physical meetings** [3]	**NCC calls**
No. of meetings in 2019/20	5	4	4	4	2
Robert F. Spoerry	5	4	4 [4]	4	2
Beat Hess	5	3	–	4	2
Lynn Dorsey Bleil	5	4	4	–	–
Michael Jacobi	5	4	4	–	–
Stacy Enxing Seng	5	3	–	4	2
Anssi Vanjoki	2 [5]	0	1 [5]	–	–
Ronald van der Vis	5	4	4	–	–
Jinlong Wang	5	3	–	–	–
Lukas Braunschweiler	5	4	–		–
Average meeting length	8 h	2 h	3 h	3 h	2 h

1) Board of Directors
2) Audit Committee
3) Nomination and Compensation Committee
4) As guest
5) Resignation from Board of Directors at 2019 Annual General Shareholders' Meeting

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 2019/20 business year, the five meetings of the Board of Directors were attended by the CEO and the CFO. Four conference calls were attended by the CEO and two as well by 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 of the conference calls of the Nomination and Compensation Committee was attended by the Chairman, the CEO, and the Group Vice President Corporate Human Resources, and the other by the Chairman and the CEO.

All four meetings of the Audit Committee were attended by the Chairman, the CEO, the CFO, and the Head of Internal Audit and Risk.

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 here).

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. Among other activities, 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.

Environmental, Social and Governance Management (ESG)

Unvaryingly behavior in environmental, social and governance fields is an integral part into Sonova's core values and continuously overseen by the Board of Directors. The Management Board therefore regularly proposes topics that are related to all three aspects of ESG and monitors their development in line with Sonova's integrated Corporate Responsibility program and provides updates to the Board of Directors. These are subject to consultation and review by the full Board of Directors on at least a yearly basis (see the comprehensive corporate responsibility report). Some of these key topics include diversity, talent management programs, and specific environmental improvement projects. Good governance is supported by a regular dialogue with proxy advisors, and by Sonova's continuously active risk management and our compliance functions.

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

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 Sonova's strategy, 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 recommendation 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 Grevener

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

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

Ludger Althoff

(born 1964, German citizen) joined the Sonova Group in January 2019 as Vice President (VP) Operations and became Group Vice President Operations as of April 1, 2019.

Before joining the company, he was Senior VP Quality and Operations at ABB Power Grids where he held functional responsibility for all factories and engineering centers of the business. Before that, he held various key operation leadership positions within the Danaher Corporation, including the role of VP Global Operations of Danaher's Dental Group and the role of VP Global Operations of Leica Microsystems. Ludger Althoff brings with him over 25 years of international management experience in operations, global sourcing and logistics as well as continuous improvement.

Ludger Althoff completed his education at the City of Mönchengladbach Technical School and was certified Quality Manager (EOQ) by the European Organization for Quality.

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 Jelmoli Holding AG in Zürich.

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

Victoria Carr-Brendel

(born 1964, US citizen) was appointed Group Vice President Cochlear Implants and President of Advanced Bionics in April 1, 2019.

She is an accomplished medical device executive with vast experience across several therapeutic areas, in both 510K and PMA devices. She started her career as a scientist in research and development, and took on increasingly larger business and management roles throughout her career. Before joining Sonova, she worked for JenaValve Technology Inc., a global and innovative transcatheter heart valve company, where she became CEO in mid-2015. Prior to that, she worked at Boston Scientific in roles spanning R&D, project management, franchise general manager/general manager for the neurovascular, electrophysiology, and peripheral interventions divisions, and the Bayer acquisition.

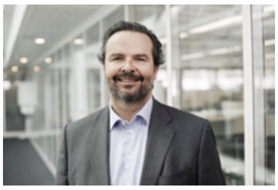
Victoria Carr-Brendel holds a Ph.D. in microbiology and immunology from University of Illinois at Chicago.

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.

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.

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 here.

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 here). 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 here.

Independent Proxy and electronic voting

The Law Office Keller Partnership, Zurich was elected as the Independent Proxy by the 2019 AGM for the period until completion of the 2020 AGM.

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 here).

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, available here).

Inclusion of items on the agenda

According to Art. 12 para. 3 of the Articles of Association (available here) 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 here.

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 Sonova Executive Equity Award Plan (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 2019 AGM, 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. As part of its commitment to good corporate governance, Sonova invited tenders for audit services commencing in the 2020/21 financial year. The current auditor also participated in the tender process since it had always performed its task to Sonova's complete satisfaction. After a carefully conducted review, the Board of Directors decided to follow the Audit Committee's recommendation and proposes the appointment of Ernst & Young as auditor of the statements of the Group and of Sonova Holding AG for the 2020/21 financial year.

Fees

PricewaterhouseCoopers charged the following fees during FY 2019/20 and 2018/19:

1,000 CHF	2019/20	2018/19
Audit services	1,839	1,848
Audit-related services	15	4
Tax services	121	39
Non-audit services	5	9
Total	**1,980**	**1,900**

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 2019/20, 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

For Sonova our people are essential: to succeed in the market and deliver the best products and services, we need to be a strong team working together with, and for, our customers and shareholders. This is why we strive to attract, retain and develop skilled, dedicated, and ambitious colleagues who 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 procedures involved 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 2020 Annual General Shareholders' Meeting (AGM). This report includes COVID-19 related measures on their compensation.

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,

Through almost all the 2019/20 financial year, we continued on our strong growth trajectory from the previous two years. However, as outlined earlier in the shareholders' letter, Sonova's performance was greatly affected during the last month of the financial year by the exceptional circumstances surrounding the COVID-19 pandemic. The Board of Directors and Management Board have therefore reviewed the environment and taken coordinated measures for Sonova to adapt to the rapidly changing situation, care for the people, preserve Sonova's competitiveness, maintain liquidity, and be best positioned for the expected market recovery once conditions improve.

As described in this report, our compensation system is linked to the company's strategy and business results, and aligns with the interests of our shareholders by rewarding performance in the context of the business and the market. While our compensation system has proven very effective over many years, specific short-term adjustments have to be made to ensure continued alignment during the COVID-19 related crisis.

These specific short-term adjustments to the compensation system are described in this letter and throughout the following pages. This compensation report also explains how we in the Nomination and Compensation Committee (NCC) carried out our objectives and responsibilities in the financial year. All efforts of our employees, the Management Board, and the Board of Directors during the financial year have again been focused on achieving our ambitious targets.

Even during the normal course of business, we continuously review our compensation framework, making adaptations when and if deemed appropriate, taking into consideration our ongoing dialogue 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 that 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.

In line with this ongoing review, the NCC thoroughly discussed relevant adaptions to the compensation system as part of normal business and decided on the following key changes:

- Executive Equity Award Plan (EEAP): A restriction period post vesting is introduced for the Management Board to arrive at a total holding period of five years from the date of award for options and performance share units (PSUs) from the 2020 EEAP grant forward.
- Variable Cash Compensation (VCC):
  - The specific target achievement over the 2019/20 period for each Key Performance Indicator (KPI) underlying the VCC is quantified for the first time in this report.
  - To reflect Sonova's corporate social responsibility and sustainable business approach, relevant environmental, social, and governance (ESG) targets for both existing and new business will be more formally reflected in the VCC, once business resumes to normal levels.

We pursue a considered course in compensation adjustments for our Management Board, making changes only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization and would usually only differ in cases such as, for example, a change to a positions responsibilities.

In line with other steps triggered by the COVID-19 related crisis and aimed at preserving our competitiveness, liquidity, and industry position for the expected market recovery, our short-term measures related to compensation include:

- The Chairman of the Board of Directors is ceding his cash retainer (net of social security contributions for the portion delivered in restricted shares) from April 2020 until the 2021 AGM.
- The other members of the Board of Directors are waiving 20 percent of their cash retainer and committee fees for the next term of office, from the 2020 AGM until the 2021 AGM.
- For the Management Board, no salary increases are being applied until later in the 2020/21 financial year.
- The CEO will voluntarily forego 50 percent of his monthly base salary and each of the other Management Board members 20 percent of their monthly base salary from April 2020 until September 2020.
- The Management Board also decided to defer 50 percent of the VCC payout for the 2019/20 financial year to later in the 2020/21 financial year.
- For the 2020/21 financial year, given the need to adapt to an uncertain and rapidly changing economic situation, more dynamic rolling VCC targets will have to be set and firmly governed as circumstances continue to change.
- Additionally, during the 2020/21 financial year, the maximum VCC payout will be capped at 100 percent (versus 200 percent normally) for Management Board members.

The Board of Directors is convinced that the EEAP continues to fulfil its purpose: ensuring long-term value creation for Sonova and alignment of the interests with shareholders. The benefit for the Management Board members will only materialize if the company's performance and share price increase and outperform its peers. However, given the crisis and its uncertainties, and after thorough consideration, the Board of Directors has decided to suspend the ROCE performance hurdle on options for the time being as this metric does not currently represent an accurate reflection of management performance as a result of the outbreak of COVID-19 (force majeure). Moreover, the Management Board will only benefit from the options once the share price increases again, providing for the desired shareholder alignment. No changes other than the suspension of the ROCE performance hurdle are planned for the EEAP.

As announced on January 10, 2020, Adrian Widmer will stand for election to the Board of Directors at the 2020 AGM and it is planned that he will become a member of the Audit Committee. All existing Board members will stand for re-election.

Effective April 1, 2019 and as announced on November 16, 2018, Victoria E. Carr-Brendel took over as Group Vice President (GVP) Cochlear Implants of Sonova and President of Advanced Bionics, and Ludger Althoff took over as GVP Operations.

The NCC continued to perform its regular activities throughout the year, including 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.

As outlined in this compensation report, the total compensation awarded to the members of the Board of Directors for this term of office is well within the limit approved by the 2019 AGM. The compensation awarded to the members of the Management Board is also within the limit approved by the 2018 AGM, even though the VCC achievement is above the previous year, thanks to excellent business performance during the eleven pre-crisis months of the 2019/20 financial year.

At the 2020 AGM, 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 of the maximum aggregate compensation amounts for the Board of Directors for the next term of office and for the Management Board for the 2021/22 financial year.

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.

Yours sincerely,

Robert Spoerry
Chairman of the Nomination
and Compensation Committee

2. Compensation policy and principles

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

Sonova's compensation principles

Pay for performance

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

Market competitiveness

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

Alignment with shareholders' interests

A substantial portion of the compensation of the Board of Directors and the Management Board is delivered in company equity. We also have share ownership guidelines to foster the long-term commitment and alignment of their interests with those of our shareholders.

Alignment with company's values

Compensation incentivizes behaviour that is in line with our high standards of integrity and our values: we care, we drive innovation, we strive for excellence, we take accountability and we build the best team.

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 are determined based on current market practice. Targets for the short-term are normally defined at the beginning of each financial year and assessed at the end.

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 to the VCC.

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 62 years and the average length of service is 9 years. As a general rule, the Board of Directors shall not nominate for re-election a candidate for the Board of Directors who has completed his or her 70th year of age, although in justified individual cases the Board of Directors can make an exception.

Board of Directors competence

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

Board of Directors independence

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.

Only Lukas Braunschweiler, former CEO and member of the Board of Directors since the 2018 AGM, is not considered as independent according to these rules.

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 its members, as part of this governing body, exercise independent control and supervision.

Fees for members of the Board of Directors are structured to be consistent with the principle 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.

The NCC meets as often as business requires but at least three times per year. In the 2019/20 financial year, it held five meetings covering, among others, the following pre-defined recurring agenda items:

Item	May Beginning of the financial year	September	November	February End of the financial year
Compensation policy & process			– Preview of 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 – Review of equal pay considerations
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	– Approval of EEAP holding period introduction for MB	– Approval of ESG criteria for MB VCC for the next financial year – Review of Sonova's succession planning at MB level as covered in the full BoD	– Equity valuation (options and Performance Share Units/PSU) – Target compensation (including the EEAP grant) review for the following financial year
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 evaluation		– Review of 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. There has been greater interaction between the Board of Directors and the NCC, and also the Management Board, in the context of the current COVID-19 related crisis: for example, an additional NCC meeting was held in March 2020 to review the COVID-19 related compensation proposals outlined in this compensation report.

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 2019/20 reporting year, Aon Hewitt was once more tasked with the PSU valuation and performance measurement under the EEAP; Algofin performed the option valuation. Support and expertise are also provided by internal compensation experts such as the GVP HRM and the VP Total Reward.

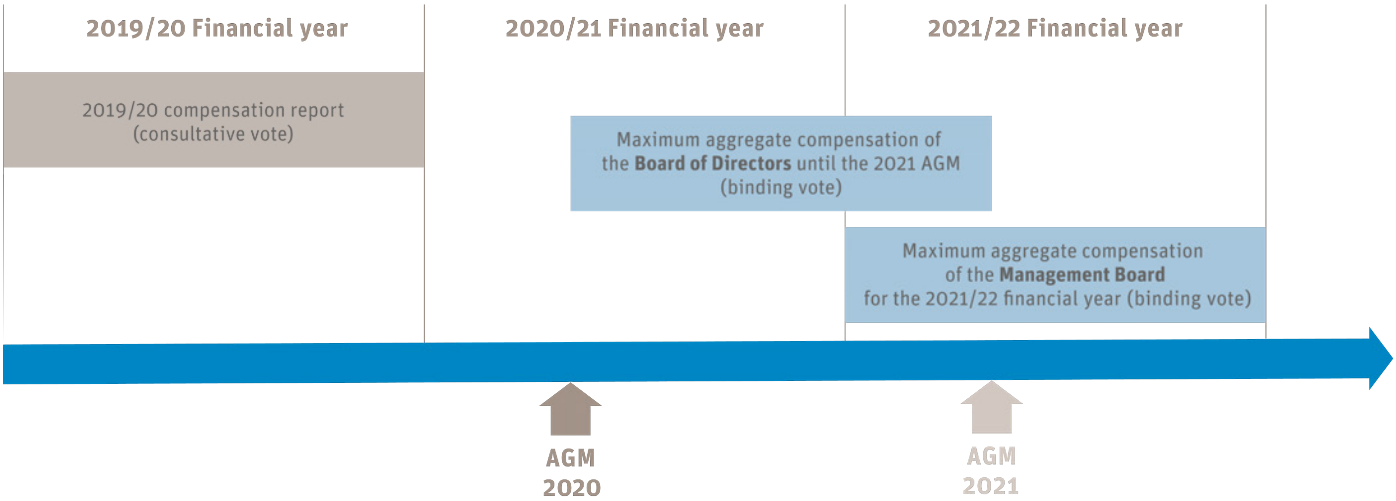
The external advisors had no other mandates during the reporting year.

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 dialogue 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 2020 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 to 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).

Due to the maximum possible VCC payout, the maximum aggregate compensation amount submitted to shareholders' vote is very likely 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 2014 AGM. 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 here.

3.4 Process of determining compensation

Compensation structure and components

The compensation structure and components for the Board of Directors and the Management Board are reviewed periodically to ensure they continue to be aligned with Sonova's strategy as well as with market practice.

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 during the course of the previous reporting year to help determine 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 (incorporating the input of shareholders and proxy advisors) showed that, although the overall fees paid to members of the Board of Directors are in line with the market, a re-alignment in terms of the structure of board retainer and committee fees was needed, which was implemented during this reporting year and reported in the compensation report for the 2018/19 financial year.

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. The peer group of companies considered for the review consisted 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., as described in last year's compensation report.

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 award 7) 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 to ensure proper professional supervision, including international, industry, and subject specific experience.

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 mandated 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; members of the Board of Directors 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) and a travel allowance.

As announced in the compensation report for the 2018/19 financial year, the meeting attendance fee was discontinued during this reporting year and the cash retainer for the Chairman as well as the restricted shares for both the Chairman and the other Board members were reduced. The committee fees were increased in alignment with ever increasing requirements and the market, with the overall change resulting in a decrease of about 9% in the total compensation for the Board of Directors.

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

The table above provides an overview of the normal compensation structure of the Board of Directors.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the current COVID-19 related crisis include the Chairman of the Board of Directors ceding his cash retainer (net of social security contributions for the portion delivered in restricted shares) from April 2020 until the 2021 AGM. Additionally, the other members of the Board of Directors will waive 20 percent of their cash retainer and committee fees for the next term of office, from the 2020 AGM to the 2021 AGM.

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 requirements of 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.

4.3 Management Board compensation system

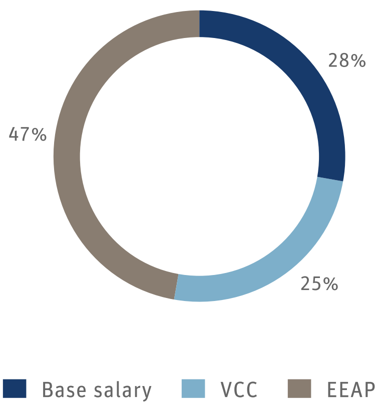
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- 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.

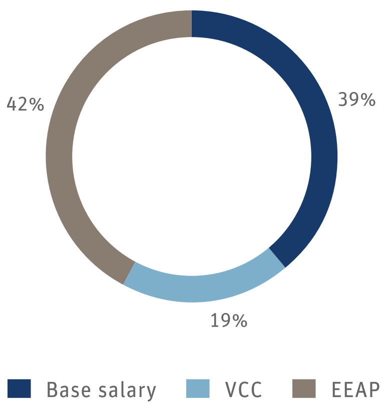
As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company's strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has proven effective over many years; however, certain specific short-term adjustments are being made to ensure continued alignment during the current COVID-19 related crisis. These changes are summarized in the introduction and outlined under each element below.

The charts below illustrate the compensation mix excluding employee benefits at target for the CEO, Arnd Kaldowski, and the Management Board in the 2019/20 financial year:

Compensation mix of the CEO, Arnd Kaldowski



Compensation mix of the other members of the Management Board



The table on the next page provides an overview of the compensation components of the Management Board, with more details on the following pages. The ratio of the VCC and the EEAP as a percentage of the fixed base salary shown in the table on the next page can vary slightly year on year, depending on which component (if any) is adjusted as a result of the compensation review.

Compensation structure 2019/20 financial year

	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: **167%** Range of fixed base salary: **0%–229%**	
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 **130%** Range of fixed base salary: **0%–195%**	

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.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the current COVID-19 related crisis include a freeze on salary increases for the Management Board until later in the 2020/21 financial year. Additionally, the CEO will voluntarily forego 50 percent of his monthly base salary and each of the other Management Board members 20 percent of their monthly base salaries from April 2020 to September 2020.

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 normally 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 can include sales, EBITA, FCF, and EPS. Business unit performance objectives can 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 linked 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 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 six 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)
A – Group objectives					
Sales	20%	10%–20%	0%	100%[1]	200%
EBITA		10%–20%			
FCF	20%	10%–20%			
EPS	40%	0%–20%			
B – Business objectives[2]					
Sales		0%–30%	0%	100%	200%
EBITA		0%–20%			
OPEX		0%–20%			
ASP		0%–10%			
C – 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)

This section and table provides an overview of the normal structure of the VCC.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the current COVID-19 related crisis specify that 50 percent of the VCC payout for the 2019/20 financial year will be deferred to later in the 2020/21 financial year.

During these uncertain times, target setting for the VCC will need to be governed on a rolling basis to reflect rapidly changing market conditions in the 2020/21 financial year. While the KPIs will generally remain the same, the target weightings will reflect the primary focus on liquidity, costs and growth. This includes shifting all weightings for individual targets to financial targets for the time being. Additionally, the maximum VCC payout during the 2020/21 financial year will be capped at 100 percent for Management Board members.

Looking forward, in line with our strategy and to reflect Sonova's corporate social responsibility and sustainable business approach, business relevant ESG targets will be more formally reflected in the VCC, even if not from the start of the 2020/21 financial year. Once business returns to normal, five percent each of the financial and individual targets – that is, 10% of the overall VCC targets for each member of the Management Board – will be linked to specific, tangible ESG related 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

A portion of the EEAP is 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, generally 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 generally 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 generally 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. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation.

There is no provision for over-achievement; the proportion of options that can vest ranges from 0% to 100%.

With the option grant in February 2020 we have implemented an important change, in order to further foster long-term alignment to shareholders. Options are now subject to a five-year holding period from the grant date. During this period, even after the vesting date, options cannot be sold, pledged, assigned, transferred or otherwise disposed of.

Performance Share Units

The other portion of the EEAP is allocated in the form of PSUs: 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 SLI®[1] constituents that remain in the index during a performance period of three years and two months from grant. The slightly shorter performance period provides sufficient time to test for performance and receive approval of the calculation prior to vesting. The SLI® was selected in order to compare Sonova´s performance to companies with a comparable geographic footprint, providing a relevant and challenging benchmark for Sonova's value creation.

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

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

The number of shares allocated for each vested PSU between the 20th and 80th percentile is calculated by linear interpolation. As an additional performance alignment measure, if 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.

As for the options, with the PSU grant in February 2020 we have implemented an important change, in order to further foster long-term alignment to shareholders. PSUs are now subject to a five-year holding period from the grant date. During this period, even after the vesting date, PSUs and underlying shares cannot be sold, pledged, assigned, transferred or otherwise disposed of.

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

Summary of the EEAP instruments

EEAP 2020		
Equity	**Options**	**PSUs**
Grant Date	February 1, 2020	February 1, 2020
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation (Black-Scholes Model for the impact of the holding period)	Based on Monte Carlo Model valuation
Exercise/Strike Price	**CHF 241.80** (Sonova closing SIX share price on February 1, 2020)	n.a.
Vesting Date	25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023 25% vests on June 1, 2024	3 years + 4 months cliff vesting 100% vest 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: 20th percentile TSR (multiple = 0) Target: 50th percentile TSR (multiple = 1.0) Cap: 80th percentile TSR (multiple = 2.0) linear interpolation in between
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)
Holding Period	Five years from the grant date (January 31, 2025)	Five years from the grant date (January 31, 2025)
Exercise Period	After the end of the Holding period until expiry	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2030)	No restriction after vesting

This section and table provides an overview of the normal structure of the EEAP.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to the current COVID-19 related crisis, the Board of Directors is convinced that the EEAP continues to fulfil its purpose of ensuring long-term value creation for Sonova and alignment of the interests with shareholders: The benefit for the Management Board members will only arise if the company performance and share price increases and outperforms peers. However, given the current crisis and its uncertainties, and after thorough consideration, the Board of Directors has decided to suspend the ROCE target for the portion of the EEAP delivered in options for the time being.

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

In the event of termination of employment, unvested awards (options, RSUs, PSUs) are forfeited. Any applicable holding period for grants from 2020 onwards continues to apply, unless specifically provided otherwise below. Vested options can be exercised within a period of three months. Specific exceptions include:

- In case of death or disability, unvested options and RSUs vest immediately and unvested PSUs according to the regular vesting schedule. Any still applicable holding period lapses. 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 holding period, if applicable, continues to apply. The vested options are exercisable for a period of 12 months from the latter of the date of expiry of the holding period or of retirement. 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 on April 1st, 2017 whose date of termination occurs between the grant date in 2018 and/or 2019 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. Any still applicable holding period lapses on an employee’s date of termination. 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 our strategy and thus could create a competitive disadvantage for Sonova.

Therefore, after review and careful consideration during the reporting year, 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 further increase transparency by disclosing target achievements and their respective payouts at the end of the relevant period. For the first time in this report, the specific target achievement for each KPI underlying the VCC is disclosed (see section 5.2 for more information related to the overall quantitative achievements). Similarly, the first PSU target achievement of rTSR occurring in the next reporting year will be disclosed.

As a general rule, on a comparable basis, substantial improvements against the previous year's achievements are required in order to meet the growth targets, in line with the company's ambitious strategic and financial plans and as communicated to the capital market.

However, given the impact of the current COVID-19 related crisis on our business, quarterly VCC targets will have to be set in the 2020/21 financial year and will be linked to the expected significantly reduced business volume.

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 minimum fixed value in shares 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. 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.

We believe that the five-year holding period under the EEAP represents an effective solution to mitigate any impact 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.

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 2019/20 financial year (8 members from the 2019 AGM) and for the 2018/19 financial year (9 members). The total compensation in the 2019/20 financial year was CHF 2.9 million (2018/19: CHF 3.4 million).

Board of Directors compensation

in CHF						2019/20
	Cash retainer (fixed fee)	Expenses[1]	Total cash compensation	Grant value of restricted shares	Total compensation	Employer's social insurance contribution (AHV/ALV)[2]
Robert F. Spoerry[3] Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	476,343	2,500	478,843	372,664	851,506	52,535
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	132,541	4,500	137,041	161,000	298,041	15,713
Lynn Dorsey Bleil Member of the Audit Committee	117,532	4,500	122,032	161,000	283,033	17,757
Lukas Braunschweiler	100,000	4,000	104,000	161,000	265,000	376,364
Stacy Enxing Seng Member of the Nomination and Compensation Committee	117,532	4,500	122,032	161,000	283,033	17,757
Michael Jacobi[4] Member of the Audit Committee	129,058	4,500	133,558	161,000	294,559	15,491
Ronald van der Vis Chairman of the Audit Committee	133,489	4,000	137,489	161,000	298,489	18,856
Jinlong Wang	100,000	4,000	104,000	161,000	265,000	16,515
Total (active members)	**1,306,494**	**32,500**	**1,338,994**	**1,499,667**	**2,838,662**	**530,988**
Anssi Vanjoki[5] Member of the Audit Committee	21,795	3,000	24,795		24,795	1,785
Total (including former members)	**1,328,289**	**35,500**	**1,363,789**	**1,499,667**	**2,863,456**	**532,773**

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

1) Expenses are based on the number of meetings attended by each member of the Board of Directors (attendance fees discontinued from the 2019 AGM forward).

2) Employer social security contributions on the cash retainer, the tax value of income derived from options exercised (former CEO) and restricted shares granted during the financial year.

3) Including NCC and AC work and attendance.

4) Including a compensation of CHF 10,000 for the term of office for extraordinary, supplemental work and contribution during the transition to the new Chairman of the Audit Committee as well as on the hiring process for a new member of the Board of Directors.

5) Member of the Board of Directors until June 2019

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. Spoerry[3] 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 Bleil[4] Member of the Audit Committee	106,000	7,500	113,500	199,910	313,410	19,033
Lukas Braunschweiler[5]	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**	**1,999,101**[6]	**3,414,601**[6]	**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, the tax value of income derived from options exercised (former CEO) and restricted shares granted during the financial year.
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).

Explanatory comments to the compensation tables

The restricted shares were historically disclosed based on their tax value. As outlined in the 2018/19 financial year report, disclosure is now aligned with market practice and based on the grant market value as at the date of allocation. As approved at the 2019 AGM, the total Board of Directors compensation was decreased.

Note that the amounts reported for members of the Board of Directors in the tables do not necessarily correspond to the amounts voted on at the AGM, as the reporting period follows the Sonova financial year, whereas the voting follows the term of office – 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 2019 AGM to the 2020 AGM is expected to be CHF 2.7 million at grant value. The value of the cash retainer ceded by the Chairman of the Board of Directors from April 2020 until the 2020 AGM equals CHF 0.1 million. The total compensation is within the limit of CHF 2.9 million approved by the 2019 AGM.

in CHF 1,000	Approved for AGM 2018 – AGM 2019[1]	Effective for AGM 2018 – AGM 2019[1]	Approved for AGM 2019 – AGM 2020	Expected for AGM 2019 – AGM 2020
AGM approval year		**2018**		**2019**
Total compensation	**3,130**	**2,965**	**2,900**	**2,742**
Breakdown total compensation:				
Fixed fees including meeting attendance[2] and expenses	1,518	1,415	1,363	1,242[3]
Market value of restricted shares	1,612	1,550	1,537	1,500
Number of members of the Board of Directors	**9**	**9**	**8**	**8**

1) Based on the tax value for restricted shares (approach applied for the purposes of the AGM 2018 vote).
2) Meeting attendance fees discontinued from AGM 2019 forward.
3) Reflects initial impact of the COVID-19 related measures outlined in this report.

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

No other compensation was paid to current members of the Board of Directors for additional services beyond the total compensation disclosed in the tables above. No other compensation was paid to former members of the Board of Directors 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 current or former member of the Board of Directors.

No loans were granted by Sonova or any other Group company to current or former members of the Board of Directors in the 2019/20 financial year, and no such loans were outstanding as of March 31, 2020. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of current 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 the Management Board: at the Group level, sales, EBITA, EPS and FCF; and additionally on the business level, ASP and OPEX.

Group sales target was exceeded with 101.0%, despite the COVID-19 related slowdown in March 2020. While the hearing instruments and audiological care business exceeded their growth target, the cochlear implant business was below target, held back by the voluntary field corrective action announced mid-February 2020.

EBITA achievement in the hearing instruments segment did not fully meet target, mainly as a result of the COVID-19 related sales loss as well as adverse currency developments against budgeted rates. The EBITA in the cochlear implant segment was below target, primarily due to lower demand following the voluntary field corrective action, the COVID-19 related sales loss and further impacted by the strengthening of the Swiss Franc.

As a consequence, both adjusted Group EBITA at 95.7% and EPS at 92.7% fell short of the respective target. For the assessment of these targets, the increase in accounts receivable provisions in connection with COVID-19, restructuring costs in the Hearing Instruments segment, the benefits from the Swiss tax reform as well as one-time costs related to the voluntary field corrective action of Advanced Bionics have been excluded. Driven by the strong business performance for most of the financial year and the strong collection of accounts receivables, FCF was with 113.4% significantly ahead of the target.

On average, individual qualitative targets for the management were slightly over-achieved at 109.9%.

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%.

The overall weighted VCC achievement level for the 2019/20 financial year was 105.2% for the CEO (2018/19: 95.5%) and between 75.7%–106.9% (2018/19: 91.7%–100.4%) for the other members of the Management Board; this was driven by the strong business performance for most of the 2019/20 financial year mentioned above. This resulted in an average variable cash payout to Management Board members, including the CEO, of 115.5%, whereas the equivalent average overall payout ratio for the previous year was 89.2%.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to the current COVID-19 related crisis, 50 percent of the VCC payout to members of the Management Board for the 2019/20 financial year will be deferred to later in the 2020/21 financial year. This measure will not impact the target, the achievement, the calculation, the conditions of eligibility, or the payment or total amount to be paid out for the 2019/20 financial year – only the timing of the payout of a portion of the VCC.

The highest total compensation for a member of the Management Board in the 2019/20 financial year was paid to Arnd Kaldowski, CEO.

Two former members of the Management Board stepped down on March 31, 2019. Their roles were taken over by two new members of the Management Board as of April 1, 2019.

The following tables show the compensation of the CEO and of the other members of the Management Board for the 2019/20 financial year (9 members) and for the 2018/19 financial year (9 members).

Management Board compensation

in CHF									2019/20
	Fixed base salary	Variable compensation 1)	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs 2)	Value of options 3)	Total compensation	Employer's social security contribution
Arnd Kaldowski, CEO	900,000	986,560	74,944	109,338	2,070,841	562,500	937,500	3,570,841	110,466
Other members of the MB	3,138,129	2,147,971	356,124	515,913	6,158,137	1,649,000	1,649,000	9,456,137	888,687
Total	**4,038,129**	**3,134,531**	**431,068**	**625,251**	**8,228,978**	**2,211,500**	**2,586,500**	**13,026,978**	**999,153**

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 266.80. 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 to the vesting in June 2023 and the PSUs are blocked after vesting to arrive at the total mandatory holding period of five years from grant date.

3) Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" (including the impact of the holding period based on a "Black-Scholes Model") of CHF 33.34. The options are blocked after vesting to arrive at the total mandatory holding period of five years.

in CHF										2018/19
	Fixed base salary	Variable compensation 1)	Fringe benefits	Employer's pension contribution	Total cash compen-sation	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).

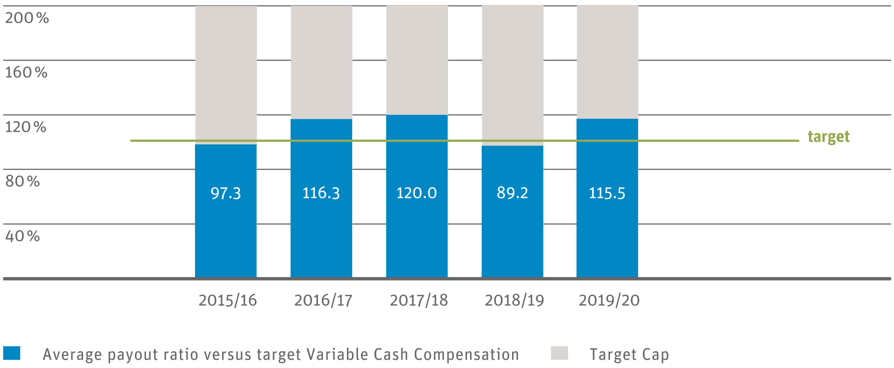
Explanatory comments to the compensation tables:

- The total compensation of CHF 13.0 million for the 2019/20 financial year is above the total of CHF 12.1 million for the previous year.
- The fixed compensation has marginally decreased by 1% compared to the previous year.
- The markedly higher VCC payout due to the strong business performance is outlined under 5.2 above the tables.
- The total EEAP grant value awarded overall increased as a result of a combination of changes in the Management Board, the one-time transitional EEAP RSU award of the previous financial year falling away and selective increases.

As outlined before, our basic principle is that any compensation changes for the Management Board are made only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization, with a primary focus on the variable compensation components, and they can be differentiated in cases such as, for example, a change to a position's responsibilities. They are also aligned with data from executive compensation surveys and published benchmarks from companies of similar size.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to the current COVID-19 related crisis, no salary increases will be given to members of the Management Board until later in the 2020/21 financial year. Additionally and voluntarily, the CEO will forego 50 percent of his base salary and each of the other Management Board members 20 percent of their base salary from April 2020 until September 2020. The VCC payout will be capped at 100% for the 2020/21 financial year.

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 2019/20 financial year was CHF 13.9 million (including contractual compensation for a former member of the Management Board outlined under 5.2.3). This figure is below the maximum aggregate compensation amount of CHF 15.1 million approved at the 2018 AGM for the 2019/20 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 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 2020 AGM.

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

No other compensation was paid to current members of the Management Board beyond the total compensation disclosed in the tables above.

In 2019/20, payments totaling CHF 830,751 were made to one former member of the Management Board. This amount is made up of contractually due compensation for the previous Management Board role as well as company contributions to the pension fund. Company social security contributions in line with applicable laws and insurances amounted to CHF 158,523.

No payments were made to individuals who are closely related to any current or former member of the Management Board.

No loans were granted by Sonova or any other Group company to current or former members of the Management Board in the 2019/20 financial year, and no such loans were outstanding as of March 31, 2020. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of current 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 table shows the equity of the individual members of the Board of Directors and persons closely linked to them.

				31.03.2020				31.03.2019
	Shares	Restricted Shares[1]	RSUs	Options	Shares	Restricted Shares[2]	RSUs	Options
Robert F. Spoerry, Chairman	37,656	15,818			34,446	17,498		
Beat Hess, Vice-Chairman	5,047	6,192			3,438	7,140		
Lynn Dorsey Bleil, Member		4,622				3,961		
Lukas Braunschweiler, Member[3]	22,686	1,757	4,328	123,189	19,862	1,096	7,152	165,577
Stacy Enxing Seng, Member	1,609	6,192				7,140		
Michael Jacobi, Member	2,000	6,192			2,481	7,140		
Ronald van der Vis, Member	1,609	6,192				7,140		
Jinlong Wang, Member	3,214	6,192			1,605	7,140		
Total (active members)	**73,821**	**53,157**	**4,328**	**123,189**	**61,832**	**58,255**	**7,152**	**165,577**
Anssi Vanjoki, Member[4]					5,481	7,140		
Total (including former members)	**73,821**	**53,157**	**4,328**	**123,189**	**67,313**	**65,395**	**7,152**	**165,577**

1) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.
3) New member of the Board of Directors since June 2018.
4) Member of the Board of Directors until June 2019
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.

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.

				31.03.2020				31.03.2019
	Shares[1]	PSUs	RSUs	Options	Shares[1]	PSUs	RSUs	Options
Arnd Kaldowski	6,749	8,514		147,563	6,599	6,406		119,444
Hartwig Grevener	8,324	3,658	1,947	43,201	6,991	2,834	3,280	36,603
Ludger Althoff[2]	550	708	1,056	12,712				
Claudio Bartesaghi	539	2,020	211	18,191[6]	325	1,440	425	13,542[6]
Vicky Carr-Brendel[3]		674	947	11,714				
Claude Diversi	1,000	3,699	1,896	32,141	3,000	2,856	3,080	35,665
Christophe Fond	4,048	3,823	1,541	36,812	0	2,943	1,989	29,764
Martin Grieder	3,033	3,658	1,947	51,734	3,000	2,834	3,280	45,136
Andi Vonlanthen	18,276	3,699	1,947	68,775	16,943	2,856	3,280	70,294
Total (active members)	**42,519**	**30,453**	**11,492**	**442,843**	**36,858**	**22,169**	**15,334**	**350,448**
Hansjürg Emch[4]					7,696	1,854	2,649	57,680
Hans Mehl[5]					3,118	1,854	3,280	28,181
Total (including former members)	**42,519**	**30,453**	**11,492**	**442,843**	**47,672**	**25,877**	**21,263**	**436,309**

1) Shares are dividend entitled with full voting rights.
2) Member of the Management Board since April 1, 2019.
3) Member of the Management Board since April 1, 2019.
4) Member of the Management Board until March 31, 2019.
5) Member of the Management Board until March 31, 2019.
6) 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.

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	1,177,026	118	1.3
Other members of the MB[3]	385,986	200,000	779,786	390	2.0

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 31, 2020.
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.

								31.03.2020
	Options EEAP 20[1]	Options EEAP 19[2]	Options EEAP 18[3]	Options EEAP 17[4]	Options EEAP 16[5]	Options EEAP 15[6]	Options EEAP 14[7]	Total options
Arnd Kaldowski	28,119	32,901	86,543[10]					147,563
Hartwig Grevener	6,598	8,422	10,594	9,711	5,158	2,718		43,201
Ludger Althoff[8]	5,668	7,044						12,712
Claudio Bartesaghi	4,649	4,881	4,984	2,148[11]	1,529			18,191
Vicky Carr-Brendel[9]	5,398	6,316						11,714
Claude Diversi	6,748	8,614	7,946	6,254	2,579			32,141
Christophe Fond	7,048	8,996	10,835	9,933				36,812
Martin Grieder	6,598	8,422	10,594	12,948	7,737	5,435		51,734
Andi Vonlanthen	6,748	8,614	10,594	12,948	10,315	10,869	8,687	68,775
Total	**77,574**	**94,210**	**142,090**	**53,942**	**27,318**	**19,022**	**8,687**	**422,843**

1) Exercise price CHF 241.80, vesting period 1.2.2020–1.6.2024 whereas one tranche being vested each year, end of holding period 31.1.2025, exercise period 1.6.2021–31.1.2030.
2) 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.
3) 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.
4) 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.
5) 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.
6) 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.
7) 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.
8) Member of the Management Board since April 1, 2019.
9) Member of the Management Board since April 1, 2019.
10) 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.
11) SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

								31.3.2019
	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 Grevener	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).

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
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
SARs Stock Appreciation Rights
SLI Swiss Leaders Index
SMIM Swiss Market Index Mid
VCC Variable Cash Compensation

pwc

Report of the statutory auditor on the compensation report

We have audited the remuneration report of Sonova Holding AG for the year ended 31 March 2020. 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 2020 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, 14 May 2020

Enclosure:

- Compensation report

Financial reporting

In the 2019/20 financial year, Sonova achieved sales of CHF 2,916.9 million, an increase of 8.7% in local currencies and 5.6% in Swiss francs. The Group performed well above expectations until the global health and economic crisis resulting from the COVID-19 pandemic severely affected the Group's business activities in the final weeks of the financial year.

Strong organic growth, partly offset in March by COVID-19

In the 2019/20 financial year, Sonova Group reported sales reached CHF 2,916.9 million, an increase of 8.7% in local currencies or 5.6% in Swiss francs. Returns for credit related to the voluntary field corrective action in the Cochlear Implants segment reduced sales by CHF 11.1 million or 0.4%, resulting in adjusted sales of CHF 2,928.0 million, up 9.1% in local currencies or 6.0% in Swiss francs. Adjusted organic growth reached 8.1%, while the net impact of acquisitions and divestments contributed growth of 1.0%. Exchange rate fluctuations had a significant negative impact, reducing growth by 3.1% due to a strengthening of the Swiss franc against most major currencies. In March 2020, most key markets were impacted by significantly lower in-store consumer traffic as a result of restrictions on movement, as well as by reduced cochlear implant surgeries.

Sales by regions

in CHF m	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,544.4	53%	5.8%	1,521.0	55%
USA	877.6	30%	18.0%	746.7	27%
Americas (excl. USA)	220.9	8%	(0.3%)	228.5	8%
Asia/Pacific	274.0	9%	6.7%	267.0	10%
Total sales	**2,916.9**	**100%**	**8.7%**	**2,763.2**	**100%**

Sales driven by strong performance in North America and solid EMEA and APAC development

Europe, Middle East and Africa (EMEA), the Group's largest region, showed a solid increase in sales of 5.8% in local currencies. Sales were driven by improvements in commercial excellence and further supported by the continued success of Phonak Marvel and the introduction of Marvel 2.0 in August 2019. The performance of the Hearing Instruments business was driven by strong growth in France, the Nordics, and in developing markets. The Audiological Care business benefited from targeted growth initiatives across the region. Sales in the Cochlear Implants business were largely driven by upgrade sales. The EMEA share of Group sales decreased from 55% in 2018/19 to 53% in 2019/20.

Sales in the United States increased by 18.0% in local currency, resulting in solid market share gains. Supported by the continued success of the Phonak Marvel platform and investment in the sales team, the Hearing Instruments business achieved a double-digit increase. Other growth drivers included the introduction of Phonak Audéo™ Marvel to the US Department of Veterans Affairs (VA) in May 2019 and a new private label contract with a large US hearing aid retailer. The Cochlear Implants segment started the year strongly supported by the success of the HiRes™ Ultra 3D implant and strong upgrade sales, but slowed down in the second half. The region accounted for 30% of Group sales in 2019/20 versus 27% in the prior year. Sales in the rest of the Americas (excluding the US) were flat in local currencies. Strong growth of our Audiological Care and Cochlear Implants business in Brazil was offset by the discontinuation of distribution of certain non-Sonova products in the country.

Sales in the Asia/Pacific (APAC) region rose by 6.7% in local currencies, driven by double-digit growth in the Hearing Instruments business. Strong growth in Australia, Korea and India were partly offset by the COVID-19 impact on China starting in February and by weaker growth in New Zealand.

Sonova Group key figures

in CHF m unless otherwise specified	2019/20	2018/19	Change in Swiss francs	Change in local currencies
Sales	2,916.9	2,763.2	5.6%	8.7%
Gross profit	2,083.6	1,966.2	6.0%	9.7%
EBITA[1]	554.3	582.5	(4.8%)	1.0%
EBIT[1]	510.0	536.2	(4.9%)	1.2%
Basic earnings per share (CHF)	7.61	6.98	9.0%	16.7%
Operating free cash flow[1]	638.5	411.8	55.1%	
ROCE[1]	18.2%	20.6%		
Sales (adjusted)[1]	2,928.0	2,763.2	6.0%	9.1%
Gross profit (adjusted)[1]	2,106.9	1,975.1	6.7%	10.4%
EBITA (adjusted)[1]	620.8	594.0	4.5%	10.4%
EBITA margin (adjusted)	21.2%	21.5%		
Basic earnings per share (CHF) (adjusted)[1]	7.39	7.11	4.0%	11.6%

[1] For detailed definitions, please refer to "5 year key figures".

Operating margin affected by significant FX headwinds

Reported gross profit reached CHF 2,083.6 million. In addition to the above mentioned returns for credit, this included restructuring costs of CHF 1.5 million related to further improving the operating structure and one-time costs of CHF 10.8 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 8.8 million). Adjusted for these costs, gross profit reached CHF 2,106.9 million, an increase of 10.4% in local currencies and 6.7% in Swiss francs. The adjusted gross profit margin was 72.0%, up from 71.5% in the prior year. The improvement was driven by higher unit volumes and a rise in average sales price (ASP) in the Hearing Instruments business, reflecting the continued positive market response to the Marvel platform as well as operating improvements. This was partly offset by a significant headwind from currency exchange rates and additional costs because of the higher proportion of rechargeable products.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,529.3 million (2018/19: CHF 1,383.7 million). These included restructuring costs of CHF 17.2 million as well as one-time costs of CHF 26.0 million related to Advanced Bionics' voluntary field corrective action (2018/19 restructuring costs: CHF 2.6 million). In the following, we refer to operating expenses adjusted for these items. Adjusted operating expenses before acquisition-related amortization rose by 10.4% in local currencies or by 7.6% in Swiss francs to CHF 1,486.2 million.

Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 163.2 million, outpacing sales growth with an increase of 10.8% in local currencies, underpinning Sonova's ambition to lead innovation in audiological performance and consumer experience. Technology developments in apps, connectivity, reliability, and comfort represented an important share of R&D efforts. R&D spending as a percentage of sales increased to 5.6% (2018/19: 5.4%).

Adjusted sales and marketing costs before acquisition-related amortization were up 9.1% in local currencies to CHF 1,023.8 million. The increase reflects continued investment in strengthening Audiological Care's store network and lead generation capabilities, as well as expanding the customer-facing sales force of the Hearing Instruments and Cochlear Implants businesses to increase coverage and improve commercial execution.

Adjusted general and administrative costs increased by 13.5% in local currencies to CHF 299.3 million, representing 10.2% of sales, up from 9.7% in the prior year. This includes an increase in the allowance for doubtful receivables of CHF 20.3 million, largely reflecting a higher customer default risk related to the COVID-19 pandemic. The remaining increase of 5.6% in local currencies includes investment in a new integrated IT platform for the Audiological Care business and provisions for contract obligations to health insurance providers in the first half of the financial year.

Adjusted other income for the current period was CHF 0.1 million. This compares to CHF 4.4 million in the prior year, which was mainly related to a release of provisions for cochlear implant product liabilities.

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 620.8 million (2018/19: CHF 594.0 million), an increase of 10.4% in local currencies or 4.5% in Swiss francs. The adjusted EBITA margin was 21.2% (2018/19: 21.5%). A solid underlying margin development was more than offset by significant currency headwinds and the increase in the allowance for doubtful receivables related to the COVID-19 pandemic, which together reduced the adjusted EBITA margin by 1.2 percentage points. The reported EBITA increased by 1.0% in local currencies but declined by 4.8% in Swiss francs to CHF 554.3 million, corresponding to a margin of 19.0%. Acquisition-related amortization amounted to CHF 44.4 million (2018/19: CHF 46.3 million). Reported operating profit (EBIT) reached CHF 510.0 million (2018/19: CHF 536.2 million), down 4.9% in Swiss francs.

Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 6.6 million to CHF 7.6 million. As a result of the Swiss tax reform, income taxes were affected positively by CHF 64.1 million, reflecting a revaluation of the Swiss deferred tax positions and a resulting one-time deferred tax income. Excluding this one-time transition impact, the tax rate was 15.3% (2018/19: 13.1%). Income after taxes was CHF 489.5 million (2018/19: CHF 460.2 million). Basic earnings per share (EPS) reached CHF 7.61 (2018/19: CHF 6.98), an increase of 9.0% from the prior year. The adjusted EPS increased 11.6% in local currencies or 4.0% in Swiss francs to CHF 7.39.

Headcount

At the end of March 2020, the Group's total workforce was 15,184 full-time equivalents. This represents a rise of 444 or 3%, well below the local currency sales growth of 8.7%. This was largely driven by increases in R&D and in customer-facing staff in the Audiological Care and Hearing Instruments businesses. Despite a significant growth in volumes, employee numbers in manufacturing were largely unchanged, benefitting from efficiencies and the optimization initiatives announced in March and November 2019. Sonova continues to make progress in its drive to concentrate new hiring in lower-cost locations.

Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment grew by 9.6% in local currencies and 6.4% in Swiss francs to CHF 2,686.2 million. Organic growth was 8.5%, while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) was 1.2%. Prior year disposals reduced growth by 0.1%. Exchange rate fluctuations reduced growth by 3.2% in Swiss francs. As a result of restrictions on movement imposed in March in most major markets in response to the COVID-19 pandemic, audiology stores – both our own and third-party owned – were temporarily closed or operating with reduced hours, representing a significant headwind in the final weeks of 2019/20.

The Hearing Instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own Audiological Care business, maintained its strong momentum: Sales reached CHF 1,613.0 million, an increase of 11.8% in local currencies, driven by growth in both the number of units sold and ASPs. Strong double-digit growth in the US led to market share gains in all channels including a strong rebound in Sonova's share of business with the US Department of Veterans Affairs (VA). Further contributions came from a new private label contract with a large US hearing aid retailer and increased coverage by managed care. Strong growth in Australia was a further highlight, while growth in Germany was hampered by a temporary decline due to replacement of consignment inventory with loaner products.

The Audiological Care business increased sales by 6.5% in local currencies to CHF 1,073.2 million; the increase was driven by organic growth of 4.0%, supplemented by bolt-on acquisitions accounting for 2.9% of growth; prior-year disposals reduced growth by 0.3%. Most key markets – including the UK, the Netherlands, the Nordics, France, Italy, Brazil, Poland and Austria – achieved above-market growth rates. Improved in-store sales conversion and increasingly centralized lead generation management continued to drive sales. The positive market response to Phonak Marvel also supported growth and helped to increase Phonak's consumer brand awareness.

Sales by business – Hearing Instruments segment

in CHF m	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	1,613.0	60%	11.8%	1,474.7	58%
Audiological Care business	1,073.2	40%	6.5%	1,050.1	42%
Total Hearing Instruments segment	**2,686.2**	**100%**	**9.6%**	**2,524.8**	**100%**

Reported EBITA for the Hearing Instruments segment amounted to CHF 601.6 million, up 12.5% in local currencies. The structural cost initiatives announced in March and November 2019 progressed according to plan and yielded year-on-year cost improvements of over CHF 10 million with additional savings expected in financial year 2020/21. Restructuring costs related to these initiatives amounted to of CHF 18.6 million (2018/19: CHF 11.5 million). Excluding these restructuring costs, the adjusted EBITA increased by 13.5% in local currencies to CHF 620.3 million, corresponding to an EBITA margin of 23.1% (2018/19: 22.8%).

Cochlear Implants segment – Flat system sales from COVID-19 and voluntary field action, strong upgrade sales

The Cochlear Implants business achieved sales of CHF 230.7 million versus CHF 238.4 in the prior year. This includes returns for credit of CHF 11.1 million in conjunction with the voluntary field corrective action announced in February 2020, which involved the retrieval of un-implanted devices from the initial version of the HiRes Ultra and Ultra 3D cochlear implants. Excluding this, adjusted sales reached CHF 241.8 million, up 3.4% in local currencies and 1.4% in Swiss francs. A strong performance through most of 2019/20 was offset toward the year-end by lower demand related to the postponement of non-essential surgeries in countries affected by COVID-19, as well as by lower demand following the voluntary field corrective action. As a result, system sales were essentially flat for the year in local currencies. Double-digit growth in upgrade revenues was driven by strong momentum in the US and in Germany.

Sales by product groups – Cochlear Implants segment (adjusted)[1)]

in CHF m	2019/20			2018/19	
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	175.0	72%	(0.4%)	178.9	75%
Upgrades and accessories	66.8	28%	14.8%	59.5	25%
Total Cochlear Implants segment	**241.8**	**100%**	**3.4%**	**238.4**	**100%**

1) In 2019/20, excluding impacts from returns for credit related to the voluntary field corrective action of CHF 11.1 million.

The reported EBITA loss of CHF 46.2 million includes returns for credit of CHF 11.1 million as well as one-time costs of CHF 36.7 million, both related to the voluntary field corrective action. Excluding these items, the adjusted EBITA for the year was CHF 1.6 million versus CHF 19.7 million in the prior year, resulting in a margin of 0.7% (2018/19: 8.2%). A solid performance in the first half of the year, driven by higher volume, operational efficiency improvements and higher ASPs on upgrades and systems, was offset by a sharp decline in adjusted sales toward the year-end.

Strong growth in cash flow

Cash flow from operating activities was CHF 843.3 million, compared to CHF 533.2 million in the prior year. Growth was largely driven by improvements in working capital changes of CHF 194.7 million, in large part from better receivables collections. In addition, the adoption of IFRS 16 resulted in a positive one-time effect of CHF 68.3 million with a corresponding offset in the cash outflow from financing activities. Net investments in tangible and intangible assets increased to CHF 127.7 million from CHF 117.3 million in the prior year, mainly as a result of investments in IT systems and store improvements in the Audiological Care business.

Operating free cash flow, including payments for lease liabilities of CHF 68.3 million, reached CHF 638.5 million, up by 55.1% over the prior year and resulting in a strong cash conversion of 103%. Cash consideration for acquisitions net of disposals amounted to CHF 74.8 million, up from 64.9 million in the prior year. In summary, this resulted in a free cash flow of CHF 563.7 million, up by 62.5% over the prior year.

Cash outflow from financing activities was CHF 550.4 million, compared to CHF 522.1 million in the prior year. This largely reflects net share repurchases of CHF 470.1 million, mainly related to the share buyback program prior to its suspension in February. Cash outflow from financing also includes dividend payments of CHF 186.5 million and CHF 68.3 million for leases, based on IFRS 16, which was adopted for the first time this fiscal year.

Balance sheet remains strong

Reported net working capital was negative at CHF –18.9 million, compared to CHF 163.0 million at the end of the prior year. This is due to a CHF 138.5 million reduction in accounts receivables, stemming both from improved collection throughout the year, including during the slowdown in March, and from lower sales towards the end of the year. Despite significant sales growth, inventories were reduced by CHF 16.6 million year-on-year through better inventory management. Capital employed was CHF 2,692.5 million, a slight increase from CHF 2,630.0 million in the prior year. An increase from the adoption of IFRS 16 and a one-time capitalization of deferred tax assets as a result of the Swiss tax reform was largely offset by the impact of the strength of the Swiss franc on assets held in foreign currencies.

The Group's equity position amounted to CHF 2,029.4 million, down from CHF 2,376.1 million in the previous year, partly as a result of the share buyback program (which was paused on March 16, 2020 to avoid cash outflow during the COVID-19 crisis); the result was an equity ratio of 45.2%. The net debt position stood at CHF 663.0 million, compared to CHF 253.9 million at the end of the prior year. This increase was expected as a result of the share buyback and was in line with a previously announced debt leverage target. The return on capital employed (ROCE) decreased to 18.2% from 20.6% in the prior year, primarily driven by the adoption of IFRS 16 and further impacted by the strength of the Swiss Franc.

Dividend proposal

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. The required number of Sonova shares would be sourced from shares bought back under the recent share buyback program, which have not yet been canceled. Each shareholder would be entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash. This represents a further measure to ensure a good liquidity level for Sonova and an attractive alternative for our shareholders during these challenging times.

Outlook

Global uncertainty about the development of the COVID-19 pandemic prevents accurate guidance for the 2020/21 financial year. However, the attractive fundamentals of the hearing care market remain very much intact and the Group is confident that the market will rebound following these temporary challenges. Sonova is well prepared to master these difficult times and expects that the Group will continue to grow faster than the market and will further expand its strong competitive position.

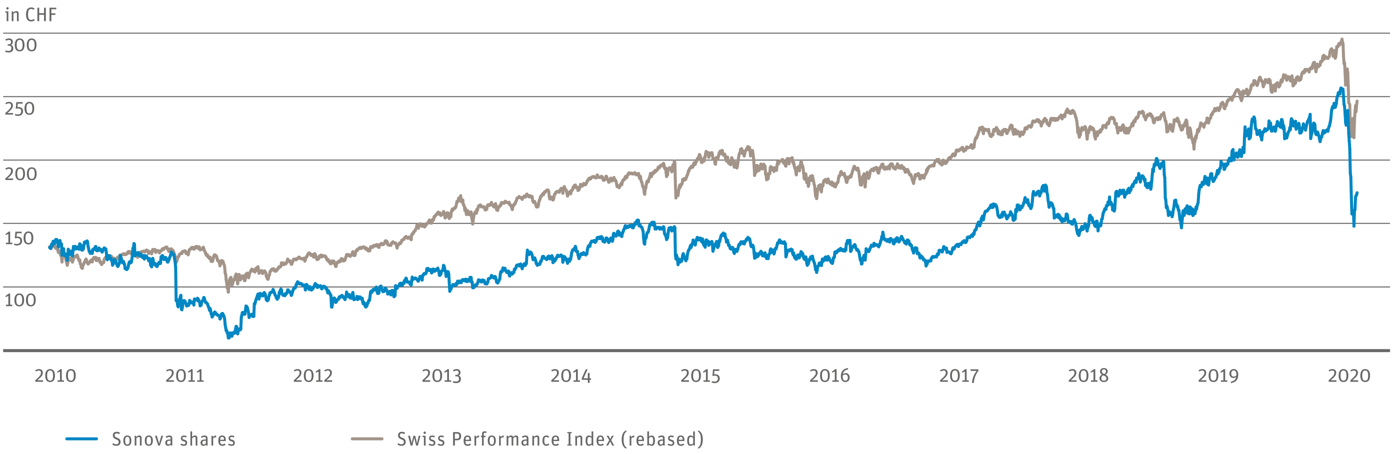
Reconciliation of non-GAAP financial measures

April 1 to March 31, CHF million					2019/20
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Adjustments[3]	**Income statement adjusted**
Sales	**2,916.9**		**2,916.9**	**11.1**	**2,928.0**
Cost of sales	(833.3)		(833.3)	12.2	(821.1)
Gross profit	**2,083.6**		**2,083.6**	**23.3**	**2,106.9**
Research and development	(167.0)	0.9	(166.1)	2.9	(163.2)
Sales and marketing	(1,074.3)	43.5	(1,030.8)	6.9	(1,023.8)
General and administration	(309.0)		(309.0)	9.7	(299.3)
Other income/(expenses), net	(23.4)		(23.4)	23.6	0.1
Operating profit before acquisition-related amortization (EBITA)[1]			**554.3**	**66.4**	**620.8**
Acquisition-related amortization		(44.4)	(44.4)		(44.4)
Operating profit (EBIT)[2]	**510.0**		**510.0**	**66.4**	**576.4**
Basic earnings per share (CHF)			**7.61**	**(0.22)**	**7.39**

April 1 to March 31, CHF million					2018/19
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Adjustments[3]	**Income statement adjusted**
Sales	**2,763.2**		**2,763.2**		**2,763.2**
Cost of sales	(797.0)		(797.0)	8.8	(788.1)
Gross profit	**1,966.2**		**1,966.2**	**8.8**	**1,975.1**
Research and development	(149.4)	1.0	(148.4)	0.6	(147.8)
Sales and marketing	(1,015.7)	45.4	(970.3)	1.3	(969.1)
General and administration	(269.3)		(269.3)	0.8	(268.6)
Other income/(expenses), net	4.4		4.4		4.4
Operating profit before acquisition-related amortization (EBITA)[1]			**582.5**	**11.5**	**594.0**
Acquisition-related amortization		(46.3)	(46.3)		(46.3)
Operating profit (EBIT)[2]	**536.2**		**536.2**	**11.5**	**547.7**
Basic earnings per share (CHF)	**6.98**		**6.98**	**0.13**	**7.11**

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).
3) In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 47.8 million and restructuring costs in the Hearing Instruments segment of CHF 18.6 million (2018/19: CHF 11.5 million).

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



Share price performance history[1)]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	33.1%	28.9%	25.6%	14.9%	-11.5%
Swiss Performance Index (SPI)[2)]	88.4%	23.9%	17.4%	11.1%	0.7%
Sonova shares relative to the SPI	-55.3%	+5.0%	+8.1%	+3.8%	-12.2%

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2019/20 financial year.
2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 year key figures

April 1 to March 31, in CHF million unless otherwise specified	2019/20	2018/19	2017/18	2016/17	2015/16
Sales	**2,916.9**	**2,763.2**	**2,645.9**	**2,395.7**	**2,071.9**
change compared to previous year (%)	5.6	4.4	10.4	15.6	1.8
Sales (adjusted)[1]	**2,928.0**	**2,763.2**	**2,645.9**	**2,395.7**	**2,071.9**
change compared to previous year (%)	6.0	4.4	10.4	15.6	1.8
Gross profit	**2,083.6**	**1,966.2**	**1,868.2**	**1,651.8**	**1,375.5**
in % of sales	71.4	71.2	70.6	68.9	66.4
Gross profit (adjusted)[2]	**2,106.9**	**1,975.1**	**1,868.2**	**1,651.8**	**1,375.5**
in % of sales (adjusted)	72.0	71.5	70.6	68.9	66.4
Research & development costs	**166.1**	**148.4**	**142.9**	**137.1**	**130.3**
in % of sales	5.7	5.4	5.4	5.7	6.3
Sales & marketing costs	**1,030.8**	**970.3**	**934.5**	**815.0**	**638.2**
in % of sales	35.3	35.1	35.3	34.0	30.8
Operating profit before acquisition-related amortization (EBITA)	**554.3**	**582.5**	**532.5**	**463.0**	**430.6**
in % of sales	19.0	21.1	20.1	19.3	20.8
Operating profit before acquisition-related amortization (EBITA) (adjusted)[3]	**620.8**	**594.0**	**551.6**	**481.4**	**430.6**
in % of sales (adjusted)	21.2	21.5	20.8	20.1	20.8
Operating profit (EBIT)	**510.0**	**536.2**	**483.0**	**423.7**	**403.4**
in % of sales	17.5	19.4	18.3	17.7	19.5
Income after taxes[4]	**489.5**	**460.2**	**407.4**	**356.2**	**345.8**
in % of sales	16.8	16.7	15.4	14.9	16.7
Income after taxes (adjusted)[4]	**475.5**	**468.5**	**422.7**	**371.5**	**345.8**
in % of sales (adjusted)	16.2	17.0	16.0	15.5	16.7
Basic earnings per share (CHF)[4]	**7.61**	**6.98**	**6.13**	**5.35**	**5.11**
Basic earnings per share (CHF) (adjusted)[4]	**7.39**	**7.11**	**6.36**	**5.58**	**5.11**
Dividend/distribution per share (CHF)	**Stock Div.**[5]	**2.90**	**2.60**	**2.30**	**2.10**

1) In 2019/20, excluding impacts from returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 11.1 million.

2) In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 21.8 million and restructuring costs in the Hearing Instruments segment of CHF 1.5 million (2018/19: CHF 8.8 million).

3) In 2019/20, excluding one-time costs and returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 47.8 million and restructuring costs in the Hearing Instruments segment of CHF 18.6 million (2018/19: CHF 11.5 million). In 2017/18 (CHF 19.2 million) and 2016/17 (CHF 18.4 million) consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

4) In 2019/20, reported income after taxes and reported basic earnings per share consider one-time positive transition impacts of the Swiss tax reform of CHF 64.1 million (2018/19: none) and negative impacts of the one-time costs and impacts from returns for credit related to the voluntary field corrective action in the Cochlear Implants segment of CHF 36.5 million and from restructuring costs in the Hearing Instruments segment (incl. tax impact) of CHF 13.7 million (2018/19: CHF 8.3 million), which have been excluded in adjusted income after taxes and adjusted basic earnings per share. In 2017/18 and 2016/17 adjusted for transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.

5) Stock dividend proposal to the Annual General Shareholders' Meeting of June 11, 2020.

April 1 to March 31, in CHF million unless otherwise specified	2019/20	2018/19	2017/18	2016/17	2015/16
Net cash/(debt)[6)]	**(663.0)**	**(253.9)**	**(228.0)**	**(404.6)**	**298.3**
Net working capital[7)]	(18.9)	163.0	190.5	169.7	185.5
Capital expenditure (tangible and intangible assets)[8)]	128.8	117.9	96.3	97.1	83.1
Capital employed[9)]	2,692.5	2,630.0	2,702.9	2,535.9	1,608.0
Total assets	4,486.5	4,292.5	4,302.0	3,935.7	2,751.6
Equity	2,029.4	2,376.1	2,474.9	2,131.3	1,906.3
Equity financing ratio (%)[10)]	45.2	55.4	57.5	54.2	69.3
Free cash flow[11)]	563.7	346.9	360.0	(232.6)	252.6
Operating free cash flow[12)]	**638.5**	**411.8**	**419.2**	**424.8**	**344.2**
Return on capital employed (%)[13)]	**18.2**	**20.6**	**18.4**	**20.4**	**26.0**
Number of employees (end of period)	**15,184**	**14,740**	**14,242**	**14,089**	**10,894**

6) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.

7) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.

8) Excluding goodwill and intangibles relating to acquisitions.

9) Equity – net cash/(debt).

10) Equity in % of total assets.

11) Cash flow from operating activities + cash flow from investing activities + payments for lease liabilities.

12) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.

13) EBIT in % of capital employed (average). IFRS 16 opening adjustment on April 1, 2019 has been considered in average capital employed.

Consolidated financial statements

Consolidated income statements

April 1 to March 31, in CHF million	Notes	2019/20	2018/19
Sales	2.2,2.3	**2,916.9**	**2,763.2**
Cost of sales		(833.3)	(797.0)
Gross profit		**2,083.6**	**1,966.2**
Research and development[1)]		(167.0)	(149.4)
Sales and marketing[1)]		(1,074.3)	(1,015.7)
General and administration		(309.0)	(269.3)
Other income/(expenses), net	2.4	(23.4)	4.4
Operating profit (EBIT)[2)]		**510.0**	**536.2**
Financial income	4.2	2.9	3.4
Financial expenses	4.2	(12.9)	(12.1)
Share of profit/(loss) in associates/joint ventures, net	6.2	2.4	2.1
Income before taxes		**502.4**	**529.6**
Income taxes	5.1	(12.9)	(69.4)
Income after taxes		**489.5**	**460.2**
Attributable to:			
Equity holders of the parent		483.2	454.1
Non-controlling interests		6.3	6.1
Basic earnings per share (CHF)	2.5	7.61	6.98
Diluted earnings per share (CHF)	2.5	7.57	6.95

1) Includes acquisition-related amortization of CHF 0.9 million (previous year: CHF 1.0 million) in “Research and development” and CHF 43.5 million (previous year: CHF 45.4 million) in “Sales and marketing”. EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) amounts to CHF 554.3 million (previous year: CHF 582.5 million). Refer to Note 2.1

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

Consolidated statements of comprehensive income

April 1 to March 31, in CHF million	Notes	2019/20	2018/19
Income after taxes		**489.5**	**460.2**
Other comprehensive income			
Actuarial (loss)/gain from defined benefit plans, net	7.3	(45.1)	(16.9)
Tax effect on actuarial result from defined benefit plans, net		4.9	2.3
Fair value adjustment of financial liabilities at fair value through other comprehensive income (FVOCI)		4.8	
Total items not to be reclassified to income statement in subsequent periods		**(35.3)**	**(14.6)**
Currency translation differences		(145.4)	(58.0)
Tax effect on currency translation items		3.7	1.3
Total items to be reclassified to income statement in subsequent periods		**(141.7)**	**(56.7)**
Other comprehensive income, net of tax		**(177.0)**	**(71.3)**
Total comprehensive income		**312.5**	**388.9**
Attributable to:			
Equity holders of the parent		308.0	383.6
Non-controlling interests		4.5	5.3

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

Consolidated balance sheets

Assets CHF million	**Notes**	**31.3.2020**	**31.3.2019**
Cash and cash equivalents	4.1	450.2	374.8
Other current financial assets	4.4	7.7	11.0
Trade receivables	3.1	382.1	520.6
Current income tax receivables		13.6	9.2
Inventories	3.2	265.4	282.1
Other current operating assets	3.6	101.9	114.3
Total current assets		**1,221.1**	**1,311.9**
Property, plant and equipment	3.3	332.8	324.9
Right-of-use assets[1]	3.4	260.6	
Intangible assets	3.5	2,420.2	2,463.2
Investments in associates/joint ventures	6.2	17.4	12.8
Other non-current financial assets	4.4	30.0	29.0
Other non-current operating assets	3.6	6.4	6.5
Deferred tax assets[2]	5.1	198.0	144.2
Total non-current assets		**3,265.4**	**2,980.6**
Total assets		**4,486.5**	**4,292.5**

Liabilities and equity CHF million	**Notes**	**31.3.2020**	**31.3.2019**
Current financial liabilities	4.5	254.9	256.4
Current lease liabilities[1]	3.4	61.2	
Trade payables		104.3	102.8
Current income tax liabilities		154.8	139.2
Short-term contract liabilities	2.3	105.6	106.5
Other short-term operating liabilities	3.8	297.5	296.0
Short-term provisions[1]	3.7	125.2	129.2
Total current liabilities		**1,103.4**	**1,030.1**
Non-current financial liabilities	4.5	591.8	372.6
Non-current lease liabilities[1]	3.4	207.8	
Long-term provisions[1]	3.7	143.4	122.9
Long-term contract liabilities	2.3	212.8	226.1
Other long-term operating liabilities	3.8	73.5	26.0
Deferred tax liabilities	5.1	124.5	138.6
Total non-current liabilities		**1,353.7**	**886.3**
Total liabilities		**2,457.1**	**1,916.3**
Share capital	4.6	3.2	3.3
Treasury shares		(447.5)	(166.9)
Retained earnings and reserves		2,455.5	2,517.5
Equity attributable to equity holders of the parent		**2,011.2**	**2,353.8**
Non-controlling interests		18.2	22.3
Equity		**2,029.4**	**2,376.1**
Total liabilities and equity		**4,486.5**	**4,292.5**

1) Impacted by the implementation of IFRS 16 "Leases", for further information refer to Note 3.4 and 7.8.

2) In 2019/20, including one-time positive transition impacts of the Swiss tax reform of CHF 60.5 million. Excluding these effects, deferred tax assets amount to CHF 137.5 million.

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

Consolidated cash flow statements

April 1 to March 31, in CHF million	Notes		2019/20		2018/19
Income before taxes			**502.4**		**529.6**
Depreciation and amortization of tangible and intangible assets and right-of-use assets[1]	**3.3,3.4,3.5**	200.1		127.6	
Loss on sale of tangible and intangible assets, net		1.3		0.4	
Share of gain in associates/joint ventures, net	**6.2**	(2.4)		(2.1)	
Increase/(decrease) in long-term provisions and long-term contract liabilities[1]		22.2		(16.3)	
Financial (income)/expense, net[1]	**4.2**	10.0		8.7	
Share based payments		19.9		19.3	
Other non-cash items		5.4		(19.4)	
Income taxes paid		(60.1)	196.5	(64.4)	53.8
Cash flow before changes in net working capital			**698.9**		**583.5**
Decrease/(increase) in trade receivables		112.4		(84.5)	
Decrease/(increase in other receivables and prepaid expenses		2.9		(20.7)	
Decrease/(increase) in inventories		9.2		(15.2)	
Increase in trade payables		4.8		12.2	
Increase in other payables, accruals, short-term provisions and short-term contract liabilities		15.2	144.4	57.9	(50.3)
Cash flow from operating activities			**843.3**		**533.2**
Purchase of tangible and intangible assets	**3.3,3.5**	(128.8)		(117.9)	
Proceeds from sale of tangible and intangible assets		1.1		0.6	
Cash consideration for acquisitions, net of cash acquired	**6.1**	(74.8)		(66.4)	
Cash consideration from divestments, net of cash divested	**6.1**			1.5	
Changes in other financial assets		(10.9)		(5.2)	
Interest received		2.1		1.1	
Cash flow from investing activities			**(211.3)**		**(186.3)**
Proceeds from borrowings	**4.5**	433.8			
Repayment of borrowings	**4.5**	(249.8)		(150.6)	
Repayment of lease liabilities[1]	**3.4**	(64.3)			
Share buyback program	**4.6**	(402.7)		(157.8)	
Sale of treasury shares	**4.6**	31.4		27.9	
Purchase of treasury shares	**4.6**	(98.8)		(64.7)	
Dividends paid by Sonova Holding AG		(186.5)		(169.8)	
Dividends to non-controlling interests		(8.6)		(6.1)	
Interest paid[1]		(5.0)		(1.2)	
Cash flow from financing activities			**(550.4)**		**(522.1)**
Exchange losses on cash and cash equivalents			(6.1)		(2.2)
Increase/(decrease) in cash and cash equivalents			**75.5**		**(177.4)**
Cash and cash equivalents at the beginning of the financial year			374.8		552.1
Cash and cash equivalents at the end of the financial year			**450.2**		**374.8**

[1] Impacted by the implementation of IFRS 16 "Leases", for further information refer to Note 3.4 and 7.8.
The Notes are an integral part of the consolidated financial statements.

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Effect on initial application of IFRS 15 and IFRS 9		(132.9)			(0.1)	(133.1)
Adjusted balance April 1, 2018	**3.3**	**2,527.0**	**(210.9)**	**(0.5)**	**23.1**	**2,341.9**
Income for the period		454.1			6.1	460.2
Actuarial loss from defined benefit plans, net		(16.9)				(16.9)
Tax effect on actuarial result		2.3				2.3
Currency translation differences			(57.2)		(0.8)	(58.0)
Tax effect on currency translation			1.3			1.3
Total comprehensive income		**439.5**	**(56.0)**		**5.3**	**388.9**
Share-based payments		4.9		13.9		18.8
Sale of treasury shares[1]		(17.3)		45.2		27.9
Purchase of treasury shares[2]				(225.5)		(225.5)
Dividend paid		(169.8)			(6.1)	(175.8)
Balance March 31, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**

Balance April 1, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**
Income for the period		483.2			6.3	489.5
Actuarial loss from defined benefit plans, net		(45.1)				(45.1)
Tax effect on actuarial result		4.9				4.9
Fair value adjustment of financial liabilities at FVOCI		4.8				4.8
Currency translation differences			(143.7)		(1.8)	(145.4)
Tax effect on currency translation			3.7			3.7
Total comprehensive income		**447.9**	**(139.9)**		**4.5**	**312.5**
Capital decrease – share buyback program	(0.0)	(157.8)		157.9		
Share-based payments		6.4		13.0		19.4
Sale of treasury shares[1]		(32.0)		63.4		31.4
Purchase of treasury shares[2]				(514.9)		(514.9)
Dividend paid		(186.5)			(8.6)	(195.1)
Balance March 31, 2020	**3.2**	**2,862.3**	**(406.8)**	**(447.5)**	**18.2**	**2,029.4**

1) In relation to long-term equity incentive plans.
2) Further information on the share buyback program are disclosed in Note 4.6.
The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2020

1. Basis for preparation

1.1 Corporate information

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

1.2 Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31, which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 14, 2020, and are subject to approval by the Annual General Shareholders' Meeting on June 11, 2020.

The consolidated financial statements are presented in millions of Swiss Francs (CHF) and rounded to the nearest hundred thousand. Due to rounding, numbers presented throughout this report may not add up precisely to the totals provided. All ratios and variances are calculated using the underlying amount rather than the presented rounded amounts.

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant consolidated companies is given in Note 7.6.

Accounting policies of relevance for an understanding of the consolidated financial statements are set out in the specific notes to the financial statements.

1.3 Significant accounting judgments and estimates

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

The main estimates and assumptions with a significant risk of resulting in a material adjustment are described in the following notes:

Description	Further information
Allocation of the transaction price to performance obligations	Note 2.3: Revenue
Renewal options in leases	Note 3.4: Leases
Capitalization of development costs	Note 3.5: Intangible assets
Impairment test	Note 3.5: Intangible assets
Provisions for warranty, returns and product liabilities	Note 3.7: Provisions
Deferred tax assets	Note 5.1: Taxes
Business combinations	Note 6.1: Acquisitions/disposals of subsidiaries
Defined benefit plans	Note 7.3: Employee benefits

The current economic crisis and uncertainties resulting from the COVID-19 pandemic required management to make estimates and assumptions that significantly affected the financial statements for the financial year 2019/20. In particular, it affected cash flow projections in the goodwill impairment testing (described in Note 3.5) and allowances on receivables (described in Note 3.1 and Note 4.7). Furthermore, it also led to a suspension of the Group's share buyback program (described in Note 4.6) and additional financing requirements (described in Note 4.5 and Note 7.5).

1.4 Changes in accounting policies

The Group has adopted IFRS 16 "Leases" beginning April 1, 2019 as described in Note 7.8.

In addition, in 2019/20 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group's result and financial position:

- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Plan Amendment, Curtailment or Settlement – Amendments to IAS 19
- Interpretation 23 Uncertainty over Income Tax Treatments

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2020 and beyond. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. Operating result

2.1 Income statement reconciliation

The Group presents the "Consolidated income statement" based on a classification of costs by function and is continuously amending its business portfolio with acquisitions, resulting in acquisition-related intangibles (see section "Intangible assets" in Note 3.5) and related amortization charges. To calculate EBITA[1], which is the key profit metric for internal (refer to Note 2.2) as well as external purposes, acquisition-related amortization is separated from the individual functions as disclosed below.

April 1 to March 31, CHF million			2019/20
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,916.9**		**2,916.9**
Cost of sales	(833.3)		(833.3)
Gross profit	**2,083.6**		**2,083.6**
Research and development	(167.0)	0.9	(166.1)
Sales and marketing	(1,074.3)	43.5	(1,030.8)
General and administration	(309.0)		(309.0)
Other income/(expenses), net	(23.4)		(23.4)
Operating profit before acquisition-related amortization (EBITA)[1]			**554.3**
Acquisition-related amortization		(44.4)	(44.4)
Operating profit (EBIT)[2]	**510.0**		**510.0**

April 1 to March 31, CHF million			2018/19
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,763.2**		**2,763.2**
Cost of sales	(797.0)		(797.0)
Gross profit	**1,966.2**		**1,966.2**
Research and development	(149.4)	1.0	(148.4)
Sales and marketing	(1,015.7)	45.4	(970.3)
General and administration	(269.3)		(269.3)
Other income/(expenses), net	4.4		4.4
Operating profit before acquisition-related amortization (EBITA)[1]			**582.5**
Acquisition-related amortization		(46.3)	(46.3)
Operating profit (EBIT)[2]	**536.2**		**536.2**

1) Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization (EBITA).
2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

2.2 Segment information

Information by business segments

The Group is active in the two business segments, hearing instruments and cochlear implants, which are reported separately to the Group's chief operating decision maker (Chief Executive Officer). The financial information that is provided to the Group's chief operating decision maker, which is used to allocate resources and to assess the performance, is primarily based on the sales analysis as well as the consolidated income statements and other key financial metrics for the two segments. The Group uses EBITA as key metric to measure profit or loss for both segments (refer to Note 2.1). Transactions between segments are based on market terms.

Hearing instruments:

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

Cochlear implants:

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

CHF million	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	Hearing Instruments		Cochlear Implants		Corporate/ Eliminations		Total	
Segment sales	2,700.7	2,527.2	233.5	241.1			2,934.1	2,768.3
Intersegment sales	(14.5)	(2.4)	(2.7)	(2.7)			(17.2)	(5.0)
Sales	**2,686.2**	**2,524.8**	**230.7**	**238.4**			**2,916.9**	**2,763.2**
Timing of revenue recognition								
At point in time	2,530.0	2,361.1	222.3	230.6			2,752.4	2,591.8
Over time	156.2	163.7	8.4	7.8			164.5	171.5
Total sales	**2,686.2**	**2,524.8**	**230.7**	**238.4**			**2,916.9**	**2,763.2**
Operating profit before acquisition-related amortization (EBITA)	**601.6**	**563.1**	**(46.2)**	**19.7**	**(1.1)**	**(0.2)**	**554.3**	**582.5**
Depreciation, amortization and impairment	(171.5)	(107.2)	(28.6)	(20.4)			(200.1)	(127.6)
Segment assets	**4,018.3**	**3,921.0**	**613.0**	**632.3**	**(810.5)**	**(792.6)**	**3,820.9**	**3,760.7**
Unallocated assets[1]							665.6	531.8
Total assets							**4,486.5**	**4,292.5**

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

Reconciliation of reportable segment profit CHF million	2019/20	2018/19
EBITA	554.3	582.5
Acquisition-related amortization	(44.4)	(46.3)
Financial costs, net	(10.0)	(8.7)
Share of gain in associates/joint ventures, net	2.4	2.1
Income before taxes	**502.4**	**529.6**

Entity-wide disclosures

Sales by business CHF million	2019/20	2018/19
Hearing Instruments business	1,613.0	1,474.7
Audiological Care business	1,073.2	1,050.1
Total Hearing Instruments segment	**2,686.2**	**2,524.8**
Cochlear Implant systems	163.9	178.9
Upgrades and accessories	66.8	59.5
Total Cochlear Implants segment	**230.7**	**238.4**
Total sales	**2,916.9**	**2,763.2**

Sales and selected non-current assets by regions CHF million	**2019/20**	**2018/19**	**2019/20**	**2018/19**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	29.5	31.5	283.8	274.1
EMEA (excl. Switzerland)	1,514.9	1,489.5	1,755.1	1,585.7
USA	877.6	746.7	706.7	674.3
Americas (excl. USA)	220.9	228.5	167.0	150.4
Asia/Pacific	274.0	267.0	118.4	116.5
Total Group	**2,916.9**	**2,763.2**	**3,031.1**	**2,800.9**

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

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

2.3 Revenue

The Group generates revenue primarily from the sale of hearing instruments, cochlear implants and related services. A disaggregation of revenue from contracts with customers is included in Note 2.2. The following provides information about the Groups revenue recognition policies, performance obligations and related contract assets and liabilities.

The following table summarizes the contract assets and contract liabilities related to contracts with customers:

Contract balances CHF million	**31.3.2020**	**31.3.2019**
Contract assets	9.3	9.4
Contract liabilities	318.4	332.7

Contract liabilities relate to advance consideration received from customers for the Group's various services, such as extended warranties, loss and damage and battery plans. In addition to the contract liabilities, the Group also recognizes contract assets that relate to loss and damage services. Contract assets are presented within other operating assets (refer to Note 3.6) in the consolidated balance sheets.

Significant changes in the contract liabilities during the period are as follows:

Movement in contract liabilities CHF million	**2019/20**	**2018/19**
Balance April 1	332.7	335.0
Changes through business combinations	0.8	(0.2)
Increase due to advance consideration received in the period	169.5	175.9
Decrease due to revenue recognized in the period that,		
– was included in the contract liabilities at the beginning of the period	(132.8)	(105.9)
– relates to consideration received in the period	(33.2)	(65.6)
Exchange differences	(18.4)	(6.6)
Balance March 31	**318.4**	**332.7**
Expectation on timing of revenue recognition:		
Within 1 year	105.6	106.5
Within 2 years	95.7	120.6
Within 3 years	56.9	51.3
Within 4 years	26.5	21.0
More than 4 years	33.6	33.2

No material revenue was recognized in the current period from performance obligations satisfied in previous periods.

Accounting policies

The Group recognizes revenue at point in time when ownership of the products is transferred to the buyer, mainly upon delivery. The transaction price is adjusted for any variable elements, such as rebates and discounts. For audiological care customers, revenue recognition usually occurs after fitting of the device or when the trial period lapses. For hearing instruments sold in bundled packages (i.e. including accessories and services), the transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of all performance obligations in the contract.

For cochlear implants, sales are generally recognized at point in time when ownership of the products is transferred to the buyer (mainly hospitals), either at delivery or after surgery.

When the customer has a right to return the product within a given period, the amount of revenue is adjusted for expected returns, which are estimated based on historical product return rates. A return provision for the expected returns is recognized as an adjustment to revenue. In addition, an asset for the right to recover returned goods is recognized, measured by reference to the carrying amount, which is presented as part of other current operating assets.

The Group also offers various services, such as extended warranties, loss and damage and battery plans. Revenue for these services is predominantly recognized on a straight-line basis over the service period. In the majority of countries in which the Group operates, the standard warranty period is two years and the extended warranty covers periods beyond the second year. Loss and damage is offered in some, but not all countries, in which the Group operates. This service assures replacement of hearing instruments that are not covered by the warranty. In some countries, the Group reinsures loss and damage. Insurance costs are capitalized as contract assets and are recognized as cost of sales over the loss and damage service period.

Payment terms vary significantly across countries and also depend on whether the customer is a private or public customer.

Accounting judgements and estimates

In order to allocate the transaction price to each performance obligation in a contract, management estimates the standalone selling price of the products and services at contract inception. Mostly, the standalone selling price is based on established price lists. For loss and damage services, management considers the likelihood of a customer claim in the calculation of the standalone selling price.

If the sum of the standalone selling prices of a bundle of goods or services exceeds the consideration in a contract, the discount is allocated proportionally to all of the performance obligations in the contract unless there is observable evidence that the discount relates to only one or some of the performance obligations.

2.4 Other income/expenses, net

“Other income/expenses, net” in the 2019/20 financial year shows net costs of CHF 23.4 million (previous year income of CHF 4.4 million). The regular and systematic assessment of the provision for product liabilities in the cochlear implants segment in relation to the voluntary recall of cochlear implant products in 2006 led to a release of CHF 0.8 million (previous year CHF 4.1 million). In addition, as announced on February 18, 2020, the group informed of a voluntary field corrective action by its US subsidiary Advanced Bionics LLC (AB). For potential product liability claims in connection with this voluntary field corrective action, a provision in the amount of CHF 24.1 million has been set up and the respective costs have been considered as “other expenses” (for further information refer to Note 3.7 “Provisions”). In the 2018/19 financial year, the divestment of audiological care stores in the USA led to a gain of CHF 0.3 million.

2.5 Earnings per share

Basic earnings per share	**2019/20**	**2018/19**
Income after taxes (CHF million)	483.2	454.1
Weighted average number of outstanding shares	63,511,720	65,066,736
Basic earnings per share (CHF)	**7.61**	**6.98**

Diluted earnings per share	**2019/20**	**2018/19**
Income after taxes (CHF million)	483.2	454.1
Weighted average number of outstanding shares	63,511,720	65,066,736
Adjustment for dilutive share options	356,738	268,205
Adjusted weighted average number of outstanding shares	63,868,458	65,334,941
Diluted earnings per share (CHF)	**7.57**	**6.95**

Accounting policies

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

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2013 through to 2020 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

3. Operating assets and liabilities

3.1 Trade receivables

CHF million	31.3.2020	31.3.2019
Trade receivables	434.0	559.6
Loss allowance for doubtful receivables	(51.9)	(39.0)
Total	**382.1**	**520.6**

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk. In the context of the COVID-19 impacts as of March 31, 2020, the allowance for doubtful receivables has been significantly increased. For further information on the process of the re-assessment of the allowance at the end of the financial year and for information about the aging of the trade receivables and related allowances please refer to Note 4.7.

During 2019/20, the Group utilized CHF 6.4 million (previous year CHF 2.2 million) of the loss allowance for doubtful receivables to write-off receivables.

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

CHF million	31.3.2020	31.3.2019
BRL	10.9	18.2
CAD	15.8	22.4
CHF	12.5	20.9
EUR	155.5	203.3
GBP	11.1	22.0
USD	122.4	164.2
Other	53.9	69.8
Total trade receivables, net	**382.1**	**520.6**

Accounting policies
Trade receivables are initially recorded at original invoice amount and subsequently measured at amortized cost using the effective interest method, less loss allowance. The Group applies the IFRS 9 simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for trade receivables. This approach considers historical credit loss experience as well as forward-looking factors (see Note 4.7). The charges to the income statement are included in general and administration costs. Due to the short-term nature of trade receivables, their carrying amount is considered to approximate their fair value.

3.2 Inventories

CHF million	31.3.2020	31.3.2019
Raw materials and components	34.6	49.6
Work-in-process	110.9	96.6
Finished products	167.1	172.6
Allowances	(47.1)	(36.8)
Total	**265.4**	**282.1**

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2019/20 to CHF 700.0 million (previous year CHF 666.0 million). The Group recognized write-downs of CHF 45.7 million (previous year CHF 29.4 million) on inventories in cost of sales.

Accounting policies

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

Manufactured finished goods and work-in-process are valued at the lower of production cost or net realizable value. Standard costs take into account normal levels of materials, supplies, labor, efficiency, and capacity utilization. Standard costs are regularly reviewed and, if necessary, revised in the light of current conditions. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion (where applicable) and selling expenses.

Allowances are established for slow moving, phase out and obsolete stock.

3.3 Property, plant and equipment

CHF million					**2019/20**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	199.0	306.0	357.2	9.8	872.1
Changes through business combinations		0.6	0.6		1.2
Additions	8.6	27.0	36.9	16.3	88.7
Disposals	(0.1)	(14.2)	(9.7)		(24.0)
Transfers	1.7	(8.5)	16.3	(9.6)	
Exchange differences	(3.5)	(10.5)	(18.2)	(0.6)	(32.7)
Balance March 31	**205.7**	**300.4**	**383.2**	**15.9**	**905.3**
Accumulated depreciation					
Balance April 1	(79.2)	(226.1)	(242.0)		(547.2)
Additions	(5.8)	(26.3)	(34.1)		(66.2)
Disposals	0.1	13.5	8.5		22.1
Transfers	0.1	6.2	(6.3)		
Exchange differences	1.5	7.3	10.2		18.9
Balance March 31	**(83.3)**	**(225.4)**	**(263.7)**		**(572.4)**
Net book value					
Balance April 1	119.8	79.9	115.3	9.8	324.9
Balance March 31	**122.4**	**75.0**	**119.6**	**15.9**	**332.8**

CHF million					**2018/19**
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195.5	294.3	343.8	10.6	844.2
Changes through business combinations		0.6	1.4		2.0
Additions	4.8	28.8	35.4	8.1	77.0
Disposals		(16.3)	(20.0)		(36.4)
Transfers		1.3	7.4	(8.7)	
Exchange differences	(1.3)	(2.6)	(10.7)	(0.1)	(14.7)
Balance March 31	**199.0**	**306.0**	**357.2**	**9.8**	**872.1**
Accumulated depreciation					
Balance April 1	(74.0)	(220.0)	(234.7)		(528.7)
Additions	(5.8)	(25.5)	(31.5)		(62.8)
Disposals		15.3	19.3		34.6
Transfers		2.5	(2.5)		
Exchange differences	0.6	1.6	7.4		9.7
Balance March 31	**(79.2)**	**(226.1)**	**(242.0)**		**(547.2)**
Net book value					
Balance April 1	121.5	74.3	109.1	10.6	315.5
Balance March 31	**119.8**	**79.9**	**115.3**	**9.8**	**324.9**

Accounting policies

Property, plant and equipment is valued at purchase or manufacturing cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the expected useful lifetime of the individual assets or asset categories. Where an asset comprises several parts with different useful lifetimes, each part of the asset is depreciated separately over its applicable useful lifetime.

The applicable useful lifetimes are 25 – 40 years for buildings and 3 – 10 years for production facilities, machinery, equipment, and vehicles. Land is not depreciated. Leasehold improvements are depreciated over the shorter of useful life or lease term.

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

The Group assesses at each reporting date, whether there is any indication, that an asset may be impaired. If any such indication exists, the recoverable amount of the asset is estimated. If the recoverable amount is lower than carrying amount, an impairment loss is recognized.

3.4 Leases

Right-of-use assets CHF million				**2019/20**
	Properties	Vehicles	Other assets	Total
Cost				
Balance April 1				
Effect on initial application of IFRS 16 "Leases"	269.3	7.5	1.3	278.1
Changes through business combinations	0.7			0.7
Additions	81.5	2.3	0.4	84.1
Exchange differences	(38.4)	(1.0)	(0.2)	(39.6)
Balance March 31	**313.1**	**8.7**	**1.5**	**323.3**
Accumulated depreciation				
Balance April 1				
Additions	(63.8)	(1.8)	(0.3)	(65.9)
Exchange differences	3.1	0.1	0.0	3.2
Balance March 31	**(60.7)**	**(1.7)**	**(0.3)**	**(62.7)**
Net book value				
Balance April 1				
Balance March 31	**252.4**	**7.0**	**1.2**	**260.6**

Lease liabilities CHF million	**2019/20**
Balance April 1	
Effect on initial application of IFRS 16 "Leases"	285.0
Changes through business combinations	0.7
Additions	84.1
Interest expense	4.0
Payments	(68.3)
Exchange differences	(36.5)
Balance March 31	**269.0**
thereof short-term	61.2
thereof long-term	207.8

The maturity analysis of lease liabilities are disclosed in Note 4.7

Lease disclosures CHF million	**2019/20**
Expenses relating to short-term leases	13.4
Expenses relating to leases of low-value assets (excluding short-term leases of low-value assets)	0.6
Expenses relating to variable lease payments	0.3

The total cash outflow for leases in the financial year 2019/20 amounted to CHF 68.3 million and is included in the cash flow from financing activities.

The Group has various lease contracts that as of March31, 2020, have not yet commenced. The future lease payments for these non-cancellable lease contracts amount to CHF 17.2 million. The future lease payments relating to variable lease payments amount to CHF 0.3 million.

Accounting policies

The group leases properties for retail stores as well as for office, laboratory, manufacturing and storage use. The leasing terms vary significantly across countries. The leases of office space typically run for a period of up to 10 years, and leases of retail stores typically for a period of 3 to 5 years. Leases of vehicles and other assets have an average lease term of 3.5 years. Some leases include an option to renew the lease for an additional period after the end of the contract term.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and, subsequently at cost less accumulated depreciation and impairment losses and also includes adjustments for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date and are discounted using the Group's incremental borrowing rate. The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payment made. It is remeasured when there is a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

Accounting judgements and estimates

The Group uses judgement to determine the lease term for some lease contracts which include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term which significantly affects the amount of lease liabilities and right-of-use assets recognized. Extension options and termination options are re-assessed only when a significant event or change in circumstances occurs that is within the control of the Group and affects whether it is reasonably certain to exercise an option.

3.5 Intangible assets

CHF million					2019/20
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	2,116.7	636.0	195.5	91.9	3,040.1
Changes through business combinations	97.4	17.1		0.0	114.6
Additions			28.8	11.3	40.1
Disposals	0.0	(0.4)		(1.5)	(2.0)
Exchange differences	(113.9)	(37.2)	(0.5)	(1.1)	(152.7)
Balance March 31	**2,100.2**	**615.5**	**223.9**	**100.5**	**3,040.1**
Accumulated amortization and impairments					
Balance April 1	(153.4)	(296.8)	(59.2)	(67.5)	(576.9)
Additions		(44.4)[2]	(16.1)	(7.4)	(67.9)
Disposals		0.0		1.4	1.4
Exchange differences	4.6	18.5		0.6	23.6
Balance March 31	**(148.8)**	**(322.7)**	**(75.3)**	**(73.0)**	**(619.8)**
Net book value					
Balance April 1	1,963.3	339.1	136.3	24.4	2,463.2
Balance March 31	**1,951.4**	**292.7**	**148.5**	**27.5**	**2,420.2**

1) Intangibles relating to acquisitions consists of customer relationships (CHF 178.1 million), trademarks (CHF 106.8 million) and R&D in process (CHF 7.8 million).
2) Relates to research and development (CHF 0.9 million) and sales and marketing (CHF 43.5 million).

CHF million					2018/19
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	2,094.4	645.3	165.1	84.9	2,989.7
Changes through business combinations	55.4	22.3	0.0	0.1	77.8
Additions	0.0	0.0	30.4	10.5	40.9
Disposals	(0.3)	(6.5)	0.0	(3.2)	(10.0)
Exchange differences	(32.9)	(25.2)	0.1	(0.4)	(58.4)
Balance March 31	**2,116.7**	**636.0**	**195.5**	**91.9**	**3,040.1**
Accumulated amortization and impairments					
Balance April 1	(147.2)	(264.2)	(47.0)	(64.9)	(523.3)
Additions		(46.3)[2]	(12.3)	(6.2)	(64.8)
Disposals		4.3	0.0	3.1	7.4
Exchange differences	(6.1)	9.4	0.0	0.5	3.8
Balance March 31	**(153.4)**	**(296.8)**	**(59.2)**	**(67.5)**	**(576.9)**
Net book value					
Balance April 1	1,947.2	381.1	118.1	20.0	2,466.4
Balance March 31	**1,963.3**	**339.1**	**136.3**	**24.4**	**2,463.2**

1) Intangibles relating to acquisitions consists of customer relationships (CHF 221.7 million), trademarks (CHF 115.1 million) and R&D in process (CHF 2.3 million).
2) Relates to research and development (CHF 1.0 million) and sales and marketing (CHF 45.4 million).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2019/20 and 2018/19 financial years.

The cash flow projections used for impairment testing, were based on the most recent business plan, and considers impacts from COVID-19 and from the voluntary field corrective action as announced on February 18, 2020. The business plan was projected over a five year period.

Hearing instruments

As of March 31, 2020, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,639.9 million (prior year CHF 1,642.4 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.1% (prior year 2.2%) that represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.3% (prior year 8.4%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2020, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 311.5 million (prior year CHF 320.9 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.3% (prior year 2.4%) that represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.0% (prior year 8.7%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. In the current financial year 2019/20, this review did not lead to any valuation adjustments. The capitalized development costs are included in the reportable segment “cochlear implants” disclosed in Note 2.2.

Accounting policies

Goodwill

Goodwill is recognized for any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities (refer to accounting policies in Note 6.1). Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit, which is expected to benefit from the synergies of the corresponding business combination. For the Group, a meaningful goodwill allocation can only be done at the level of the segments, hearing instruments and cochlear implants. This also reflects the level that the goodwill is monitored by management. For both of the two cash-generating units, the recoverable amount is compared to the carrying amount. The carrying amount is determined based on a value-in-use calculation considering a five-year cash flow projection period and extrapolated using a terminal value for cash flows beyond the planning period. The cash flow projections are estimated on the basis of the strategic plan approved by the Board of Directors. Future cash flows are discounted with the Weighted Average Cost of Capital (WACC) including the application of the Capital Asset Pricing Model (CAPM).

Intangibles, excluding goodwill

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

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

Accounting judgements and estimates

Goodwill

The recoverable amount from cash-generating units is measured on the basis of value-in-use calculations and as such is significantly impacted by the projected cash flows, the discount rate, and the long-term growth rate, which are subject to management judgment. Actual cash flows as well as other input parameters could vary significantly from these estimates.

Capitalized development costs

The Group capitalizes costs relating to the development of cochlear implants. The capitalized development costs are reviewed on a regular basis as a matter of a standard systematic procedure. In determining the commercial as well as the technical feasibility, management judgment may be required.

3.6 Other operating assets

Other current operating assets CHF million	**31.3.2020**	**31.3.2019**
Other receivables	57.6	69.0
Prepaid expenses	31.5	32.0
Contract assets	2.9	2.9
Right to recover products	9.9	10.4
Total	**101.9**	**114.3**

Other non-current operating assets CHF million	**31.3.2020**	**31.3.2019**
Contract assets	6.4	6.5
Total	**6.4**	**6.5**

The largest individual items included in other receivables are recoverable value added taxes and deposits. Prepaid expenses mainly consist of advances to suppliers. Contract assets relate to reinsurance of loss and damage services and rights to recover returned goods relate to hearing instrument sales with a right of return (refer to Note 2.3).

3.7 Provisions

CHF million					2019/20
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	111.3	7.7	100.9	32.2	252.1
Effect on initial application of IFRS 16 "Leases"				(6.9)	(6.9)
Changes through business combinations				1.2	1.2
Amounts used	(71.6)	(5.3)	(1.2)	(10.8)	(89.0)
Reversals	(3.3)	(1.2)	(0.9)	(1.9)	(7.4)
Increases	82.4	4.2	24.6	19.2	130.5
Present value adjustments	0.0		0.6		0.6
Exchange differences	(7.2)	(0.3)	(3.5)	(1.5)	(12.5)
Balance March 31	**111.6**	**5.0**	**120.4**	**31.5**	**268.6**
thereof short-term	85.6	5.0	11.1	23.5	125.2
thereof long-term	26.0		109.3	8.0	143.4

CHF million					2018/19
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	125.6	9.2	118.4	31.3	284.5
Effect on initial application of IFRS 15	(19.8)				(19.8)
Changes through business combinations		0.0		0.8	0.8
Amounts used	(71.2)	(4.3)	(19.0)	(13.3)	(107.8)
Reversals	(3.2)	(2.3)	(4.1)	(5.0)	(14.5)
Increases	80.8	5.0		18.9	104.7
Present value adjustments	0.0		0.7		0.7
Exchange differences	(1.0)	0.1	4.8	(0.4)	3.5
Balance March 31	**111.3**	**7.7**	**100.9**	**32.2**	**252.1**
thereof short-term	87.6	7.7	15.0	19.0	129.2
thereof long-term	23.7		85.9	13.3	122.9

Warranty and returns

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. The calculation is based on turnover, past experience and projected number and cost of warranty claims and returns. In the 2018/19 financial year, the decrease in provision for warranty was due to the implementation of IFRS 15 as of April 1, 2018. Under IFRS 15, extended warranty is treated as a separate performance obligation with revenue being allocated to contract liabilities.

Reimbursement to customers

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

Product liabilities

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics in 2006 and Advanced Bionics voluntary field corrective action regarding cochlear implant products, as announced on February 18, 2020.

For the claims regarding the voluntary recall of AB products in 2006, the calculation of this provision is based on past experience regarding the number and cost of current and future claims and is estimated based on a financial model. The model used to calculate the provision for the end of the 2019/20 financial year is consistent to the prior year. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. The provision is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a slight reduction of CHF 0.8 million (previous year CHF 4.1 million) in “other income/(expense), net”. As per March 31, 2020 the product liability in relation to the voluntary recall amounts to CHF 96.3 million (previous year CHF 100.9 million). The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings. Considering periods of limitation, claims will have to be filed until 2026 in most jurisdictions. However, depending on the length of proceedings and negotiations, further years may pass until all claims are settled. We expect the main cash outflow relating to this provision to occur within the next 7 years.

For potential claims regarding the voluntary field corrective action as announced on February 18, 2020, the calculation follows a similar financial model as applied for the voluntary recall of AB products in 2006 and is estimated based on an expected number and cost for potential future claims. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. As per March 31, 2020 the product liability in relation to the voluntary field corrective action amounts to CHF 24.1 million. The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings. We expect the main cash outflow relating to this provision to occur within the next 10–15 years.

Other provisions

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

Accounting policies

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

Accounting judgements and estimates

Provisions are based upon management’s best estimate, taking into consideration past experience regarding the number and cost of claims. Management believes that the provisions are adequate based upon currently available information. However, given that judgment has to be applied, the actual costs and results may differ from these estimates.

3.8 Other operating liabilities

Other short-term operating liabilities CHF million	**31.3.2020**	**31.3.2019**
Other payables	72.9	74.2
Accrued expenses	224.2	221.7
Deferred income	0.4	0.1
Total	**297.5**	**296.0**

Other long-term operating liabilities CHF million	**31.3.2020**	**31.3.2019**
Retirement benefit obligations	73.5	26.0
Total	**73.5**	**26.0**

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

The retirement benefit obligation relates to defined benefit plans. For details refer to Note 7.3.

3.9 Contingent assets and liabilities

Guarantees

At March 31, 2020 and 2019, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 1.8 million (previous year CHF 5.1 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.7 million at March 31, 2020 (previous year CHF 0.8 million). Open purchase orders as of March 31, 2020 and 2019, were related to recurring business activities.

Lawsuits and disputes

In 2007, the Alfred E. Mann Foundation for Scientific Research (AMF) initiated a lawsuit claiming patent infringement by Cochlear Ltd. on two patents. Advanced Bionics LLC had exclusively licensed the patents in question from AMF and joined AMF as a plaintiff. On November 4, 2018, a U.S. District Court reinstated a jury verdict from 2014 and awarded damages of USD 268 million. Cochlear's appeal of the District Court judgement was dismissed in March 2020, and Cochlear has announced that it will seek an 'en banc' review by the Court of Appeals. Advanced Bionics expects that such review will be concluded in the first half of 2020. Advanced Bionics will be entitled to a portion of any damages awarded once the verdict is final.

On October 4, 2018 MED-EL Elektronische Geräte GmbH and MED-EL Corporation, US, filed a complaint against Advanced Bionics LLC in the US federal court for the district of Delaware for alleged patent infringement of two MED-EL patents related to a recently launched product. Advanced Bionics believes the complaint has no merits and is vigorously defending its position and intellectual property.

On January 20, 2020, Advanced Bionics Corporation ("AB"), Delaware, received a subpoena from the Office of the Inspector General at the U.S. Department of Health and Human Services, (the "HHS-OIG"). The subpoena requests documents relating to AB's testing of radio frequency emissions of its devices and AB's reporting of those test results in submissions to the U.S. Food and Drug Administration from 2010 to the present. AB is cooperating fully with the HHS-OIG and the U.S. Department of Justice in connection with this subpoena and is currently unable to predict the timing or outcome of this investigation.

4. Capital structure and financial management

4.1 Cash and cash equivalents

CHF million	31.3.2020	31.3.2019
Cash on hand	0.9	1.2
Current bank accounts	448.5	312.2
Term deposits	0.8	61.4
Total	**450.2**	**374.8**

Bank accounts and term deposits are mainly denominated in CHF, EUR and USD. The assessment on the credit risk related to cash and cash equivalents is disclosed in Note 4.7.

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

4.2 Financial income/expenses, net

CHF million	2019/20	2018/19
Interest income	2.5	1.6
Other financial income	0.4	1.8
Total financial income	**2.9**	**3.4**
Interest expenses	(2.1)	(1.7)
Interest expenses on lease liabilities	(4.0)	
Unwinding of the discount on provisions	(0.6)	(0.7)
Foreign exchange hedge costs	(3.4)	(6.3)
Other financial expenses	(2.7)	(3.4)
Total financial expenses	**(12.9)**	**(12.1)**
Total financial income/expenses, net	**(10.0)**	**(8.7)**

Other financial expenses in 2019/20 include, amongst other items, primarily the fair value adjustments of financial instruments.

4.3 Dividend per share

At the Annual General Shareholders' Meeting in June 2020, the Board of Directors will propose a stock dividend. This would be met from shares bought back under the recent share buyback program, which have not yet been canceled. Each shareholder would be entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash. In the financial year 2019/20 a cash dividend in the amount of CHF 2.90 was paid out.

4.4 Other financial assets

Other current financial assets

CHF million			31.3.2020			31.3.2019
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Marketable securities		0.2	0.2		0.0	0.0
Positive replacement value of forward foreign exchange contracts		2.3	2.3		0.3	0.3
Loans to third parties	5.3		5.3	10.6		10.6
Total	**5.3**	**2.5**	**7.7**	**10.6**	**0.3**	**11.0**

The Group regularly hedges its net exposure from foreign currency balance sheet positions with forward contracts. Such contracts are not qualified as cash flow hedges and are, therefore, not accounted for using hedge accounting principles. Gains and losses on these transactions are recognized directly in the income statement (refer to Note 4.7).

Other non-current financial assets

CHF million			31.3.2020			31.3.2019
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Loans to associates	4.5		4.5	9.3		9.3
Loans to third parties	20.0		20.0	14.2		14.2
Rent deposits	3.8		3.8	3.7		3.7
Other non-current financial assets		1.7	1.7		1.8	1.8
Total	**28.3**	**1.7**	**30.0**	**27.2**	**1.8**	**29.0**

The loans are primarily denominated in CAD, CHF, EUR, GBP, JPY and USD. Loans to third parties consist mainly of loans to customers. As of March 31, 2020, the respective repayment periods vary between one and nine years and the interest rates vary generally between 1% and 5%.

Other non-current financial assets mainly consist of certain minority interests in patent and software development companies specific to the hearing aid industry.

Accounting policies

Financial assets are classified into the following three categories:

- *Financial assets at amortized cost*
- *Financial assets at fair value through profit or loss (FVPL)*
- *Financial assets at fair value through other comprehensive income (FVOCI).*

The classification depends on the business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will be recorded either in the income statement or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). The Group reclassifies debt investments when and only when its business model changes for managing those assets.

At initial recognition, the Group measures a financial asset at its fair value. In the case of financial assets at amortized cost and FVOCI the fair value includes transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss. Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset.

Financial assets at amortized cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement.

Financial assets at fair value through profit or loss (FVPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the income statement in the period in which it arises.

Financial assets at fair value through other comprehensive income (FVOCI) and equity instruments

The Group currently holds no financial assets at fair value through other comprehensive income (FVOCI) and no has not elected to account for equity instruments in this category.

4.5 Financial liabilities

During the 2019/20 financial year, the Group had the following bonds outstanding:

- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with a 0.00% interest rate. The bond was repaid on October 11, 2019.
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.
- A 10 year fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041592) issued at 100% with a 0.00% interest rate and maturity on October 11, 2029.
- A 15 years fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041600) issued at 100% with interest of 0.40% p.a. and maturity on October 11, 2034. Interests will be paid on an annual basis.

During the 2019/20 financial year, the Group entered into an agreement for a syndicated credit facility in the amount of CHF 150 million with an option to increase to CHF 250 million. The option to increase the credit facility was exercised in March 2020 and the increased credit facility will become available in May 2020. The agreement ends on June 30, 2022 with an additional option to extend until August 31, 2024. As of March 31, 2020 CHF 150 million of the credit facility was drawn.

The Group maintains further uncommitted credit facilities from various lenders. The credit facilities are denominated in CHF and can be cancelled at short notice. As of March 31, 2020 CHF 80 million were drawn with a one to three months maturity.

Furthermore, in the context of the COVID-19 impacts, in April 2020 the Group has obtained additional financing and new credit lines (refer to Note 7.5).

Current financial liabilities

CHF million				**31.3.2020**			**31.03.2019**
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	230.2			230.2	0.3		0.3
Bond					250.0		250.0
Deferred payments and contingent considerations	8.0	4.1	10.0	22.1	0.5	5.5	6.0
Other current financial liabilities		2.6		2.6		0.1	0.1
Total	**238.2**	**6.7**	**10.0**	**254.9**	**250.7**	**5.6**	**256.4**
Unused borrowing facilities				111.0			36.2

Non-current financial liabilities

CHF million				31.3.2020			31.03.2019
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.0			0.0	0.0		0.0
Bonds	559.1			559.1	359.5		359.5
Deferred payments and contingent considerations	9.9	1.2	19.1	30.2	7.4	1.4	8.8
Other non-current financial liabilities	0.1	2.5		2.6	0.2	4.1	4.2
Total	**569.1**	**3.7**	**19.1**	**591.8**	**367.1**	**5.5**	**372.6**

Besides the bonds, financial liabilities mainly consist of contingent considerations (earn-out agreements) and deferred payments from acquisitions.

Other non-current financial liabilities mainly consist of amounts due in relation to the share appreciation rights (SARs) (refer to Note 7.4).

Analysis of non-current financial liabilities by currency

Analysis by currency CHF million				31.3.2020				31.3.2019
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Bonds	Other non-current financial liabilities	Total
CHF		559.1	13.9	573.0		359.5	10.0	369.5
USD			0.7	0.7			0.5	0.5
EUR			15.9	15.9			0.1	0.1
Other	0.0		2.2	2.2	0.0		2.5	2.6
Total	**0.0**	**559.1**	**32.7**	**591.8**	**0.0**	**359.5**	**13.1**	**372.6**

Reconciliation of liabilities arising from financing activities

Liabilities from financing activities
CHF million

2019/20	Bank debt	Bonds	Deferred payments and contingent considerations	Lease liabilities	Other financial liabilities	Total
Balance April 1	0.3	609.5	14.8		4.3	628.9
Effect on initial application of IFRS 16 "Leases"				285.0		285.0
Changes through business combinations			40.6	0.7		41.3
Additions to lease liabilities				84.1		84.1
Proceeds from borrowings	230.0	198.1			5.7	433.8
Repayment of borrowings		(249.8)				(249.8)
Repayment of lease liabilities – principal portion				(64.3)		(64.3)
Repayment of lease liabilities – interest portion				(4.0)		(4.0)
Exchange differences			(0.9)	(36.5)		(37.4)
Other	(0.1)	1.3	(2.1)	4.0	(4.8)	(1.8)
Balance March 31	**230.2**	**559.1**	**52.3**	**269.0**	**5.2**	**1,115.8**
thereof short-term	230.2		22.1	61.2	2.6	316.1
thereof long-term	0.0	559.1	30.2	207.8	2.6	799.7

Liabilities from financing activities
CHF million

2018/19	Bank debt	Bonds	Deferred payments and contingent considerations	Other financial liabilities	Total
Balance April 1	0.1	759.3	17.2	4.1	780.7
Repayments	0.2	(150.0)	(1.7)	0.9	(150.6)
Exchange differences	(0.0)		0.2	0.0	0.2
Other		0.2	(0.9)	(0.7)	(1.4)
Balance March 31	**0.3**	**609.5**	**14.8**	**4.3**	**628.9**
thereof short-term	0.3	250.0	6.0	0.1	256.4
thereof long-term	0.0	359.5	8.8	4.2	372.6

Accounting policies

Financial liabilities are classified as measured at amortized cost, at fair value through profit or loss (FVPL) or at fair value through other comprehensive income (FVOCI). A financial liability is classified as at FVPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the income statement. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in the income statement.

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

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

Accounting policies for lease liabilities are included in Note 3.4.

4.6 Movement in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2018	65,330,887	(3,622)	65,327,265
Purchase of treasury shares		(368,000)	(368,000)
Sale/transfer of treasury shares		338,048	338,048
Purchase of shares intended to be cancelled[2]		(932,750)	(932,750)
Balance March 31, 2019	**65,330,887**	**(966,324)**	**64,364,563**
Purchase of treasury shares		(437,421)	(437,421)
Sale/transfer of treasury shares		343,537	343,537
Cancellation of treasury shares[3]	(932,750)	932,750	
Purchase of treasury shares from share buyback		(1,843,090)	(1,843,090)
Balance March 31, 2020	**64,398,137**	**(1,970,548)**	**62,427,589**

Nominal value of share capital CHF million	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2020	**3.2**	**(0.1)**	**3.1**

Each share has a nominal value of CHF 0.05.

1) Treasury shares are purchased on the open market and are not entitled to dividends.

2) Shares purchased by the Group as part of the share buyback program.

3) The Annual General Shareholders' Meeting of June 13, 2019, approved the proposed cancellation of 932,750 treasury shares, resulting in a reduction of share capital of 46,637.50 Swiss francs, retained earnings and other reserves of CHF 157.8 million offset by changes in treasury shares of CHF 157.9 million. This cancellation has been executed on September 24, 2019.

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The program started in October 2018 and will run up to 36 months. As of March 31, 2020 2,775,840 shares were purchased as part of the share buyback program.

Effective March 16, 2020, Sonova Holding AG suspended the Group's current share buyback program. This precautionary measure reflects the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19).

At the Annual General Shareholders' Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2020. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

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

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

4.7 Risk management

Group risk management

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

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

Financial risk management

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

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

Market risk

Exchange rate risk

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

To minimize foreign currency exchange risks, forward currency contracts are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between 1 and 6 months. No hedge accounting has been applied to these hedges.

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

As of March 31, 2020, the Group engaged in forward currency contracts amounting to CHF 337.3 million (previous year CHF 271.4 million). The open contracts on March 31, 2020 as well as on March 31, 2019 were all due within one year.

Notional amount of forward contracts CHF million		**31.3.2020**		**31.3.2019**
	Total	Fair value	Total	Fair value
Positive replacement values	119.3	2.3	132.2	0.3
Negative replacement values	218.0	(2.3)	139.2	(0.1)
Total	**337.3**	**0.0**	**271.4**	**0.2**

Foreign currency sensitivity analysis

CHF million	**2019/20**	**2018/19**	**2019/20**	**2018/19**
	Impact on income after taxes[1]		Impact on equity	
Change in USD/CHF +5%	2.8	4.4	13.2	13.8
Change in USD/CHF –5%	(2.8)	(4.4)	(13.2)	(13.8)
Change in EUR/CHF +5%	3.0	3.6	21.3	16.1
Change in EUR/CHF –5%	(3.0)	(3.6)	(21.3)	(16.1)

1) Excluding the impact of forward currency contracts.

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2019/20 financial year of CHF 574 million (previous year CHF 402 million). If interest rates during the 2019/20 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 3.2 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 4.9 million.

Other market risks

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

The Group aims to ensure cost effective sourcing, while at the same time managing the risk of supply shortages that could lead to a failure to deliver certain products at the quantities required. Wherever feasible, critical components are sourced from multiple suppliers in order to mitigate this risk.

The relationship with suppliers is governed by Sonova's Group Supplier Principles (SGSP). We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections. Suppliers have to follow all applicable laws and regulations, ensure a healthy and safe working environment and are prohibited from using child labor.

Through its multiple manufacturing sites around the globe, the Group maintains effective options to rebalance its production capacity between different facilities and to shift production where necessary to avoid delivery shortages and to adapt to potential changes of the operating or general environment.

Credit risk

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

Core banking relations are maintained with at least "BBB+" rated (S & P) financial institutions. As of March 31, 2020, the largest balance with a single counterparty amounted to 51% (previous year 27%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity, there is no single credit limit for all customers, however, the Group assesses its customers based on their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related parties. As part of the normal process, management held the regular Expected Credit Loss (ECL) Committee meeting to review the expected credit loss rates on an annual basis in March 2020. Given the current uncertainties in the markets, the ECL rates have been significantly increased. In addition, customer specific reviews were performed to consider the increased credit risk caused by COVID-19. Furthermore, subsequent to March 31, 2020, management also considered any late developments in the markets and the overall risk position from a group perspective based on macro-economic considerations and the revised business outlook for the financial year 2020/21.

Impairment of financial assets

Impairment losses on financial assets are calculated based on the expected credit loss (ECL) model of IFRS 9. The Group's loss allowances on financial assets other than trade receivables are not material.

Accounting policies

The Group applies the IFRS 9 simplified approach for measuring expected credit losses (ECLs) for trade receivables, which uses a lifetime expected loss allowance for trade receivables at each reporting date. To measure ECLs, trade receivables are grouped based on regions and the days past due. ECLs are calculated separately for state and non-state customers considering historical credit loss experience as well as forward-looking factors. Data sources in determining ECLs include actual historical losses, credit default swaps, country specific risk ratings, development of the customer structure and change in market performance and trends.

The following table provides information about the exposure to credit risk and ECLs for trade receivables:

CHF million				31.3.2020				31.3.2019
State customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Not overdue	0.5%	63.2	(0.3)	62.9	0.4%	81.4	(0.3)	81.1
Overdue 1–90 days	1.2%	24.5	(0.3)	24.2	0.7%	28.4	(0.2)	28.2
Overdue 91–180 days	6.5%	3.1	(0.2)	2.9	6.7%	3.0	(0.2)	2.8
Overdue 181–360 days	23.3%	3.0	(0.7)	2.3	9.1%	2.2	(0.2)	2.0
Overdue more than 360 days	97.3%	3.7	(3.6)	0.1	86.5%	5.2	(4.5)	0.7
Total	**5.2%**	**97.5**	**(5.1)**	**92.4**	**4.5%**	**120.2**	**(5.4)**	**114.8**

CHF million				31.3.2020				31.3.2019
Non-state customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Not overdue	6.1%	218.6	(13.4)	205.2	0.8%	314.2	(2.6)	311.6
Overdue 1–90 days	10.9%	72.6	(7.9)	64.7	4.2%	77.9	(3.3)	74.6
Overdue 91–180 days	33.6%	13.1	(4.4)	8.7	25.9%	13.5	(3.5)	10.0
Overdue 181–360 days	48.5%	13.0	(6.3)	6.7	49.7%	14.9	(7.4)	7.5
Overdue more than 360 days	76.7%	19.3	(14.8)	4.5	88.9%	19.0	(16.9)	2.1
Total	**13.9%**	**336.6**	**(46.8)**	**289.8**	**7.7%**	**439.5**	**(33.7)**	**405.8**

The closing loss allowances for trade receivables as at March 31, 2019 reconcile to the closing loss allowance as at March 31, 2020 as follows:

CHF million	2019/20	2018/19
Loss allowance for doubtful receivables, April 1	**(39.0)**	**(37.0)**
Changes through business combinations	(0.0)	(0.2)
Utilization	6.4	2.2
Reversal	2.6	4.2
Additions	(24.7)	(8.9)
Exchange differences	2.9	0.6
Loss allowance for doubtful receivables, March 31	**(51.9)**	**(39.0)**

Trade receivables are written off when there is no reasonable expectation of recovery. Impairment losses on trade receivables and subsequent recoveries are included in general and administration costs.

The additions to the loss allowance for doubtful receivables in 2019/20 relate to an increase in the expected credit loss (ECL) rates and the increased credit risk caused by COVID-19 as described above.

Liquidity risk

Group finance is responsible for centrally managing the net cash/debt position and to ensure that the Group's obligations can be settled on time. The Group aims to grow further and wants to remain flexible in making time-sensitive investment decisions. This overall objective is included in the asset allocation strategy. A rolling forecast based on the expected cash flows is conducted and updated regularly to monitor and control liquidity.

Visibility over the lion's share of bank accounts is provided by central treasury organization. Cash pools are automated and daily SWIFT balance tracking is applied where feasible.

In the context of the COVID-19 impacts, the Group has obtained additional financing and new credit lines (refer to Note 7.5) and continues to actively pursue appropriate measures to secure liquidity.

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2020 and 2019:

CHF million					**31.3.2020**
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Short-term debt	80.0	150.2			230.2
Other current financial liabilities	14.7	10.0			24.7
Trade payables and other short-term liabilities	246.9	158.7			405.6
Total current financial liabilities	**341.6**	**318.9**			**660.5**
Current lease liabilities	21.6	39.6			61.2
Bonds			359.7	199.4	559.1
Other non-current financial liabilities			32.8		32.8
Total non-current financial liabilities			**392.5**	**199.4**	**591.9**
Non-current lease liabilities			146.9	60.9	207.8
Total financial liabilities	**363.2**	**358.5**	**539.4**	**260.3**	**1,521.4**

CHF million					**31.3.2019**
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		250.0			250.0
Other current financial liabilities	3.3	3.1			6.4
Trade payables and other short-term liabilities	240.3	158.5			398.8
Total current financial liabilities	**243.6**	**411.6**			**655.2**
Bonds			359.5		359.5
Other non-current financial liabilities			12.6	0.5	13.1
Total non-current financial liabilities			**372.1**	**0.5**	**372.6**
Total financial liabilities	**243.6**	**411.6**	**372.1**	**0.5**	**1,027.8**

Capital risk management

It is the Group's policy to maintain a strong equity base and to secure a continuous "investment grade" rating. The Group's strong balance sheet and earnings tracking provides for additional debt capacity.

The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth, and amortization of debt. In the context of the COVID-19 impacts, the Group aims to maintain a higher cash balance.

4.8 Financial instruments

This note discloses the categorization of financial instruments measured at fair value based on the fair value hierarchy.

Accounting policies

Financial instruments measured at fair value are allocated to one of the following three hierarchical levels:

Level 1:
The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date.

Level 2:
The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques are based on observable market data, where applicable. If all significant inputs required to value an instrument are observable, the instrument is included in level 2.

Level 3:
If a significant amount of inputs is not based on observable market data, the instrument is included in level 3. For this level, other techniques, such as discounted cash flow analysis, are used to determine fair value.

During the reporting period, there were no reclassifications between the individual levels.

The following table summarizes the financial instruments of the Group and the valuation method for financial instruments at fair value through profit and loss.

CHF million						31.3.2020
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	450.2				
Other financial assets	4.4	33.6				
Trade receivables	3.1	382.1				
Other receivables	3.6	57.6				
Total		**923.5**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	4.2	4.2			4.2
Total		**4.2**	**4.2**			**4.2**
Financial liabilities at amortized cost						
Bank debt	4.5	230.2				
Bond	4.5	559.1	538.9	538.9		
Deferred payments	4.5	17.9				
Other financial liabilities	4.5	0.1				
Trade payables		104.3				
Other short-term operating liabilities	3.8	297.5				
Total		**1,209.1**	**538.9**	**538.9**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	5.3	5.3			5.3
Negative replacement value of forward foreign exchange contracts	4.7	2.3	2.3			2.3
Other financial liabilities	4.5	2.8	2.8			2.8
Total		**10.4**	**10.4**			**10.4**
Financial liabilities at fair value through other comprehensive income						
Contingent considerations	4.5	29.1	29.1	29.1		
Total		**29.1**	**29.1**	**29.1**		

[1] For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

CHF million						31.3.2019
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	374.8				
Other financial assets	4.4	37.8				
Trade receivables	3.1	520.6				
Other receivables	3.6	69.0				
Total		**1,002.2**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.1	2.1			2.1
Total		**2.1**	**2.1**			**2.1**
Financial liabilities at amortized cost						
Bank debt	4.5	0.3				
Bond	4.5	609.5	613.3	613.3		
Deferred payments	4.5	7.9				
Other financial liabilities	4.5	0.2				
Trade payables		102.8				
Other short-term operating liabilities	3.8	296.0				
Total		**1,016.7**	**613.3**	**613.3**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	6.9	6.9			6.9
Negative replacement value of forward foreign exchange contracts	4.7	0.1	0.1			0.1
Other financial liabilities	4.5	4.2	4.2			4.2
Total		**11.2**	**11.2**			**11.2**

[1] For financial assets and financial liabilities measured at amortized cost, fair value information is not provided if the carrying amount is a reasonable approximation of fair value.

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2020 and 2019:

Financial assets at fair value through profit or loss CHF million	2019/20	2018/19
Balance April 1	2.1	2.3
Additions/(disposals), net	2.2	0.5
Losses recognized in profit or loss	(0.1)	(0.7)
Balance March 31	**4.2**	**2.1**

Financial liabilities at fair value through profit or loss CHF million	2019/20	2018/19
Balance April 1	(11.2)	(17.9)
(Additions)/disposals, net	0.8	7.9
Gains/(losses) recognized in profit or loss	0.0	(1.2)
Balance March 31	**(10.4)**	**(11.2)**

Financial liabilities at fair value through profit or loss mainly consist of contingent consideration arrangements arising from business combinations (refer to Note 6.1). The fair values are determined by considering the possible scenarios of the future performance of the acquired companies, contractual obligations and milestone achievements, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales and other performance criteria. As at March 31, 2020 and 2019 the maximum potential payments under contingent considerations do not differ significantly from the amounts provided.

4.9 Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2020	31.3.2019	2019/20	2018/19
	Year-end rates		Average rates for the year	
AUD 1	0.59	0.71	0.67	0.72
BRL 1	0.19	0.26	0.24	0.26
CAD 1	0.68	0.74	0.74	0.75
CNY 1	0.14	0.15	0.14	0.15
EUR 1	1.06	1.12	1.10	1.15
GBP 1	1.20	1.30	1.25	1.30
JPY 100	0.89	0.90	0.91	0.89
USD 1	0.97	1.00	0.99	0.99

Accounting policies

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

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

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

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

5. Taxes

5.1 Taxes

CHF million	2019/20	2018/19
Current taxes	79.0	67.3
Deferred taxes	(66.1)	2.1
Total income taxes	**12.9**	**69.4**
Reconciliation of tax expense		
Income before taxes	502.4	529.6
Group's expected average tax rate	13.3%	13.5%
Tax at expected average rate	**66.8**	**71.7**
+/– Effects of		
Expenses not subject to tax, net	1.6	5.6
Changes of unrecognized loss carryforwards/deferred tax assets	8.2	12.5
Local actual tax rate different to Group's expected average tax rate	(15.0)	(25.6)
Change in tax rates on deferred tax balances	(1.8)	3.0
Transitional effect of Swiss tax reform	(64.1)	
Prior year adjustments and other items, net[1]	17.3	2.3
Total income taxes	**12.9**	**69.4**
Weighted average effective tax rate	2.6%	13.1%

[1] In 2019/20, other items include changes in uncertain tax positions.

The Group's expected average tax rate is the aggregate rate obtained by applying the expected tax rate for each individual jurisdiction to its respective result before taxes, adjusted for significant one-time effects. The expected tax rate might vary on a year-on-year basis depending on where the results are achieved.

Deferred tax assets and (liabilities) CHF million			**31.3.2020**			**31.3.2019**
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	28.0	(3.9)	24.1	34.8	(2.8)	32.0
Property, plant & equipment	1.4	(8.0)	(6.6)	1.4	(8.6)	(7.2)
Intangible assets		(88.4)	(88.4)		(104.9)	(104.9)
Right-of-use assets and lease liabilities	67.3	(67.1)	0.2			
Other assets and liabilities[1]	158.4	(49.4)	109.0	98.6	(55.0)	43.6
Tax loss carryforwards	35.2		35.2	42.1		42.1
Total tax assets (liabilities)	**290.3**	**(216.8)**	**73.5**	**176.9**	**(171.3)**	**5.6**
Offset of assets and liabilities	(92.3)	92.3		(32.7)	32.7	
Amounts in the balance sheet						
Deferred tax assets	198.0		198.0	144.2		144.2
Deferred tax liabilities		(124.5)	(124.5)		(138.6)	(138.6)
Total deferred taxes, net			**73.5**			**5.6**

1) Deferred tax assets manly relate to provisions and contract liabilities, deferred tax liabilities mainly relate to provisions, contract assets and trade and other receivables. In 2019/20, including deferred tax assets in the amount of CHF 60.5 million related to the Swiss tax reform as described below.

Movement of deferred tax assets and (liabilities) CHF million							**2019/20**
	Inventories	Property, plant & equipment	Intangible assets	Right-of-use assets and lease liabilities	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	32.0	(7.2)	(104.9)		43.6	42.1	5.6
Effect on initial application of IFRS 16 "Leases"				(0.3)			(0.3)
Changes through business combinations			(3.6)				(3.6)
Deferred taxes recognized in the income statement[1]	2.2	0.6	0.6	0.8	72.9	(11.1)	66.1
Deferred taxes recognized in OCI[2]					4.9		4.9
Exchange differences	(10.1)	0.1	19.4	(0.4)	(12.5)	4.2	0.8
Balance March 31	**24.1**	**(6.6)**	**(88.4)**	**0.2**	**109.0**	**35.2**	**73.5**

1) In 2019/20, deferred taxes recognized in the income statement include the impact from the Swiss tax reform as described below.
2) Other comprehensive income.

Movement of deferred tax assets and (liabilities) CHF million						**2018/19**
	Inventories	Property, plant & equipment	Intangible assets	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	28.2	(7.1)	(104.0)	3.6	52.6	(26.7)
Effect on initial application of IFRS 15 and IFRS 9				33.2		33.2
Changes through business combinations			(10.3)	0.6		(9.7)
Deferred taxes recognized in the income statement	1.3	(0.2)	3.1	4.8	(11.1)	(2.1)
Deferred taxes recognized in OCI[1]				2.3		2.3
Exchange differences	2.5	0.2	6.3	(1.0)	0.6	8.6
Balance March 31	**32.0**	**(7.2)**	**(104.9)**	**43.6**	**42.1**	**5.6**

1) Other comprehensive income.

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

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

CHF million	**31.3.2020**	**31.3.2019**
Within 1 year	41.5	29.0
Within 2–5 years	69.9	96.0
More than 5 years or without expiration	770.9	479.9
Total	**882.3**	**604.9**

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

Swiss tax reform

On May 19, 2019, the Swiss electorate passed the Federal Act on Tax Reform and AHV Financing (TRAF). The tax reform abolished the tax regimes for holding, domiciliary and mixed companies as of January 1, 2020 and introduced new tax measures. To the extent that the tax reform requires cantonal and communal tax law changes, these had to be implemented through modification of the cantonal tax law. On September 1, 2019, in a public vote, the electorate of the canton of Zurich accepted the respective revision of the cantonal tax law. The relevant changes to the Group include a decrease in the statutory income tax rate in the canton of Zurich, effective from January 1, 2021.

The TRAF and tax practice also foreseen measures to ease the transition between the old and new tax regime. After a substantial change in the Swiss tax administration interpretation of such practices early December 2019, the Group has revalued its Swiss deferred tax positions which resulted in one time deferred tax liabilities and assets for a total net impact of 64.1 million on income after taxes in the financial year 2019/20.

Accounting policies

Income taxes include current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions and significant judgment is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations implies estimates and assumptions. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and outcome is uncertain. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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

Accounting judgements and estimates

The consolidated balance sheet includes deferred tax assets of CHF 137.5 million (previous year CHF 144.2 million) related to deductible differences and, in certain cases, tax loss carry forwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

Deferred tax assets further include CHF 60.5 million (previous year: none) related to the Swiss tax reform as described above. The calculation of the deferred tax assets required management to make significant estimates and assumptions. Some of these estimates are based on interpretations of existing tax laws or regulations. The final outcome is still uncertain and might lead to adjustments in the next financial year. Whenever circumstances have changed or there is new information that affects these judgements, the judgements and estimates will be reassessed.

6. Changes in Group structure

6.1 Acquisitions/disposals of subsidiaries

In the financial year 2019/20, the Group acquired several small companies in EMEA and North America. All of these companies acquired are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. During the financial year 2018/19, the Group acquired several small companies in Europe, North America and Asia/ Pacific. Furthermore, the Group divested several audiological care stores in the US region.

In the current financial year, the Group acquired a 51% majority stake in a company active in technology development. An agreement has been concluded with the seller for the acquisition of the remaining 49% shares in the company. Based on the terms and conditions of the agreement, the Group considers the outstanding minority interests to have already been acquired and consolidates 100% of the company since acquisition.

Except for one acquisition, which is active in technology and development, all other acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the acquisition method of accounting. Assets and liabilities resulting from the acquisitions are as follows:

CHF million	2019/20	2018/19
	Total	Total
Trade receivables	1.1	1.9
Other current assets	4.0	9.0
Property, plant & equipment	1.2	2.0
Rights of use the assets	0.7	
Intangible assets	17.2	22.4
Other non-current assets	0.4	0.7
Current liabilities	(4.3)	(10.7)
Non-current liabilities	(4.5)	(10.7)
Net assets	**15.8**	**14.7**
Goodwill	97.4	55.4
Purchase consideration	**113.3**	**70.1**
Fair value of previously held stake before the business combination	(1.3)	(2.4)
Liabilities for contingent considerations and deferred payments[1)]	(45.9)	(7.7)
Cash and cash equivalents acquired	(3.2)	(4.5)
Cash outflow for investments in associates, contingent considerations and deferred payments	11.9	8.6
Cash consideration for acquisitions, net of cash acquired	**74.8**	**64.1**
Settlement of pre-existing financing relationships		2.3
Total consideration paid, net of cash acquired	**74.8**	**66.4**

1) Contingent considerations and deferred payments (earn-out payments) are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments is based on the latest estimate of the future performance.

The initial accounting for the acquisitions completed in the current financial year is provisional and the fair values assigned to the identifiable assets acquired and liabilities assumed are still subject to change.

Liabilities for contingent considerations amount to CHF 34.1 million (previous year CHF 5.3 million) and deferred payments amount to CHF 11.8 million (previous year CHF 2.4 million). The liability acquired for contingent considerations and deferred payments in the current financial year relates primarily to the acquisition of the before mentioned technology development company. Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations and milestone achievements. The liability for the contingent considerations is based on the latest estimate of the future performance and milestone achievement and is expected to be paid out in tranches over a period of 4 years.

The goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of Sonova products within acquired distribution companies and cost reduction in administrative and corporate functions as well as to the labor force. For one acquisition, the goodwill is mainly attributable to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Acquisition-related intangible assets in the amount of CHF 17.2 million (previous year CHF 22.4 million) contain in-process research & development of CHF 7.0 million (previous year: none) and customer relationships of CHF 10.2 million (previous year CHF 22.4 million). The assigned lifetime range is 5 years for in-process research & development and between 10 and 15 years for customer relationships. On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 1.0 million (previous year CHF 0.5 million) have been expensed and are included in the line “General and administration”.

April 1 to March 31, CHF million	**2019/20**	**2018/19**
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	7.8	10.6
Net income	0.3	2.9
Contribution, if the acquisitions occurred on April 1		
Sales	15.2	32.8
Net income	1.4	6.4

In the financial year 2018/19, the Group divested several audiological care stores in the US region. The total consideration amounting to CHF 1.5 million was settled in cash. The resulting net gain of those transactions of CHF 0.3 million has been recognized in the income statement and is included in “other income/(expense), net”.

Accounting policies

Business combinations are accounted for using the acquisition method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company. Any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired (Refer to Note 3.5). Acquisition-related costs are expensed. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

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

Accounting judgements and estimates

Business combinations

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

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

Cost of business combinations

A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resulting change in the income statement. At the end of the 2019/20 financial year, such liabilities contingent on future events amount to CHF 34.4 million (previous year CHF 6.9 million) and are disclosed under other financial liabilities (Note 4.5).

6.2 Investments in associates/joint ventures

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

CHF million	2019/20	2018/19
Current assets	2.6	1.2
Non-current assets	2.5	1.5
Total assets	**5.1**	**2.6**
Current liabilities	(0.7)	(0.4)
Non-current liabilities	(0.6)	(0.0)
Total liabilities	**(1.3)**	**(0.4)**
Net assets	**3.8**	**2.2**
Income for the year	5.9	5.2
Expenses for the year	(3.4)	(3.1)
Profit for the year	**2.4**	**2.1**
Net book value at year-end	17.4	12.8
Share of gain/(loss) recognized by the Group	2.4	2.1

In the financial year 2019/20, the Group acquired two associates with a share of 49% and 24.99% respectively. One company is in the business of selling hearing instruments, the other one is a medical technology company. The total consideration for both transactions amounted to CHF 6.2 million. In addition, the group acquired additional shares in one previously held equity investment, resulting in a change of control (step up acquisition). Since the change of control, this company is fully consolidated. The net book value at the time of gaining control over this entity amounted to CHF 1.4 million.

In the financial year 2018/19, the Group acquired additional shares in one previously held equity investment, resulting in a change of control (step up acquisition). Since the change of control, this company is fully consolidated. The net book value at the time of gaining control over this entity amounted to CHF 1.3 million.

Sales to associates/joint ventures in the 2019/20 financial year amounted to CHF 8.7 million (previous year CHF 9.1 million). At March 31, 2020, trade receivables towards associates/joint ventures amounted to CHF 1.9 million (previous year CHF 2.2 million).

At the end of the 2019/20 and 2018/19 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 17.4 million (previous year CHF 12.8 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2019.

Accounting policies

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

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

7. Other disclosures

7.1 Number of employees

On March 31, 2020, the Sonova Group employed the full time equivalent of 15,184 people (previous year 14,740). They were engaged in the following regions and activities:

By region	31.3.2020	31.3.2019
Switzerland	1,290	1,224
EMEA (excl. Switzerland)	6,866	6,748
Americas	3,550	3,443
Asia/Pacific	3,478	3,325
Total	**15,184**	**14,740**
By activity		
Research and development	842	778
Operations	4,618	4,665
Sales and marketing, general and administration	9,724	9,297
Total	**15,184**	**14,740**

The average number of employees (full time equivalents) of the Sonova Group for the year was 15,002 (previous year 14,418). Total personnel expenses for the 2019/20 financial year amounted to CHF 1,037.6 million (previous year CHF 1,010.9 million).

7.2 Transactions and relations with members of the Management Board and the Board of Directors

CHF million	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
	Management Board		Board of Directors		Total	
Short-term employee benefits	8.6	7.8	1.9	1.8	10.5	9.6
Post-employment benefits	0.6	0.7			0.6	0.7
Share based payments	4.8	4.5	1.5	2.0	6.3	6.5
Total	**14.0**	**13.1**	**3.4**	**3.8**	**17.4**	**16.8**

The total compensation to the Management Board for the 2019/20 reporting period, as shown above, relates to nine members of the Management Board. The total compensation to the Management Board for the 2018/19 reporting period, as shown above, related to nine members.

The total compensation to the Board of Directors for the 2019/20 reporting period, as shown above, relates to eight active members and one former member (previous year nine members).

Transactions between the Group and the various post-employment benefit plans for the employees of the Group are described in Note 7.3.

Further information in accordance with Swiss law relating to remuneration and ownership of shares and options of the Board of Directors and the Management Board can be found in the compensation report and in the Note 3.6 of the financial statements of Sonova Holding AG.

7.3 Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Israel. These plans are both funded and unfunded and governed by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland, which in total accounts for CHF 442.9 million or 99.6% (previous year CHF 405.5 million or 99.6%) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions as defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. Above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. An annuity rate of 5.4% to the individual accumulated retirement savings capital was applied for the financial years 2019/20 and 2018/19.

As of March 31, 2020, 1,328 employees (previous year 1,270 employees) and 133 beneficiaries (previous year 123 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.9 years (previous year 13.7 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF million	**31.3.2020**	**31.3.2019**
Present value of funded obligations	(444.5)	(407.0)
Fair value of plan assets	375.4	383.2
Net present value of funded plans	**(69.1)**	**(23.8)**
Present value of unfunded obligations	(4.4)	(2.2)
Total liabilities, net	**(73.5)**	**(26.0)**
Amounts in the balance sheet:		
Retirement benefit obligation	(73.5)	(26.0)

Remeasurements recognized in equity CHF million	**2019/20**	**2018/19**
Balance April 1	32.0	15.0
Actuarial losses/(gains) from		
– changes in financial assumptions	6.0	15.9
– changes in experience adjustments	15.2	3.1
Return on plan assets excluding interest income	23.9	(2.0)
Balance March 31	**77.1**	**32.0**

Amounts recognized in the income statement CHF million	**2019/20**	**2018/19**
Current service cost	27.7	26.0
Participants' contributions	(11.8)	(11.4)
Net interest cost	0.2	0.1
Total employee benefit expenses[1]	**16.0**	**14.7**

[1] The amount recognized in the consolidated income statement 2019/20 has been charged to:
– cost of sales CHF 2.8 million (previous year CHF 2.7 million);
– research and development CHF 5.3 million (previous year CHF 4.9 million);
– sales and marketing CHF 3.4 million (previous year 3.0 million);
– general and administration CHF 4.3 million (previous year CHF 4.0 million);
– financial expenses CHF 0.2 million (previous year CHF 0.1 million).

Movement in the present value of the defined benefit obligations CHF million	**2019/20**	**2018/19**
Beginning of the year	409.2	373.0
Interest cost	2.3	3.2
Current service cost	27.7	26.0
Benefits paid, net	(11.4)	(12.0)
Actuarial loss on obligations	21.2	19.0
Exchange differences	(0.2)	(0.1)
Present value of obligations at end of period	**448.9**	**409.2**

Movement in the fair value of the plan assets CHF million	**2019/20**	**2018/19**
Beginning of the year	383.2	365.6
Interest income on plan asset	2.1	3.1
Employer's contributions paid	13.5	12.7
Participants' contributions	11.8	11.4
Benefits paid, net	(11.3)	(11.7)
Return on plan assets excluding interest income	(23.9)	2.0
Exchange differences	(0.0)	0.0
Fair value of plan assets at end of period	**375.4**	**383.2**

The plan assets consist of:	31.3.2020	31.3.2019
Cash	2.4%	2.3%
Domestic bonds	17.0%	16.4%
Foreign bonds	8.7%	10.0%
Domestic equities	12.5%	13.3%
Foreign equities	28.7%	31.2%
Real estates	16.3%	15.0%
Alternative investments	14.4%	11.8%

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF –21.8 million (previous year CHF 5.1 million). The expected employer's contributions to be paid in the 2020/21 financial year amount to CHF 13.7 million.

Principal actuarial assumptions (weighted average)	2019/20	2018/19
Discount rate	0.45%	0.55%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2015GT

The following sensitivity analysis shows how the present value of the benefit obligation for the Swiss retirement benefit plan would change if one of the principal actuarial assumptions was changed. For the analysis, changes in the assumptions were considered separately and no interdependencies were taken into account.

Sensitivity analysis – impact on defined benefit obligation CHF million	31.3.2020	31.3.2019
Discount rate		
Discount rate +0.25%	(14.2)	(12.9)
Discount rate –0.25%	16.1	14.6
Salary growth		
Salary growth +0.25%	0.8	0.7
Salary growth –0.25%	(0.8)	(0.7)
Pension growth		
Pension growth +0.5%	16.5	14.8
Pension growth –0.5%	(16.5)	(14.8)
Fluctuation rate		
Fluctuation rate +5%	(16.7)	(14.9)
Fluctuation rate –5%	28.6	25.4

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 23.5 million in the year ended March 31, 2020 (previous year CHF 21.4 million) and are recognized directly in the income statement.

Accounting policies

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

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

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

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

Accounting judgements and estimates

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2019/20 financial year amounts to CHF 448.9 million (previous year CHF 409.2 million). This includes CHF 442.9 million (previous year CHF 405.5 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term, such deviations could have an impact on the equity.

7.4 Equity plans

Equity plans are offered annually to the members of the Board of Directors (BoD), to the members of the Management Board (MB) as well as to other management and senior employees of the Group, entitling them to receive long-term incentives in the form of equity plans free of charge. Equity plans are settled either with Sonova Holding AG shares (equity-settled share-based payment) or for certain US employees with an equivalent amount in cash (cash-settled share-based payment). The amount granted varies depending on the degree of management responsibility held.

In the 2019/20 and 2018/19 financial years, as part of the Executive Equity Award Plan (EEAP) Sonova granted restricted shares, restricted share units (RSUs), performance share units (PSUs), options, and for US employees, share appreciation rights (SARs). Options as well as PSUs granted to the Management Board in 2019/20 and 2018/19 include a performance criterion (for further information refer to compensation report).

For further details on the different instruments granted (especially in regards to performance criteria) to the members of the Management Board, please refer to the compensation report.

The following share-based payment costs have been recognized in the financial years:

CHF million	**2019/20**	**2018/19**
Equity-settled share-based payment costs	19.3	18.8
Cash-settled share-based payment costs	0.6	0.4
Total share-based payment costs	**19.9**	**19.2**

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2014 to 2020. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO in 2017/18) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the CEO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2020:

Financial year granted	Instruments granted	First vesting date/ expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2013/14	Options/SARs[1)]	1.6.2015 31.1.2021	242,673	124.60	12,606	0.8	12,606
2014/15	Options/SARs[2)]	1.6.2016 31.1.2022	308,459	121.10	58,864	1.8	58,864
2015/16	Options/SARs[3)]	1.6.2017 31.1.2023	298,520	124.20	100,288	2.8	55,705
2016/17	Options/SARs[4)]	1.6.2018 31.1.2024	378,652	130.00	199,599	3.8	64,861
2017/18	Options[5)]	1.4.2023 30.9.2027	47,415	147.85	47,415	7.5	
2017/18	Options/SARs[6)]	1.6.2019 31.1.2028	341,943	147.85	257,169	7.8	44,433
2018/19	Options/SARs[7)]	1.6.2020 31.1.2029	249,760	182.40	233,867	8.8	
2019/20	Options/SARs[8)]	1.6.2021 31.1.2030	208,245	241.80	208,245	9.8	
Total			**2,075,667**		**1'118'053**[9)]	**6.8**	**236'469**[10)]
Thereof:							
Equity-settled			1,840,411		1,010,087		216,608
Cash-settled			235,256		107,966		19,861

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Non-recurring performance options, granted to the COO (now CEO).
6) Including 150,114 performance options, granted to the CEO and MB members.
7) Including 80,850 performance options, granted to the CEO and MB members.
8) Including 77,574 performance options/SAR, granted to the CEO and MB members.
9) Weighted average exercise price of outstanding options/SARs amounts to CHF 165.60
10) Weighted average exercise price for exercisable options/SARs amounts to CHF 129.48

The fair value of options and/or SARs is calculated at the grant date by using an "Enhanced American Pricing Model". The expected volatility is based on historical measures. The main valuation assumptions used for the options and/or SARs granted in the current and in the previous financial year are as follows:

Assumptions for valuation at grant date	**EEAP 2020 – Management Board Options/SARs**	**EEAP 2020 Options/SARs**	**EEAP 2019 Options/SARs**
Valuation date	1.2.2020	1.2.2020	1.2.2019
Expiry date	31.01.2030	31.01.2030	31.1.2029
Restriction period	5 years		
Share price on grant date	CHF 241.80	CHF 241.80	CHF 182.40
Exercise price	CHF 241.80	CHF 241.80	CHF 182.40
Volatility	20.3%	20.3%	21.0%
Expected dividend yield	1.6%	1.6%	1.8%
Weighted risk free interest rate	(0.5%)	(0.6%)	(0.2%)
Weighted average fair value of options/SARs issued	**33.34**	**31.98**	**26.12**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment. In the financial year 2019/20 the options granted to the CEO and the members of the MB include a restriction period of 5 years, which was considered in the fair value of the options at grant date.

Changes in outstanding options:		**2019/20**		**2018/19**
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,147,865	142.76	1,197,443	130.87
Granted[1]	182,407	241.80	215,382	182.40
Exercised/sold[2]	(248,711)	125.49	(232,189)	119.59
Forfeited	(71,474)	145.40	(32,771)	133.06
Outstanding options at March 31	**1,010,087**	**165.54**	**1,147,865**	**142.76**
Exercisable at March 31	**216,608**	**129.56**	**217,568**	**121.64**

1) 2019/20 includes 72,176 performance options (previous year 80,850 performance options), granted to the CEO and MB members.

2) The total consideration from options exercised amounted to CHF 27.9 million (previous year CHF 27.9 million). The weighted average share price of the options exercised during the year 2019/20 was CHF 223.68 (previous year CHF 176.49).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs, multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options granted to the members of the MB) to ensure that only a charge for vested amounts occur. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until they expire, except for the SARs granted to members of the MB in the financial year 2019/20, which include a restriction period of 5 years.

Changes in outstanding SARs:		**2019/20**		**2018/19**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	113,024	148.27	102,369	132.90
Granted	25,838	241.80	34,378	182.40
Exercised/sold	(22,168)	128.22	(8,522)	124.84
Forfeited	(8,728)	159.37	(15,201)	135.08
Outstanding SARs at March 31[1]	**107,966**	**173.87**	**113,024**	**148.27**
Exercisable at March 31[2]	**19,861**	**128.61**	**22,423**	**123.17**

1) The carrying amount of the liability relating to the SARs at March 31, 2020 is CHF 3.6 million (previous year CHF 4.0 million).
2) The intrinsic value of the SARs exercisable at March 31, 2020 amounts to CHF 0.9 million (previous year CHF 1.7 million).

Performance share units (PSUs)

In 2020, as well as in the previous year, grants made to the members of the Management Board under the EEAP consist of PSUs. The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a "Monte-Carlo valuation". PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion. PSUs granted in 2020 are subject to a restriction period, which was considered in the fair value of the PSU at grant date. Upon vesting of the PSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the PSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period, including adjustments due to re-assessments of the likely achievements of the rTSR targets for performance of PSUs granted to CEO and the other members of the MB, to ensure that only vested amounts are expensed.

Assumptions for valuation at grant date	PSU 2020	PSU 2019
Valuation date	1.2.2020	1.2.2019
Date of grant	1.2.2020	1.2.2019
Share price on grant date	CHF 241.80	CHF 182.40
Fair value	CHF 266.80	CHF 224.38
End of restriction period	20 months	none
Performance conditions	Total shareholder return (TSR)	Total shareholder return (TSR)
TSR performance period	1.2.2020 – 31.3.2023	1.2.2019 – 31.3.2022
TSR comparator group	Swiss Leader Index (SLI)	Swiss Leader Index (SLI)

Restricted share units (RSUs)

Under the EEAP grants 2014 to 2020, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. Upon vesting of the RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that only vested amounts are expensed.

Restricted shares

In addition to the PSUs granted in respect to the EEAP 2020, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors in the financial year 2019/20 and 2018/19. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2019/20 financial year as these shares have no vesting period.

Changes in outstanding PSUs/RSUs/Restricted shares:				2019/20				2018/19
	Number of PSUs	Number of RSUs	Number of restricted shares	Total	Number of PSUs	Number of RSUs	Number of restricted shares	Total
Balance April 1	25,877	305,436	68,574	399,887	18,001	344,990	72,515	435,506
Granted	8,284	63,075	6,157	77,516	7,876	83,326	10,960	102,162
Released		(87,669)	(14,473)	(102,142)		(94,899)	(14,901)	(109,800)
Forfeited	(2,472)	(21,777)		(24,249)		(27,981)		(27,981)
Balance March 31	**31,689**	**259,065**	**60,258**	**351,012**	**25,877**	**305,436**	**68,574**	**399,887**

Accounting policies

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

7.5 Events after the balance sheet date

On April 6, 2020, the Group issued a CHF 330 million two year fixed-rate bond with interest rate of 0.55% and maturity date of April 6, 2022. The bond was issued at 100.084% for the first tranche of CHF 260 million and at 100.139% for the second tranche of CHF 70 million.

On April 29, 2020, the Group reached an agreement on terms with three of its relationship banks for a CHF 300 million revolving bridge facility. This will be committed for a period of 12 months after closing, with an option to extend by further 4 months, i.e. a maximum of 16 months.

The global health and economic crisis resulting from the COVID-19 pandemic is severely affecting the hearing care market and with it the Group’s business activities. Audiology stores, the primary consumer channel for hearing care products and services, are either closed or operating with much reduced hours. The Cochlear Implants business is also affected, as the majority of healthcare providers have decided to defer all non-essential surgery. In this context, Sonova has implemented strict cost-reduction programs, which includes government-subsidized work time reductions in a number of countries.

7.6 List of significant companies

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,220	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	100%
Advanced Bionics AG	A, B	Stäfa	CHF	4,350	100%
Sonova Retail Holding AG	A	Zug	CHF	1,000	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Retail Belgium NV	B	Groot-Bijgaarden (BE)	EUR	3,686	100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Vitakustik GmbH	B	Dortmund (DE)	EUR	500	100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR	1,000	100%
Sonova Retail Denmark ApS	B	Klampenborg (DK)	DKK	1,621	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	58,800	100%
SOD Invest SAS	B	Cahors (FR)	EUR	58,600	100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR	1,000	100%
Sonova Italia Srl	B	Milan (IT)	EUR	1,040	100%
AudioNova Italia	B	Milan (IT)	EUR	1,166	100%
Sonova Audiological Care Nederland B.V.	B	Dortrecht (NL)	EUR	19	100%
Sonova Audiological Care Polska Sp.z.o.o.	B	Lodz (PL)	PLN	678	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100%
Sonova Israel Ltd.	B	Haifa (IL)	ILS	5,150	100%

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.
1) Share/paid-in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) GBP 133

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000			Shares held
Americas						
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	67,179		100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	2)	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0	2)	100%
Connect Hearing Inc.	B	Naperville (US)	USD	0	3)	100%
Sonova USA, Inc.	B	Plymouth (US)	USD	46,608		100%
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	2)	100%
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0	2)	100%
Development Finance Inc.	A	Wilmington (US)	USD	0	4)	100%
Asia/Pacific						
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	58,000		100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	10,475		100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100%
Triton Hearing Ltd.	B	Auckland (NZ)	NZD	20,450		100%
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100%

Activities:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities.
C Production: This entity performs manufacturing for the Group.
D Research: This entity performs research and development activities for the Group.
1) Share/paid-in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) Without par value
3) USD 1
4) USD 10

7.7 Other accounting policies

Investments in subsidiaries

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

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

Related parties

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

7.8 Effect of new accounting standards

IFRS 16 “Leases”

The standard replaces IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The main impact for the Group is on the recognition of new assets and liabilities, primarily for its property and car lease agreements. In addition, the nature of the expenses related to those leases changes as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. In the consolidated cash flow statement, repayment of lease liabilities is included in financing activities and no longer in cash flow from operating activities.

The Group has adopted IFRS 16 using the modified retrospective approach. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 17.

At transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as at April 1, 2019. Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognized immediately before the date of initial application.

The reconciliation of payment obligations from operating leases as at March 31, 2019 for initial recognition as at April 1, 2019 is as follows:

in CHF million	**April 1, 2019**
Operating lease commitments as at March 31, 2019 (IAS 17)	**234.6**
Discounting using the incremental borrowing rate as at April 1, 2019	(14.0)
Short-term and low value leases recognized on a straight-line basis as expense	(4.3)
Adjustments relating to different treatment of contracts and extension and termination options	68.7
Lease liabilities as at April 1, 2019	**285.0**
thereof short-term	63.1
thereof long-term	221.9

The weighted average incremental borrowing rate as at April 1, 2019 was 1.4%.

Impact on consolidated balance sheet and cash flow statement

The following table summarizes the impact of IFRS 16 on the Group's consolidated balance sheet at April 1, 2019 and on the consolidated cash flow statement for the financial year 2019/20 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided.

Balance sheet

Assets CHF million	**1.4.2019 with IFRS 16**	**IFRS 16 effect**	**31.3.2019 without IFRS 16**
Right-of-use assets	278.1	278.1	
Total non-current assets	**3,258.7**	**278.1**	**2,980.6**
Total assets	**4,570.6**	**278.1**	**4,292.5**

Liabilities and equity CHF million	**1.4.2019 with IFRS 16**	**IFRS 16 effect**	**31.3.2019 without IFRS 16**
Current lease liabilities	63.1	63.1	
Short-term provisions	128.2	(1.0)	129.2
Total current liabilities	**1,092.2**	**62.1**	**1,030.1**
Non-current lease liabilities	221.9	221.9	
Long-term provisions	117.0	(5.9)	122.9
Total non-current liabilities	**1,102.3**	**216.0**	**886.3**
Total liabilities	**2,194.4**	**278.1**	**1,916.3**
Total liabilities and equity	**4,570.6**	**278.1**	**4,292.5**

Consolidated cash flow statement

April 1 to March 31, in CHF million	**2019/20 with IFRS 16**	**IFRS 16 effect**	**2019/20 without IFRS 16**
Income before taxes	**502.4**	**(1.1)**	**503.5**
Depreciation and amortization of tangible and intangible assets and right-of-use assets	200.1	65.9	134.2
Increase (decrease) in long-term provisions and long-term contract liabilities	22.2	(0.5)	22.7
Financial expense/(income), net	10.0	4.0	6.0
Cash flow from operating activities	**843.3**	**68.3**	**775.0**
Repayment of lease liabilities	(64.3)	(64.3)	0.0
Interest paid	(5.0)	(4.0)	(1.0)
Cash flow from financing activities	**(550.4)**	**(68.3)**	**(482.1)**

As a result of IFRS 16, the cash flow from operating activities for the financial year 2019/20 increased by CHF 68.3 million and the cash flow from financing activities reduced by the same amount.

For the financial year 2019/20 the adoption of IFRS 16 had a minor positive impact of CHF 2.9 million on the EBITA result and a negative impact of CHF 1.1 million on income after taxes.

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated income statements, consolidated statement of comprehensive income, consolidated balance sheets as at 31 March 2020, consolidated cash flow statements and consolidated changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2020 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements” section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 27,500,000

We concluded full scope audit work at 23 reporting units in 12 countries. Our audit scope addressed over 68% of the Group's revenue and 78% of the Group's assets.

In addition, specified procedures were performed for 6 reporting units in 6 countries representing a further 5% of the Group's revenue and 3% of the Group's assets and limited review for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 8% of the Group's assets.

As key audit matters the following areas of focus have been identified:

Goodwill Impairment Assessment

Provision for Product Liabilities

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall materiality	CHF 27,500,000 adjusted for one-time effects
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 1,250,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

The Group is primarily structured across two operating segments: Hearing Instruments and Cochlear Implants. Both segments are active in several markets, mainly Americas, Europe, Asia, Australia and South East Asia. In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed by us, as the Group audit team, by component auditors from PwC network firms and component auditors from other firms operating under our instructions. The group consolidation, financial statement disclosures and goodwill are audited by the Group Engagement team. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole. Our Group engagement team’s involvement included various conference calls with component auditors during the planning phase, interim and final audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Goodwill impairment assessment

Key audit matter	How our audit addressed the key audit matter
The Group has goodwill of CHF 1,951.4 million at March 31, 2020. The goodwill impairment assessment is considered as a Key audit matter due to the magnitude of the balance as well as the considerable judgements and estimates made by Management. The judgements and estimates include the initial valuation and subsequent determination of the timing and measurement of an impairment charge, if any. Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied and the most recent business plans. Refer to note 3.5 (Intangible assets).	We have obtained impairment assessments for the CGU Hearing Instruments and the CGU Cochlear Implants from Management and performed the following procedures, amongst other: We assessed the design of the controls over the Group's Budget- and Management Reporting process, which is the basis for the future cash flow forecasts. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which included the timely oversight and discussion with the Board of Directors. We assessed the identification of the relevant CGUs. We evaluated and challenged the reasonableness of Management's key assumptions applied in its impairment assessments for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the key assumptions had with hindsight, been reasonable. • Any significant changes to key assumptions from prior periods by considering whether they had been applied appropriately in the cash flow projection. • Growth rates, by comparing them to economic and industry forecasts and operating margins with comparable companies. • Discount rate, with support of our valuation experts, by assessing the risk adjusted cost of capital used to derive the discount rate for the Group and comparable organisations. • Implications of any potential triggering events and subsequent events on key assumptions. We performed our own sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.

Provisions for product liabilities

Key audit matter	How our audit addressed the key audit matter
Provisions for product liabilities amounted to CHF 120.4 million as of March 31, 2020. The provisions for product liabilities comprise provisions for the voluntary product recall of Advanced Bionics LLC in 2006 and the voluntary field corrective action as announced on February 18, 2020. These liabilities include cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. We consider this to be a Key audit matter due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition, the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially affect the Group's result. Refer to note 3.7 (Provisions)	In response to the risk, our audit procedures included, assessing Management's process around the identification and evaluation of respective claims, proceedings and investigations in the organization and the recording and continuous reassessment of the related provision and disclosures. We inquired with executive Management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors. We also received external legal confirmation letters from relevant external legal counsels. Management uses developed models to calculate the product liabilities (the Models). In case of the existing provision relating to the voluntary product recall of Advanced Bionics LLC in 2006, the key assumptions within the Model are consistent to the prior year. The provisions are based on historical average claim rates and costs per claim considering the respective models. We tested the Models' mathematical integrity, the accuracy of the underlying calculations and the overall provisions, including the key determining factors like devices in the market, failure rates, claim rates and costs per case. Based on our procedures performed, the provision had been reasonably based on the information currently available to Management.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements of Sonova Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm Audit expert Auditor in charge	Dominik Hattrup Audit expert

Zürich, 14 May 2020

Enclosure:

- Consolidated financial statements (consolidated income statements, consolidated statement of comprehensive income, consolidated balance sheets, consolidated cash flow statements, consolidated changes in equity and notes to the consolidated financial statements as of March 31, 2020)

Financial statements of Sonova Holding AG

Income statements

CHF million	Notes	2019/20	2018/19
Income			
Investment income		274.3	287.3
Financial income	2.1	8.3	20.0
Total income		**282.7**	**307.2**
Expenses			
Administration expenses		(11.5)	(9.9)
Other expenses		(0.8)	(0.8)
Financial expenses	2.1	(47.1)	(34.3)
Direct taxes		(0.3)	0.2
Total expenses		**(59.6)**	**(44.8)**
Net profit for the year		**223.1**	**262.4**

Balance sheets

Assets CHF million	Notes	31.3.2020	31.3.2019
Cash and cash equivalents		0.4	12.4
Other receivables			
– Group companies		9.7	3.8
Prepaid expenses		0.6	0.1
Total current assets		**10.8**	**16.3**
Financial assets	2.2		
– Third parties		0.9	0.5
– Group companies		1,846.9	2,153.3
Investments	2.3	321.5	322.6
Total non-current assets		**2,169.3**	**2,476.4**
Total assets		**2,180.1**	**2,492.7**

Liabilities and shareholders' equity CHF million	Notes	31.3.2020	31.3.2019
Bank loans		150.0	
Trade account payables			
– Third parties		0.1	0.1
Short-term interest-bearing liabilities			
– Third parties		0.2	0.0
– Group companies			46.2
Bond	2.4		250.0
Other short-term liabilities to third parties		20.8	8.9
Accrued liabilities		6.4	5.9
Total short-term liabilities		**177.5**	**311.1**
Bonds	2.4	560.0	360.0
Total long-term liabilities		**560.0**	**360.0**
Total liabilities		**737.5**	**671.1**
Share capital		3.2	3.3
Legal reserves			
– Reserves from capital contribution		18.5	18.6
– General reserves		1.8	1.8
– Legal reserves for treasury shares held by subsidiaries		22.7	
Voluntary retained earnings			
– Balance carried forward		1,597.9	1,702.5
– Net profit for the year		223.1	262.4
Treasury shares			
– Treasury shares to offset with reserves from capital contribution		(18.5)	
– Treasury shares	2.5	(406.2)	(166.9)
Total shareholders' equity		**1,442.5**	**1,821.7**
Total liabilities and shareholders' equity		**2,180.1**	**2,492.7**

Notes to the financial statements of Sonova Holding AG as of March 31, 2020

1. General information

The financial statements of Sonova Holding AG, with registered office in Stäfa, comply with the requirements of Swiss Law on Accounting and Financial Reporting (32nd title of the Swiss Code of Obligations, 'SCO'). The company does not have any employees.

2. Accounting principles

2.1 Financial income/expenses

Financial income/expenses consists of gains and losses from sale/transfer of shares in relation to long-term incentive plans, realized/unrealized foreign exchange gains and losses as well as interest income/expenses.

2.2 Financial assets

Financial assets contain loans to third parties as well as to Group companies and are recognized at cost less adjustments for foreign currency losses and impairment of value. Loans granted in foreign currency are translated at balance sheet date.

2.3 Investments

Investments consist mainly of participations in fully consolidated Group companies. They are in general subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature.

2.4 Bonds

Bonds are valued at nominal value. Any bond premium/discount is accrued/capitalized and released/amortized linearly over the term.

2.5 Treasury shares

Treasury shares are recognized at cost and deducted from shareholders' equity. The gain or loss from sale is recognized in the income statement as financial gain or financial loss.

3. Information on income statement and balance sheet items

3.1 Bonds

During the 2019/20 financial year, the Group had the following bonds outstanding:

- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with a 0.00% interest rate. The bond was repaid on October 11, 2019.
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis.
- A 10 year fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041592) issued at 100% with a 0.00% interest rate and maturity on October 11, 2029.
- A 15 years fixed-rate bond with a nominal value of CHF 100 million (ISIN CH0419041600) issued at 100% with interest of 0.40% p.a. and maturity on October 11, 2034. Interests will be paid on an annual basis.

3.2 Treasury shares

Out of total treasury shares amounting to 1,868,127 shares on March 31, 2020, 1,843,090 shares were purchased by the company as part of the share buyback program. The average selling price amounted to CHF 129.24 and the average purchase price to CHF 225.95.

Effective March 16, 2020, Sonova Holding AG suspended the Group's current share buyback program. This precautionary measure reflects the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19).

Treasury shares held by Sonova Holding AG Number/CHF million

	Number	Treasury shares at cost
Balance April 1, 2019	966,324	166.9
Purchase of treasury shares from share buyback	1,843,090	416.1
Purchase of treasury shares	335,000	76.0
Sale/Transfer of treasury shares	(343,537)	(44.4)
Cancellation of treasury shares	(932,750)	(157.9)
Loss from sale of treasury shares		(32.0)
Balance March 31, 2020	**1,868,127**	**424.8**

Treasury shares held by subsidiaries Number/CHF million

	Number	Legal reserves for treasury shares held by subsidiaries
Balance April 1, 2019	0	0.0
Purchase of treasury shares	102,421	22.7
Balance March 31, 2020	**102,421**	**22.7**

3.3 Contingent liabilities

CHF million	**31.3.2020**	**31.3.2019**
Letters of comfort given on behalf of Group companies	3.9	11.6
Guarantees given in respect of rental obligations of Group companies	0.0	0.5

The Swiss Sonova entities form a VAT group and, hence, every company participating in the group is jointly and severally liable for VAT debt of other group participants. Further Sonova Group companies participating in the cash pool are jointly and severally liable for any debit position or outstanding overdraft in connection with them.

3.4 List of investments

Company name	Activity	Domicile	Share/paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Sonova AG	A,B,C,D	Stäfa	CHF	2,500	100%
Phonak AG	A	Stäfa	CHF	100	100%
Phonak Communications AG	B, C, D	Murten	CHF	500	100%
Unitron Hearing GmbH	B	Stäfa	CHF	20	100%
Verve Hearing Systems AG	A	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR	15,311	100%
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	85%[2]
Sonova Denmark A/S	B	Middelfart (DK)	DKK	11,075	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	28,800	15%[2]
Sonova France SAS	B	Bron-Lyon (FR)	EUR	1,000	30%[2]
SCI Du Triangle De Bron	A	Bron-Lyon (FR)	EUR	46	100%
Sonova Hungary Korlátolt Felelösségü Társaság	B	Budapest (HU)	HUF	5,000	100%
Sonova Italia S.R.L.	B	Milan (IT)	EUR	1,040	100%
Sonova Nederland B.V.	B	Vianen (NL)	EUR	227	100%
Sonova Norway AS	B	Oslo (NO)	NOK	1,854	49%[2]
Sonova Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Warsaw Service Center Sp.Z.o.o.	A	Warsaw (PL)	PLN	100	100%
Phonak CIS Ltd.	B	Moscow (RU)	RUB	4,000	100%
Sonova Nordic AB	B	Stockholm (SE)	SEK	200	85%[2]
Sonova Sweden AB	B	Stockholm (SE)	SEK	100	100%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0[3]	51%

For significant indirect investments refer to Note 7.6 of the consolidated financial statements of Sonova Holding AG.

Description:

A Holding/Finance: The entity is a holding or finance company.

B Sales: The entity performs sales and marketing activities for the group.

C Production: This entity performs manufacturing for the group.

D Research: This entity performs research and development activities for the group.

1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.

2) The remaining shares are held by a subsidiary of Sonova Holding AG.

3) GBP 133

Company name	Activity	Domicile	Share/paid-in capital[1] Local currency 1,000		Shares held by Sonova Holding
Americas					
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL	37,106	100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0[3]	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0[3]	85%[2]
Phonak Mexicana S.A. de C.V.	B	Mexico DF (MX)	MXN	94,050	85%[2]
AudioNova Mexico S.A. de C.V.	B	Mexico DF (MX)	MXN	66,100	99%[2]
Sonova United States Hearing Instruments, LLC	B	Warrenville (US)	USD	0[3]	85%[2]
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD	13,105	31%
Asia/Pacific					
Advanced Bionics Medical Instruments (Suzhou) Co., Ltd.	B	Suzhou (CN)	CNY	4,617	70%[2]
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Sichuan i-Hear Co., Ltd.	A	Chengdu (CN)	CNY	42,802	100%
Sonova (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	100%
Sonova India Private Limited	B	Mumbai (IN)	INR	2,439	64%[2]
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Sonova Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD	250	100%
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD	250	100%
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD	3,100	100%
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000	100%
Sonova Vietnam Company Limited	B	Ho Chi Minh City (VN)	VND	2,088,000	70%[2]

For significant indirect investments refer to Note 7.6 of the consolidated financial statements of Sonova Holding AG.
Description:

A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) Shares without par value

3.5 Significant shareholders

At year-end, the following significant shareholders were listed in the share register (with shareholdings in excess of 3% of the issued share capital). Significant shareholders may also hold non-registered shares, which are reported under “Not registered”.

	31.3.2020	31.3.2019
Beda Diethelm	10.35%	10.19%
Chase Nominees Ltd.[1]	8.37%	9.04%
Family of Hans-Ueli Rihs	5.71%	5.67%
Nortrust Nominees Ltd.[1]	5.68%	5.82%
Bank of New York Mellon Nominee[1]	4.09%	4.17%
Registered shareholders with less than 3%	31.88%	33.02%
Not registered	33.91%	32.10%

1) Registered without voting rights.

3.6 Shareholdings and participations of the Board of Directors and the Management Board

	31.03.2020				31.03.2019			
	Shares	Restricted Shares[1][3]	PSUs/RSUs[3]	Options (incl. SARs)[3]	Shares	Restricted Shares[2][3]	PSUs/RSUs[3]	Options (incl. SARs)[3]
Board of Directors	73,821	53,157	4,328	123,189	67,313	65,395	7,152	165,577
Management Board	42,519		41,945	442,843	47,672		47,140	436,309
Total	**116,340**	**53,157**	**46,273**	**566,032**	**114,985**	**65,395**	**54,292**	**601,886**

1) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.
3) For further details see also Note 7.4 in the consolidated financial statements.

For further details to shareholdings in the company by members of the Board of Directors and by members of the Management Board, in accordance with Swiss Code of Obligation article 663c, refer to the compensation report of Sonova Holding AG.

3.7 Events after the balance sheet date

On April 6, 2020, Sonova Holding AG issued a CHF 330 million two year fixed-rate bond with interest rate of 0.55% and maturity on April 6, 2022. The bond was issued at 100.084% for the first tranche of CHF 260 million and at 100.139% for the second tranche of CHF 70 million.

On April 29, 2020, Sonova Holding AG reached an agreement on terms with three of its relationship banks for a CHF 300 million revolving bridge facility. This will be committed for a period of 12 months after closing, with an option to extend by further 4 months, i.e. a maximum of 16 months.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 11, 2020:

CHF million	**31.3.2020**
Balance carried forward from previous year	1,597.9
Net profit for the year	223.1
Voluntary retained earnings	**1,821.0**
Dividend distribution	0.0[1)]
Balance to be carried forward	**1,821.0**[2)]

1) The dividend distribution amount corresponds to the maximum aggregate nominal value of Sonova shares to be distributed (grossed up to account for Swiss withholding tax) and is subject to the number of shares outstanding on the last trading day with entitlement to receive the dividend, i.e. June 15, 2020. Treasury shares held by Sonova Holding AG and its subsidiaries are not entitled to dividends. The distribution amount will be reduced accordingly.

2) As the stock dividend will be sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018–2021 and are liquidated shares for Swiss tax purposes, the voluntary retained earnings will be reduced by the difference of (i) the average repurchase price of the Sonova shares bought back under the share buyback program multiplied by the number of Sonova shares distributed as stock dividend and (ii) the aggregate nominal value of these shares. The total reduction amount is subject to the number of Sonova shares distributed (maximum amount of CHF 97.1 million).

Stock dividend proposal

In view of the current economic environment and associated uncertainties, the Board of Directors deems it in the best interest of Sonova Holding AG to reduce the dividend amount compared with last year's dividend and to distribute a stock dividend instead of a cash dividend, which helps preserving Sonova's liquidity position. The required number of Sonova shares will be sourced from Sonova shares currently held in treasury, which were repurchased by Sonova under the share buyback program 2018–2021.

If the proposal of the Board of Directors is approved, the dividend distribution will be delivered in the form of registered shares of Sonova ("Sonova shares"). Each shareholder will be entitled to receive one Sonova share for 150 existing Sonova shares, which corresponds to a maximum of 430,000 shares (rounded) to be distributed. In case of fractional entitlements, the number of shares will be rounded down so that each shareholder will receive an integer number of Sonova shares, and the fraction will be paid out in cash (rounded to the nearest 5 centime). Sonova will sell on behalf of the respective shareholders such number of Sonova shares as corresponds to the aggregate amount of fractions and distribute the gross sale proceeds accordingly. Sonova will pay the 35% Swiss withholding tax on the (grossed up) nominal value per distributed Sonova share and the Swiss securities transfer tax incurred in connection with the sale of the Sonova shares to satisfy the fractional entitlements.

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sonova Holding AG, which comprise the incomes statements, balance sheets as at 31 March 2020 and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 March 2020 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 14,000,000

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Valuation of investments in subsidiaries

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 14,000,000
How we determined it	Net Assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because Sonova Holding AG, Stäfa is a holding company that mainly holds financial assets and investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore, net assets is considered a key element for the user of the financial statements and it is a generally accepted benchmark for determining materiality according to auditing standards.

We agreed with the Audit Committee that we would report to them misstatements above CHF 700,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
The investments in subsidiaries amount to CHF 321.5 million (14.8% of assets) as of March 31, 2020. In general, the valuation of the investments is subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature. This accounting policy is referenced in note 2. Accounting Principles. We consider the valuation of the investments as a key audit matter due to the size of the carrying value and the judgement involved in assessing the valuation of these assets.	We assessed the appropriateness of the grouping of the investments on their level of homogeneity in nature. We did this by critically reviewing the different elements of Management's assessment and validating them with evidence and our understanding of the economic links among the Sonova Group companies. To identify indicators for individual impairments of investments in subsidiaries, Management compared the investment value with the shareholders equity and financial performance of the respective subsidiaries. We evaluated and tested the assessment by reperforming the comparison undertaken by Management for the most material investments. For the overall value of the investments in subsidiaries, we additionally considered the market capitalisation of the Group. Overall, on the basis of the procedures performed, we concluded that management's assessments are based upon reasonable and consistently applied assumptions that support management's valuation conclusions.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Sandra Boehm
Audit expert
Auditor in charge

Dominik Hattrup
Audit expert

Zürich, 14 May 2020

Enclosures:

- Financial statements (income statements, balance sheets and notes)
- Proposed appropriation of the available earnings

Investor information

Financial calendar

June 11, 2020
General Shareholders' Meeting of Sonova Holding AG

November 16, 2020
Publication of Semi-Annual Report as of September 30, 2020

May 18, 2021
Publication of Annual Report as of March 31, 2021

June 15, 2021
General Shareholders' Meeting of Sonova Holding AG

Financial information

Corporate & ad hoc news
Annual Reports
Semi-Annual Reports
IR presentations
www.sonova.com/en/investors

Information on the General Shareholders' Meeting

Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
www.sonova.com/en/AGM

IR online news service

IR News Service
www.sonova.com/en/services-and-contacts

Capital structure and shareholder rights

Share data
www.sonova.com/en/investors/share-data

Shareholder structure
www.sonova.com/en/investors/shareholder-structure

Shareholder participation rights
www.sonova.com/en/investors/shareholder-participation-rights

Regulations and principles
Articles of Association
Organizational Regulations
Rules on Board Operations and Procedures
Committee Charters
Code of Conduct
Supplier Principles
www.sonova.com/en/regulations-principles

Contact form

www.sonova.com/en/services-and-contacts

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Corporate Responsibility Report

Sonova CR Report 2019/20

Message from the CEO

Dear readers,

We care is the first of five corporate values we introduced this year, a commitment proudly displayed at Sonova workplaces worldwide: “We care for our employees, customers and consumers, as well as our shareholders and society.” Caring for stakeholders, delivering on our commitments, and taking responsibility: these principles guide our daily actions in “normal” times, and yet more so during the unprecedented COVID-19 pandemic that has impacted the last weeks of the past financial year.

With all the challenges that this crisis brought to the world, it also showed clearly whether corporate responsibility is just a statement, or truly rooted in an organization. Sonova’s first and foremost priority in the response to COVID-19 has been to protect the health and safety of our employees and their families, as well as our customers, consumers and partners. We have taken accountability as a global company, helping to limit further spread of this virus to the best of our abilities, whilst ensuring continued access to hearing care for people in need. We have supported all our stakeholders in navigating through these challenging times, whilst also taking proactive steps to safeguard Sonova’s financial health, maintain employment, and secure sustainable operations. In this crisis and thereafter.

As a leading hearing care company, Sonova has both a duty to conduct business in a responsible manner, along its whole supply chain, and an ability to make a positive impact on society. Our integrated Corporate Responsibility (CR) program closely aligns with our long-term business strategy and objectives and is endorsed at every level of the company.

The CR program focuses on five key areas: access to hearing care; responsible products and services; ethics, risk and compliance; investment in people; and safeguarding the environment. This Corporate Responsibility Report is therefore clustered along these five topics. In each section, you will learn more about our strategic approach, performance and, where relevant, our specific actions in response to the global COVID-19 crisis.

And we are particularly proud to share some environmental, social and governance (ESG) highlights of the past year: the results of our employee engagement survey – now in its second year – showed that 83% of respondents are feeling engaged through their work here at Sonova. We have further strengthened our culture of integrity with an update of our global Code of Conduct and made it even easier to raise concerns through our global “Speak Up!” channels. We have also seen substantial progress toward achieving our group-wide environmental targets and reduced our carbon emissions intensity by 11% through efficiency measures and increased use of renewable energy.

Caring for stakeholders, delivering on our commitments, and taking responsibility: these principles guide our daily actions in “normal” times, and yet more so during the unprecedented COVID-19 pandemic that has impacted the last weeks of the past financial year.

We are proud that our efforts continue to be recognized by a number of relevant organizations in the field, including the internationally recognized Dow Jones Sustainability and FTSE4Good indices. For the second year in a row, Sonova received an ‘A-’ leadership level ranking from the Carbon Disclosure Project (CDP), recognizing our environmental transparency and actions to address climate change.

Sonova has been a signatory of the UN Global Compact since 2016 and fully endorses its ten principles governing human rights, labor, environment, and anti-corruption. We also support the Sustainable Development Goals of the United Nations, which define the global sustainable development agenda through to 2030.

In the next year, we will continue on our sustainable journey, taking even more steps to embed our CR commitment across all dimensions of the business. As part of this journey we aim for a more formal reflection of business relevant ESG targets in the variable cash compensation of leadership, including for each member of the Sonova Management Board. There is still a lot more opportunity to improve our contributions to sustainability. Now more than ever, we have the chance to show that we live up to our values that we truly care for a sustainable future.

Sincerely,

Arnd Kaldowski
Chief Executive Officer

Corporate Responsibility at Sonova

CR program

As a leading hearing care company, Sonova has both a duty to conduct business in a responsible manner, along its whole supply chain, and an ability to make a positive impact on society. Our integrated Corporate Responsibility (CR) program closely aligns with our long-term business strategy and objectives and is endorsed at every level of the company.

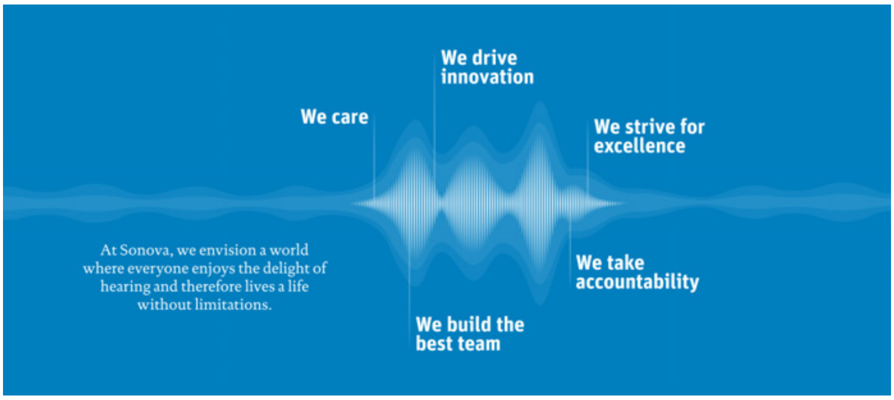
GRI 102-16

Vision, values, and culture

Sonova's vision is straightforward and motivates all our activities: We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Our shared core values drive our daily actions and reflect the corporate culture that defines and unites us as a company across all brands and regions. In 2019/20, we completed a broad-based internal effort, including focus groups and the HearMe employee survey, synthesizing the five core values that guide all we do. We see these values as combining clear statements of the principles by which we have always worked in the past with the aspirations we all share for a transformative future.

- **We care:** We care for our employees, customers and consumers, as well as our shareholders and society.
- **We drive innovation:** We courageously pioneer new ideas and approaches to come up with impactful innovations, to delight customers and consumers.
- **We strive for excellence:** We act with agility. We aim to excel. We are continuously working on improving products, services, processes and skills, to realize growth.
- **We take accountability:** We deliver on our commitments. We take accountability to provide outcomes in agreed quality and time, always acting with integrity.
- **We build the best team:** We team up. We grow talent. We collaborate with people of diverse backgrounds to win with the best team in the marketplace.



Our commitment to act responsibly and create long-term value for all our stakeholders is embodied in the Sonova Group Code of Conduct and deeply rooted in our corporate vision, values, and culture. These are a fundamental and integrated element of our CR program, which is our guiding framework for CR management and reporting at Sonova.

PDF
Sonova Code of Conduct

GRI 102-46, GRI-102-47, GRI 103-1

Material topics

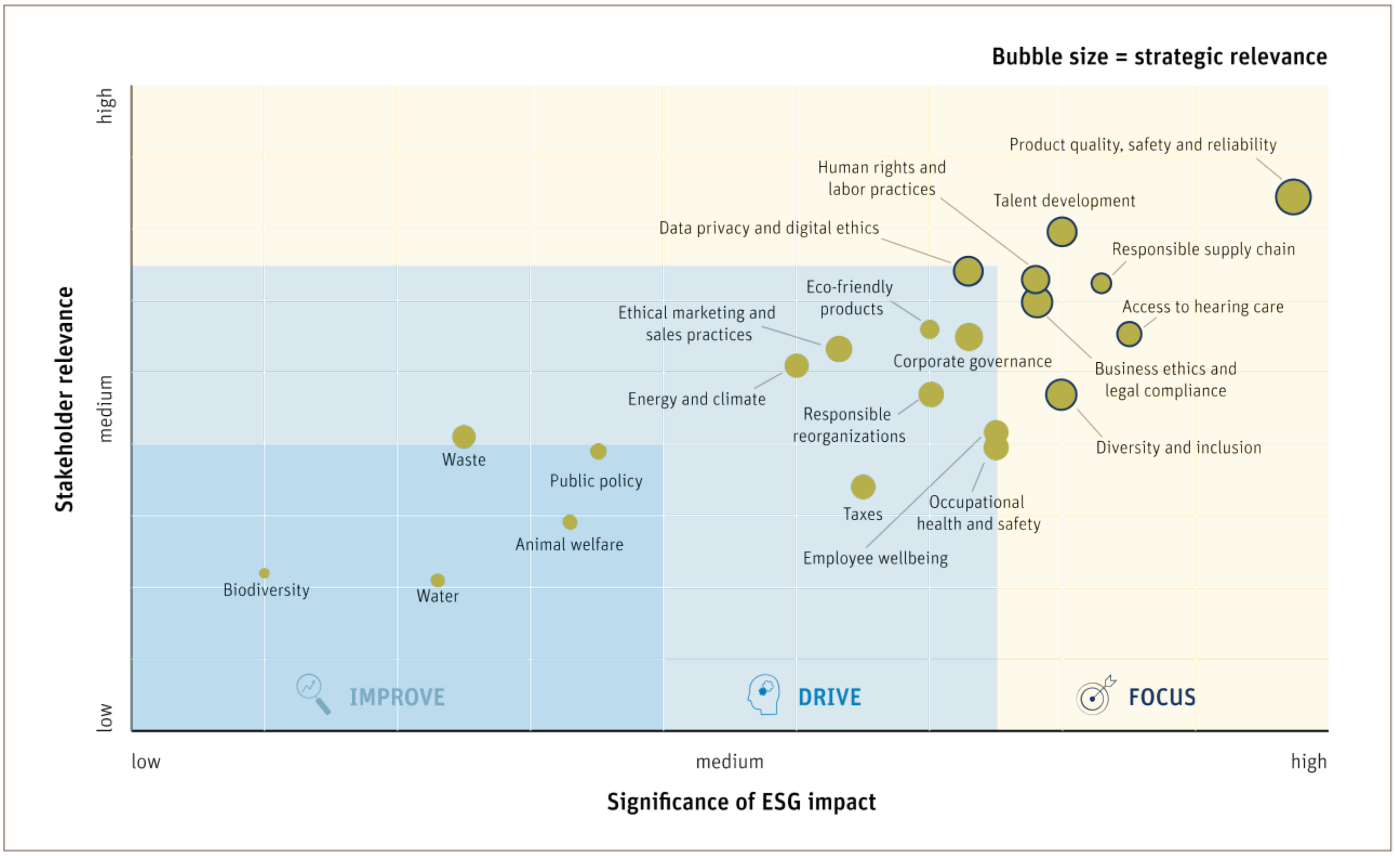
Materiality assessment

Sonova regularly assesses expectations of its key stakeholders, as well as the environmental, social, and governance (ESG) topics that present the greatest risks and opportunities. This materiality assessment plays an important role in strengthening the integration of CR with our core business. In the 2019/20 financial year, we conducted an updated materiality assessment to identify and prioritize the most material ESG topics and further improve our global CR program.

Sonova drew on a number of sources to compile a broad initial list of ESG topics that could be considered relevant to the organization’s impact, or could be influential in its stakeholders’ views and decisions. Our sources included global frameworks and standards, such as the Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standard Board (SASB) industry standards or the UN Sustainable Development Goals (SDGs), peer reviews, public media, investor and ESG analyst feedback, customer and employee surveys, industry reports, stakeholder interviews, as well as existing and upcoming international, governmental, and industry regulations, standards, and agreements. We reviewed the results and consolidated the most important topics into a list of 21.

These 21 topics were ranked by key internal and external stakeholders on the basis of personal interviews and online surveys in three dimensions: relevance of the topic to the stakeholder, significance of Sonova’s impact on the topic, and strategic relevance to Sonova. To determine the stakeholder relevance and influence of each topic on stakeholder expectations and decisions, we identified internal and external representatives of our key stakeholder groups who then assessed the relevance of each topic. When selecting the representatives, we took into account a balanced representation of the different geographical regions and Sonova businesses. The significance of Sonova’s impact for each topic was assessed by external experts with relevant experience in the respective fields. The strategic relevance of each topic was assessed in individual internal interviews including the Group CEO, the Vice President Corporate Strategy, and the Head of Internal Audit & Risk.

The result of the 2019/20 materiality assessment is shown in the materiality matrix below. Our analysis identified eight focus topics, which we prioritize when evaluating our activities and identifying measures to further improve our performance. We will use the insights of the materiality assessment to prompt further discussions identifying risks and opportunities with key internal and external stakeholders, and to align our activities ever more closely with our business strategy and expectations of key stakeholders.



COVID-19
The materiality assessment update for 2019/20 was finalized before the global spread of the COVID-19 pandemic. We decided not to adjust the analysis and matrix retrospectively for the 2019/20 reporting year, also because the Sonova strategy overall remains valid. In 2020/21, however, we will fully assess the impact of COVID-19 on our materiality matrix, along with the ESG topics that have become progressively more important during the crisis, such as occupational health and safety, access to hearing care, and the responsible supply chain.

CR focus areas

We further consolidated the ESG topics identified in the materiality assessment into five focus areas: access to hearing care; responsible products and services; ethics, risk and compliance; investment in people; and safeguarding the environment. This Corporate Responsibility Report is therefore organized according to these five areas. The connections between the detailed topics from the materiality matrix and the five consolidated focus areas are outlined below:

- **Access to hearing care:** Access to hearing care
- **Investment in people:** Talent development, diversity and inclusion, occupational health and safety, employee wellbeing, responsible reorganizations

- **Responsible products and services:** Product quality, safety and reliability, data privacy and digital ethics, ethical marketing and sales practices, animal welfare
- **Ethics, risk and compliance:** Business ethics and legal compliance, responsible supply chain, human rights and labor practices, corporate governance, taxes, public policy
- **Safeguarding the environment:** Eco-friendly products, energy and climate, waste, water, biodiversity

Topic boundaries

The CR program is defined by its relevance to the whole Sonova Group and therefore all defined topics are assumed to be material to all or nearly all of the entities covered by this report. Sonova assigns the impacts of each material ESG topic to its appropriate stage or stages of the value-creation process, from raw material supply to after-sales refurbishing or recycling. Impacts which occur partly or primarily outside the organization relate either to upstream activities (topics: responsible supply chain, human rights and labor practices, energy and climate) or to downstream activities, such as the utilization of our products and services (e.g. access to hearing care, product quality, safety and reliability, data privacy and digital ethics, ethical marketing and sales practices, eco-friendly products).

Validation

The CR program aligns closely with our long-term business strategy as well as the United Nations Sustainable Development Goals (SDGs) and is reviewed regularly both at the highest management level and at meetings of the Board of Directors. Both the Management Board and the Board of Directors assess the CR program's completeness and effectiveness, based on the annual reporting and ad-hoc updates on specific initiatives.

GRI 103-2, GRI 103-3

Management approach and performance

Sonova has defined key CR targets for each CR focus area and related material topics. The table below outlines the progress we have made towards achieving our 2022/23 targets.

Priority goals/KPIs	Related SDGs	CR focus areas	Targets (target year)	2019/20 performance
Increase unit sales of hearing instruments (HI) and cochlear implants (CI) in low- and middle-income countries by 50% by 2022/23.	3, 4	Access to hearing care	HI: 50% CI: 50% vs. base year 2018/19 (target year 2022/23)	HI: 1% CI: 2% vs. base year 2018/19
Achieve the employee engagement rate level of high performing companies by 2022/23.	5, 8	Investment in people	level of high performing companies (target year 2022/23)	4% gap to high performing companies (Sonova 83% engagement)
Improve product reliability rate >20% year-over-year for hearing instruments (HI) and cochlear implants (CI).[1]	3, 9	Responsible products and services	HI: >20% (each year) CI: >20% (each year)	HI: 4% CI: 27% vs. previous year 2018/19
Achieve annual on-time mandatory employee Global Compliance training completion rate of >95%.	8, 16	Ethics, risk and compliance	>95% (each year)	95.3%
Reduce greenhouse gas emissions relative to revenue by 50% compared to 2017 by 2022.	6, 7, 9, 12, 13	Safeguarding the environment	-50% vs. base year 2017 (target year 2022)	-21% vs. base year 2017

[1] The HI product reliability rate includes Receiver-In-Canal (RIC), Custom In-The-Ear (ITE) and Behind-The-Ear (BTE) hearing instruments. The CI product reliability includes Naìda pediatric sound processors.

Access to hearing care

Sonova is committed to increase access to hearing care by expanding its presence in underserved markets: offering a broad product portfolio with a wide range of performance and pricing levels, creating customized solutions, leveraging digital technologies, expanding our global distribution network, enhancing remote access, investing in partnerships, promoting training and education of hearing care professionals, and supporting the charitable Hear the World Foundation with funding, expertise, and hearing solutions. Our efforts to increase access to hearing care and improve the quality of life for millions of people with hearing loss closely aligns with SDG 3 (good health and well-being) and SDG 4 (quality education).

We have set the priority target of a 50% increase in unit sales of both hearing aids and cochlear implants in low- and middle-income countries by 2022/23. In the 2019/20 financial year, unit sales for hearing aids in low- and middle-income countries increased by 1% and cochlear implants by 2%. One of the main reasons for the low growth rates is the impact of COVID-19 starting in February 2020 in key markets such as China. The global health and economic crisis resulting from the COVID-19 pandemic severely affected the hearing care market and with it our business activities. We expect to see a significant impact on unit sales during the crisis but remain confident that demand will rebound thereafter. You can read more about our management approach and performance in this CR focus area in 2019/20 in the corresponding sections of this CR Report: Access to hearing care.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 3 and 4. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Investment in people

Sonova strives to be a responsible employer: We value diversity as an important key to our success, support the development of our employees, and offer a flexible and inclusive work environment. Our approach includes developing our employees to higher levels of success with a systematic talent management process, including a strategic approach to training, succession, and career planning, along with fostering employee engagement through a holistic Diversity and Inclusion strategy and other initiatives, such as the group-wide Body & Mind initiative. Through these efforts we contribute to SDGs 5 (gender equality) and 8 (decent work and economic growth).

We have set the priority target to achieve an employee engagement rate equivalent to that of high performing companies by 2022/23. The results of our 2019/20 HearMe employee engagement survey – now in its second year – showed that 83% of respondents feel engaged through their work here at Sonova. This means that we are currently four percentage points below the benchmark level of high performing companies (87%), which we plan to achieve by 2022/23. Initiatives inspired by HearMe results are being 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. You can read more about our management approach and performance in this CR focus area in 2019/20 in the corresponding sections of this CR Report: Investment in people.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 5 and 8. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Responsible products and services

We offer our customers and consumers innovative technology, high quality products, and expert audiological care, and strictly adhere to health and safety standards. Our approach includes strict enforcement of standards relating to product quality, safety, and reliability; ensuring data privacy and IT security; adhering to strictly ethical marketing practices; and limiting animal testing required by regulatory authorities as far as possible. These efforts are in line with SDG 3 (good health and well-being) and SDG 9 (industry, innovation and infrastructure).

Sonova has set the priority target to improve is product reliability rate by more than 20% year-over-year for both hearing instruments (HI) and cochlear implants (CI). In 2019/20, we improved the HI reliability rate by 4% and the CI reliability rate by 27%. We are working towards achieving the target next year for both HI and CI. Measures have already been initiated, such as the redesign of product components, continuous quality improvements,

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 3 and 9. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

training and awareness raising activities, and specific root cause analysis related to product returns. You can read more about our management approach and performance in this CR focus area in 2019/20 in the corresponding sections of this CR Report: Responsible products and services.

Ethics, risk and compliance

At Sonova, we lead with ethical behavior and integrity, take accountability for our daily actions and conduct our business activities in line with the high standards we have set for our company. Our approach includes conducting business and 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); strengthening the Group Compliance program; respecting and supporting human rights; fostering responsible supply chain management; striving for good corporate governance; and ensuring tax compliance. We thereby positively influence SDGs 8 (decent work and economic growth) and 16 (peace, justice and strong institutions).

We introduced a new Group target of >95% on-time completion for employee annual mandatory Global Compliance training. The annual mandatory Global Compliance training is rolled out to all Sonova employees worldwide, including part-time employees. The training focuses on the content of the Code of Conduct and how to identify and report potential violations, such as conflict of interest, harassment, fraud, discrimination, corruption or breach of secrecy. In 2019/20, we achieved a training completion rate of 95.3%. You can read more about our management approach and performance in this CR focus area in 2019/20 in the corresponding sections of this CR Report: Ethics, risk and compliance.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Safeguarding the environment

Sonova strives to make efficient use of natural resources and minimize the environmental impact of our activities, products, and services over their life cycle. Our approach to achieve this includes improving operational energy efficiency (e.g. fully utilizing capacity, renewing equipment, remodeling existing buildings, moving to new buildings); increasing the use of renewable energy; continuously improving environmental management systems at our own operations; and urging our suppliers to follow the same standard. This contributes to several SDGs related to the environment (6, 7, 9, 12, 13).

To reduce our environmental impact, Sonova aims to achieve by 2022 a 50% reduction of greenhouse gas (GHG) emissions in relation to revenues compared to the base year of 2017. In 2019, we further reduced GHG emissions intensity by around 11% from 16.4 to 14.7 metric tons of CO_2 equivalents (t CO_2eq) per million CHF revenues, compared to 2018. This results in a total reduction of GHG emissions intensity by around 21% compared to 2017 levels, keeping us well on track to achieve our 2022 target. You can read more about our management approach and performance in this CR focus area during 2019/20 in the corresponding sections of this CR Report: Safeguarding the environment.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 6, 7, 9, 12, and 13. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Sonova strives to engage in an open and transparent dialog with all its stakeholders. We actively initiate dialog through a broad range of channels as a way to promote participative and integrated decision-making.

GRI 102-40, 102-42

Stakeholder groups

Sonova understands how the involvement of stakeholders supports our long-term success by enhancing transparency, broadening knowledge, and generating innovative solutions. Sonova identifies and selects relevant stakeholders for further dialog and engagement based on our existing stakeholder-facing activities and on information gathered from internal staff interviews and management workshops. We regularly interact with our current stakeholders to define their specific interests in our business activities, products and services and their influence over our decisions. Sonova has defined five key stakeholder groups:

- Customers and consumers
- Employees
- Shareholders
- Suppliers
- Academia and opinion leaders

Further stakeholder groups important to Sonova are:

- Financial community
- Media
- Regulators
- Insurers
- Competitors and industry

Approach to stakeholder engagement

GRI 102-43

Below you find information on Sonova's regular engagement activities with our different stakeholder groups. In 2019/20, we additionally engaged with our key stakeholders to conduct an updated materiality assessment. More details are provided in the section "CR program" of this CR Report.

Customers and consumers

Our customers and consumers stand at the center of our business. Our business model is built on business-to-business (hearing care professionals, clinics, retailers) and business-to-consumer (end users, patients) relationships. Sonova establishes specific channels of engagement appropriate to the differing needs of each of these groups.

We ensure continuous dialog with our business-to-business customers through our sales representatives, brand tracker surveys, customer satisfaction surveys, advisory network, knowledge management and sharing, customer hotline and support, audiology conferences, online customer communities, and complaint management channels. We provide a broad range of professional training and courses that address the various specializations in the hearing care industry. We also organize e-learning seminars, road shows, face-to-face in-clinic training, and technical marketing material to help transfer our knowledge and train hearing care specialists. We conduct an annual worldwide customer survey to ensure satisfaction and loyalty of our customers. Based on this data, the Customer Satisfaction Index (CSI) is calculated and expressed on a scale between 0 and 100, the latter being the best. In 2019/20, the CSI was 79 (2018/19: 80).

We engage with end users and patients through satisfaction surveys and different communities such as the Phonak Pediatric Advisory Board, HearingLikeMe.com, or Advanced Bionics' Bionic Ear Association (BEA™). The Phonak Pediatric Advisory Board was founded in 1998 to help steer Phonak's pediatric product development and establish and recommend industry-best practices to support the needs of children with hearing loss and ensure optimal outcomes for them. Members of the Pediatric Advisory Board include parents of children with hearing loss, researchers and professors in pediatric audiology, as well as master pediatric clinicians. HearingLikeMe.com is an online community for people whose lives are affected by hearing loss. The website and contains stories written by people with hearing loss, their family members, or hearing care professionals. BEA™ is a community of hearing health professionals and cochlear implant recipients that aims to improve the quality of life of individuals with severe-to-profound hearing loss by providing valuable information, education, and awareness on cochlear implants.

Employees

GRI 102-41

Sonova's employees are key to its success. We foster a spirit of innovation, shared engagement, and personal responsibility. Through our vision, we want to ensure that our employees experience their work as genuinely meaningful. Sonova actively engages with its employees through its annual employee engagement survey called "HearMe" and through its annual appraisal process. The employee appraisal meeting is an essential process to assess satisfaction, provide feedback, and define expectations for behavior and performance. It supports each employee's personal and professional development and helps to build trusting relationships by providing a format for open dialog. We estimate that around 30% of Sonova's global workforce is represented by an independent trade union or covered by collective bargaining agreements.

Shareholders

Sonova has 17,449 registered shareholders, who together own 66.09% of the total shares. Shareholders' interests are represented by the Board of Directors, which sets and oversees the general direction of the company. We publish an Annual Report for shareholders and other stakeholders, and hold an Annual General Shareholders' Meeting, which provides a forum for discussion and debate as well as an opportunity to vote on compensation for management and the Board of Directors. Each share entered in the share register with a voting right entitles the holder to one vote at the Annual General Shareholders' Meeting.

Suppliers

Suppliers are an integral part of Sonova's value chain. Our relationship with our suppliers is governed by Sonova's Group Supplier Principles (SGSP), which are based on a range of international standards, customer requirements, and industry characteristics. We assess all new suppliers on their management systems. We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections.

PDF

Sonova Group Supplier Principles (SGSP)

Academia and opinion leaders

Sonova's know-how and history of innovation is reflected in its strong partnerships with leading academic institutions and opinion leaders around the world. We collaborate intensively with universities such as the University of Zurich, the University of Hannover (Germany), the University of Oldenburg (Germany), Vanderbilt University in Nashville (US), the University of Melbourne (Australia), the University of Queensland (Australia), the University of Western Ontario in Waterloo (Canada), the Swiss Federal Institutes of Technology (ETH) in Zurich and Lausanne, and the University of Manchester (UK). We foster a close collaboration with these partners by offering support toward diploma theses for Master's or PhD students. We do not just support studies financially, but, when appropriate, participate in the actual work by closely collaborating on research projects.

Financial community

As a publicly listed company, Sonova pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. We actively interact with the financial community at roadshows, conferences as well at investor meetings and conference calls. Sonova holds an Investor and Analyst Day every year at its headquarters in Stäfa; last year's event again attracted significant interest from the international investor community, with around 100 participants attending. We also hold regular exchanges with environmental, social and governance (ESG) investors and rating agencies.

Media

Sonova drives and maintains a strong in-depth relationship with a variety of media representatives as part of its commitment to ensure transparency, dialog, and accountability for all of its activities. The media relations team works globally with top-tier media, public interest media, trade and special interest media, financial and economic media, and the major wire services to ensure a fair disclosure of information to all stakeholders, creating – amongst other topics – awareness for hearing loss and its implications and of informing on key aspects of Sonova's business performance. We maintain a close and cooperative dialogue with the media by creating news. We proactively distribute press releases and publish it on our corporate website, organize press conferences, media trips, events or respond to requests when journalists are developing stories.

Regulators

Sonova's products are regulated medical devices, which means that the company must meet statutory patient safety standards and functional performance claims with clinical evidence. We recognize our responsibility to share our specialist knowledge in external working groups to help define, on behalf of our customers, the regulatory principles that will ensure the highest quality standards for hearing instruments and cochlear implants.

Insurers

Governments and social institutions such as the Veterans Administration in the United States and the National Health Service in the United Kingdom, as well as public and private insurance providers, all contribute to improve access to hearing care. Sonova regularly participates in tender processes and offers its products and services to help insurers receive the best hearing value for their money.

Competitors and industry

GRI 102-44

Sonova's competitors aim to gain market share. This competition generates improved service for customers and drives Sonova to push yet further the limits of technology. We are committed to fair competition, defined in detail in Sonova's Global Competition Law Policy. Sonova interacts with representatives from competitors e.g. through membership in industry associations such as the European Hearing Instrument Manufacturers Association (EHIMA), which represents the major European hearing instrument manufacturers.

Key topics and concerns raised

Key topics and concerns raised through stakeholder engagement are included in our materiality analysis, CR program and respective reporting activities. The 2019 materiality assessment identified eight focus ESG topics, which are listed below. The stakeholder groups which assigned a comparatively high relevance to the specific topic are indicated in brackets.

- Product quality, safety and reliability (customers and consumers, regulators and governments, industry and competitors, investors, public)
- Business ethics and legal compliance (regulators and governments, industry and competitors, investors)
- Responsible supply chain (suppliers, industry and competitors, regulators and governments)
- Human rights and labor practices (regulators and governments, industry and competitors, public)
- Access to hearing care (customers and consumers, regulators and government, employees)
- Talent development (employees, industry and competitors, investors)
- Diversity and inclusion (employees, regulators and governments, public)
- Data privacy and digital ethics (customers and consumers, public, investors)

Further information on how Sonova has responded to those key topics and concerns are provided in the section "CR program" of this CR Report and the respective chapters on the CR focus areas.

COVID-19

Caring for stakeholders, delivering on our commitments, and taking responsibility: these principles guide our daily actions in "normal" times, and yet more so during the unprecedented COVID-19 pandemic that has impacted the last weeks of the past financial year. Sonova's first and foremost priority in the response to COVID-19 has been to protect the health and safety of our employees and their families, as well as our customers, consumers and partners. We have taken accountability as a global company, helping to limit further spread of this virus to the best of our abilities, whilst ensuring continued access to hearing care for people in need. We have supported all our stakeholders in navigating through these challenging times, whilst also taking proactive steps to safeguard Sonova's financial health, maintain employment, and secure sustainable operations. In this crisis and thereafter.

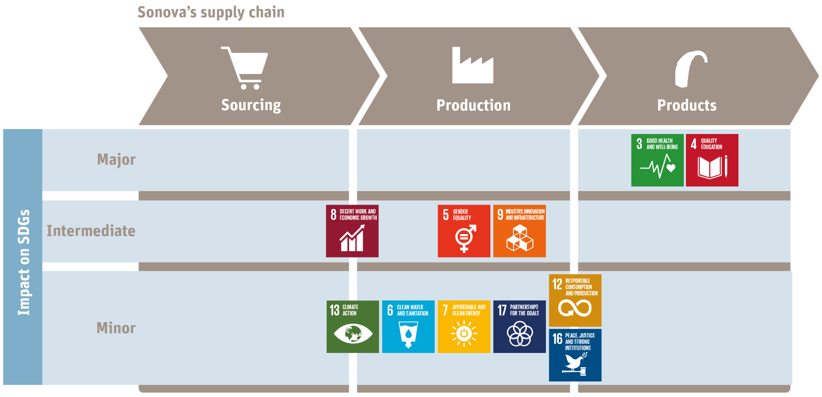
Corporate Responsibility at Sonova

Sustainable Development Goals

Seventeen sustainable development goals (SDGs) comprise the UN's global sustainable development agenda for the years until 2030. Sonova has been a signatory of the UN Global Compact since 2016 and actively supports the achievement of all seventeen SDGs.

Sonova's contribution to the United Nations Sustainable Development Goals (SDGs)

Our analysis of Sonova's direct or indirect impact on the SDGs, with their 169 targets and indicators, has revealed that Sonova's products, business strategy, and activities make essential contributions to SDGs 3 (good health and wellbeing) and 4 (quality education). We conduct business in a responsible way and thereby also positively influence SDGs 5, 8, and 9. We have limited and less direct impact on goals 6, 7, 12, 13, 16, and 17.



Priority SDGs

Good health and well-being (SDG 3)

The third development goal focuses on ensuring healthy lives and promoting well-being for people of all ages. The importance of good hearing and the consequences of hearing loss are still underestimated, although people with untreated hearing loss often face serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. As well as its impact on the individual, untreated hearing loss puts a heavy cost burden on society. According to the WHO, unaddressed hearing loss costs countries an estimated USD 750 billion annually in direct health costs and loss of productivity[1].

SDG 3 is well aligned with our vision: a world where everyone enjoys the delight of hearing and lives a life without limitations. Sonova contributes particularly to the achievement of the following SDG targets:

- 3.8: "Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all."
- 3.C: "Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States."
- 3.D: "Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks."

1) WHO, "Factsheet: deafness and hearing loss" (March, 2020)

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Access to hearing care and Responsible products and services.

Quality education (SDG 4)

The fourth development goal is about ensuring an inclusive and quality education for all and promoting lifelong learning. To be able to follow a lifelong educational path, it is essential for children to have a good start. Children with untreated hearing loss, however, face severe difficulties, since development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss among children can greatly limit speech, cognitive development, and school performance. Children with hearing loss often grow up unable to find work and become trapped in a cycle of poverty and isolation.

Sonova offers innovative and easy-to-use products especially designed for children. Our philanthropic engagement at Group level centers around the topic of hearing, with a strong focus on increasing access to hearing care in low- and middle-income countries especially for children, mainly through donations supporting the charitable Sonova Foundation – initiated by Sonova in 2006 – with funding, expertise, and hearing solutions, which contributes to the achievement of the following target of SDG 4:

- 4.5: "By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations."

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Access to hearing care.

Medium impact on SDGs

Gender equality (SDG 5)

The fifth SDG aims at achieving gender equality and empowering all women and girls. Sonova is committed to gender equality among its employees, does not tolerate harassment and discrimination, and supports the compatibility of pursuing a career and raising a family by promoting flexible working models. Thereby Sonova contributes to the following SDG targets:

- 5.1: “End all forms of discrimination against all women and girls everywhere.”
- 5.4: “Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate.”
- 5.5: “Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.”

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Investment in people.

Decent work and economic growth (SDG 8)

Goal number eight is to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Through our innovative products, we allow people with hearing loss to actively participate in working life. Sonova also provides reasonable accommodation in its job application procedures for young people and qualified individuals with disabilities. We respect and support human rights, a responsibility reflected in our Code of Conduct and Group Supplier Principles and embedded in the company’s culture. Sonova contributes to the following SDG targets:

- 8.2: “Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors.”
- 8.5: “By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.”
- 8.6: “By 2020, substantially reduce the proportion of youth not in employment, education or training.”
- 8.7: “Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.”
- 8.8: “Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.”

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Investment in people and Ethics, risk and compliance.

Industry, innovation and infrastructure (SDG 9)

SDG 9 has the aim to build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation. As a medical technology company with steady growth in employee numbers, revenues, and profit in recent years, we are committed to consumer-centered innovation and contribute to inclusive and sustainable industrialization by investing significantly in research and development and reducing our global environmental impact. We contribute to the following SDG targets:

- 9.2: “Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.”
- 9.4: “By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.”

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Safeguarding the environment and Responsible products and services.

- 9.5: “Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.”

Limited impact on SDGs

Environmental topics (SDGs 6, 7, 12, and 13)

The common thread in these SDGs is the safeguarding of our shared environment by reduction of environmental pollution, waste, and water use; efficiency and renewable sourcing in energy use; and abatement of climate change-related emissions. Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the entire lifecycle of its products and across all its business activities. The SDG targets that have some relevance to our own environmental policies include:

- 6.3: “By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.”
- 6.4: “By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.”
- 7.2: “By 2030, increase substantially the share of renewable energy in the global energy mix.”
- 7.3: “By 2030, double the global rate of improvement in energy efficiency.”
- 12.2: “By 2030, achieve the sustainable management and efficient use of natural resources.”
- 12.4: “By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.”
- 12.5: “By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.”
- 12.6: “Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.”
- 12.7: “Promote public procurement practices that are sustainable, in accordance with national policies and priorities.”
- 12.8: “By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.”
- 13.2: “Integrate climate change measures into national policies, strategies and planning.”
- 13.3: “Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.”

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

You can read more about our targets and performance related to these SDGs in the corresponding section of this CR Report: Safeguarding the environment.

Peace, justice and strong institutions (SDG 16)

The goal of SDG 16 is to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels. Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws. Sonova has identified one SDG 16 target as relevant to its business:

- 16.5: “Substantially reduce corruption and bribery in all their forms.”

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Ethics, risk and compliance.

Partnerships for the goals (SDG 17)

SDG 17 aims at strengthening the means of implementation and revitalizing the global partnership for Sustainable Development. We support multi-stakeholder partnerships through our membership in the UN Global Compact and our ongoing dialog with stakeholders to enhance transparency, broaden knowledge, and generate innovative solutions. Sonova contributes to the following SDG target:

- 17.16: “Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.”
- 17.17: “Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.”

17 PARTNERSHIPS FOR THE GOALS

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Stakeholder engagement and Access to hearing care.

CR focus areas

Access to hearing care

We provide access to hearing care and improve the quality of life for millions of people with hearing loss.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 3 and 4. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

15%

of the world's population is affected by hearing loss[1]

Hearing – an underestimated topic

Global prevalence of hearing loss and consequences

The importance of good hearing and the consequences of hearing loss continue to be underestimated, even though the World Health Organization (WHO) estimates that about 15% of the world's population is affected by hearing loss[1]. Over 5% – or 466 million people – has a disabling hearing loss[2] (432 million adults and 34 million children). The number of people with hearing loss continues to rise, due both to the aging of populations in high income countries and to growing noise pollution in our environment. The WHO estimates that by 2050 over 900 million people will have disabling hearing loss[3].

People with untreated hearing loss are often faced with serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. Especially severe are the consequences for children with untreated hearing loss, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss also is often associated with academic underachievement, which can lead to lower job performance and fewer employment opportunities later in life.

In addition to the impact of hearing loss at an individual level, untreated hearing loss puts a heavy cost burden on society. Unaddressed hearing loss costs countries an estimated USD 750 billion annually in direct health costs and loss of productivity[3]. Today's hearing solutions offer the opportunity to reduce this significantly.

1) WHO, "WHO global estimates on prevalence of hearing loss" (2012)
2) WHO definition of disabling hearing loss: hearing loss greater than 40dB in the better hearing ear in adults and a hearing loss greater than 30dB in the better hearing ear in children
3) WHO, "Factsheet: deafness and hearing loss" (March, 2020)

Need for hearing solutions

The fundamental growth drivers of the hearing care market remain intact, driven by long-term socioeconomic forces. The number of people on our planet will continue to increase. Although populations in low- and middle-income countries are expected to grow the most, even high-income countries with stable populations will face a growing proportion of elderly citizens, who are likely to experience hearing loss. These trends create an increase in demand for hearing care: a large unmet need remains.

People in low- and middle-income countries often have little or no access to audiological services; the hearing care market remains relatively underserved. Nearly 90% of people with disabling hearing loss live in low- and middle-income countries, according to WHO statistics[1]. The most affected areas are the South Asian, Asia Pacific and Sub-Saharan African regions, with a prevalence rate almost four times that of higher-income regions. WHO estimates that today global hearing aid production meets only around 3% of the need in these countries[1]. We expect, however, that the growth of the middle classes in emerging economies will boost consumption significantly. Upward trends in spending power and aspiration will open up substantial opportunities to increase access to hearing care in low- and middle-income countries. Our strategy therefore calls for a strong focus on the potential of high growth markets, serving the demands of newly empowered consumers with suitable product and service formats.

Around 10% of people with disabling hearing loss globally live in high-income countries[1]. We estimate the overall rate of penetration for hearing technologies in high-income countries to be in the range of 25–30%, meaning that around one in four people with hearing loss wears a hearing aid. We estimate that the majority of people in these countries who have severe-to-profound hearing loss also have hearing aids, but only few of those with mild-to-moderate hearing loss currently use hearing instruments. Younger and less-affected people, however, are increasing their adoption of hearing aids as technology moves toward ever better sound quality and smaller, more discreet devices. Our growing emphasis on convenience – including rechargeability, connectivity and digital applications – means that we can both broaden and deepen access and engagement with consumers, offering trusted, valuable support at every stage of their journey to better hearing.

1) WHO, “Factsheet: deafness and hearing loss” (March, 2020)

Accessibility and affordability

Affordable hearing care is still a challenge for many people in low- and middle-income countries and for underprivileged social groups in high-income regions. Sonova is committed to increase accessibility and affordability of hearing care by expanding its presence in underserved markets: providing a broad product portfolio with a wide range of performance and pricing levels, creating customized solutions, leveraging digital technologies, expanding our global distribution network, enhancing remote access, and investing in partnerships.

Underserved markets

Sonova is striving to expand its presence in high growth emerging markets, such as China. We have set the target of a 50% increase in the number of hearing aids and of cochlear implants sold in low- and middle-income countries by 2022/23. In the 2019/20 financial year, unit sales for hearing aids in low- and middle-income countries increased by 1% and cochlear implants by 2%. One of the main reasons for the low growth rates is the impact of COVID-19 starting in February 2020 in key markets such as China. The global health and economic crisis resulting from the COVID-19 pandemic severely affected the hearing care market and with it our business activities. We expect to see a significant impact on unit sales during the crisis but remain confident that demand will rebound thereafter.

Changes to governmental reimbursement and subsidy regimes affect the amount of funding available to end-users and thus the number of hearing aids sold. This has a significant impact: regions with high reimbursement levels show higher market penetration; the lower end of the market penetration table mostly comprises low- and middle-income countries with no reimbursement regimes.

Broad product portfolio

The hearing care market is highly diverse, requiring a broad range of technologically advanced solutions and versatile customer service channels. Our declared goal is to offer the most innovative hearing solutions and services available to consumers worldwide, continuously improving speech intelligibility, sound resolution and quality, and ease of use. The comprehensive, interdisciplinary knowledge that we acquire in the process is factored into each of our products. It also enables us to offer a broad spectrum of service and pricing levels for individual needs and different markets in countries of all income levels.

Customized solutions

We develop dedicated products and services for underserved markets. For example, around 1.3 billion people around the world speak a Sinitic language such as Mandarin or Cantonese[1]. These are tonal languages, where the basic frequencies communicate the information content of words. To better understand the specific needs of Chinese people with hearing loss, we are working with China's largest hospital, the Tongren Hospital in Beijing. The result is a specific prescription formula for the amplification/frequency curve shapes of tonal languages – or, to put it more simply, hearing aids offering significantly better speech clarity for millions of people in Asia.

1) Ethnologue: Languages of the World, 22nd edition (2019)

Digital solutions

In addition to improving audiological quality and ease of operation, Sonova continuously expands digital solutions that bring together the healthcare provider and the consumer in real time through all stages of the hearing journey. From online-based histories and customer support to remote adjustment and optimization under real-life conditions, digitally networked solutions offer consumers a higher degree of control and autonomy. Wherever users might be, their audiologist can be by their side online, directly capturing data on the specific audiological situation and providing immediate assistance. Continuous data monitoring and statistical analysis of listening situations allow user-specific fine tuning, as well as more targeted advice.

A key example is the myPhonak app, which was updated in 2019 and gives wearers an enhanced and personalized hearing experience, including remote support, fitting and control, a hearing diary, and advanced customization options such as noise reduction and speech focus. The consumer response has been overwhelmingly positive with over half a million downloads since the launch of the Marvel platform.

To complement our strong R&D hubs in Stäfa and around the world, we announced in November 2019 the opening of the Sonova Innovation Lab in Waterloo, Ontario, Canada, where we will explore new digital capabilities in one of the leading consumer app development centers in North America, bringing together experts from our various specialties with people from the mobile industry to accelerate our app development.

Distribution network

Innovation is not limited to products – it also drives the way we approach the market, both through our wholesale companies and our audiological care network. Operating through many channels multiplies the potential paths to hearing in all markets, even in parts of the world where hearing care has been in short supply. Our Audiological Care business represents the second-largest store network in the industry, with a clear path to further growth. We operate a global network of about 3,500 stores and clinics with more than 7,000 employees in 19 countries.

Access in remote areas

Sonova's efforts to increase access to hearing care for people living in rural areas led to the TeleAudiology model, pioneered by Triton Hearing, a Sonova Group company in New Zealand. Despite Triton's nationwide network of 70 clinics across the country, many New Zealanders still find seeing an audiologist difficult, especially in communities of indigenous people living in remote areas. In 2017 and 2018, Triton fitted out two buses with state-of-the-art diagnostic hearing equipment and turned them into mobile, full-service hearing clinics. A hearing care professional provides the in-room support, including performing video otoscopy, positioning transducers, and handling hearing aids. Through TeleAudiology, clients are connected with audiologists over a high-definition teleconferencing system. It is possible to provide a full diagnostic assessment, hearing and communication needs assessment, impression taking, hearing aid fitting and verification, purchase, and follow-up services through a synchronous, live connection. In 2019/20, the two mobile hearing clinic buses traveled more than 7,000 kilometers across New Zealand, visiting 50 locations and reaching almost 4,000 new consumers.

Partnerships and collaborations

At Sonova, we consider interdisciplinary collaboration as the guarantor of progress – and essential for such a complex subject as hearing. A key area of our innovation strategy is therefore establishing and promoting international networks, which pool the expert knowledge of leading research bodies, hospitals, companies, and institutions and bring it to fruition in new hearing solutions.

>50

number of scientific collaborations

Long-term partnership and open exchange are the hallmarks of our collaboration with over fifty top-class universities and centers of excellence and technology. The focus of this interdisciplinary work is to leverage all potential for innovation: Together, we are broadening our understanding of auditory perception and its cognitive processing, driving forward digital signal processing and the miniaturization of electronics, improving material and implantation technologies, and researching the possibilities of bionics. We work especially closely with the international groups of experts from the Pediatric Advisory Board to develop hearing solutions that counteract hearing loss in early childhood and at the same time include and support the entire family.

One example of a research project is our collaboration with the VU University Medical Center in Amsterdam (Netherlands) examining the correlation of hearing loss with other health considerations in elderly people. In this research theme we have been studying various comorbidities between hearing loss and health issues such as psychosocial health, depression, arthritis, cognitive decline, risk of falls, and diabetes. This research will provide us with a new, more holistic perspective of hearing care in the broader context of healthy aging.

COVID-19

The strong restrictions in many major markets, aimed at slowing down the spread of the virus, are impacting the entire hearing care industry, including Sonova as a market leader. Audiology stores – the primary distribution channel for hearing care products and services to consumers – had reduced operating hours or were temporarily closed. Senior citizens, who account for a large proportion of hearing care consumers, are part of the high-risk group for COVID-19 and had been asked to stay at home to protect their health. Elective surgeries, including cochlear implants, had been deferred in many countries.

Our utmost priority is to protect our employees, their families, our customers, consumers, and partners. At the same time, hearing remains a fundamental human need. Sonova is working hard to ensure continued access to necessary hearing care and solutions in compliance with regulations. We are aware of our responsibilities, especially towards elderly consumers, and have therefore taken strict precautions. Employees supporting people who need hearing care all work compliantly while giving top priority to safety, health, and hygiene.

In countries with high infection rates, we have safety protocols in place to fully serve our consumers; and digital solutions were enhanced. As an example, Phonak has responded to the immediate need for those with hearing loss to receive essential care during the COVID-19 pandemic with technology that allows hearing care professionals to deliver remote audiological care. This new telehealth technology is comprised of a suite of Phonak eSolutions featuring online hearing testing as well as real-time remote hearing aid fitting, programming, and fine-tuning. These tools work together to connect remote providers with consumers in the comfort and safety of their homes, at every stage of the hearing care journey. Phonak is also increasing support for its hearing aid repair home delivery service and making it available in more markets.

Sonova partner Cosinuss supports a research project by the Technical University of Munich (TUM), Germany aiming to find out whether fast detection and treatment in case of declining vital signs can improve the chance of survival in COVID-19 patients.

Training and education

Many countries lack trained health personnel, educational facilities, and necessary data to address the needs of those living with hearing problems. These factors, and the lack of hearing care professionals and infrastructure in certain markets, can impede efforts to raise the penetration rate. Building local capacity worldwide and training hearing care professionals to the highest standards is very important to Sonova.

As an example, China faces the challenge of a rapidly growing number of people with hearing loss, which could potentially exceed the capacity of qualified hearing care professionals to help them. Sonova decided to tackle the significant lack of comprehensive, practical training for hearing care professionals and build a training center – the Global Hearing Institute in Suzhou. The center offers advanced audiology courses and practical training for hearing care professionals from the entire Asia-Pacific region; it features a soundproof room for hearing tests and workstations for fitting ear-molds. The uptake of training courses by hearing care practitioners from across China has been very strong since the center opened in May 2017. After the courses, participants keep in touch with their trainers via chat and can contact them if they need advice on issues back in the workplace. In 2019/20, the Global Hearing Institute provided around 50,000 online training sessions.

50,000

online training sessions provided by the Sonova Global Hearing Institute in China in 2019/20

Sonova's commitment to provide high-quality training for hearing care professionals applies to both developing and developed markets. In addition to the Swiss International Hearing Academy (SIHA) in Switzerland operated by Sonova, we opened our first training center in Germany in 2019. Located in Dortmund, the new Sonova Academy offers comprehensive training and development opportunities at the cutting edge of science and technology in ultra-modern training facilities. The program of in-person and eLearning modules complements Germany's existing training offerings in hearing acoustics: The Sonova Academy cooperates closely with the German Academy for Hearing Acoustics and the German Vocational School for Hearing Acoustics.

Philanthropy

Sonova's philanthropic engagement at Group level has a strong focus on increasing access to hearing care in low- and middle-income countries, especially for children. We achieve this primarily by supporting the charitable Hear the World Foundation – initiated by Sonova in 2006 – with funding, expertise, and hearing solutions.

The mission of the foundation is to improve the quality of life of people in need with hearing loss worldwide and create equal opportunities by giving them access to hearing healthcare. The foundation makes essential contributions to the UN Sustainable Development Goal (SDG) 3 (good health and wellbeing) and SDG 4 (quality education) by investing in projects benefitting children in need with hearing loss, providing training and building local capacity in countries that lack qualified hearing care professionals, and supporting prevention of hearing loss. In 2019/20, the foundation supported 24 programs globally, in which over 190 professionals were trained and over 35,000 hearing screenings conducted. Sonova employees conducted around 2,200 hours of volunteer work for the foundation.

>190

professionals trained in programs supported by the Hear the World Foundation in 2019/20

In the 2019/20 financial year, the total monetary value of Sonova's contribution to corporate citizenship and philanthropic activities amounted to around 4.4 million CHF. Broken down by type of activity (see first table below), the vast majority (92%) of the monetary value of all contributions were community investments: long-term strategic involvement with community partner organizations by the Hear the World Foundation with the aim to improve quality of life and create equal opportunities. A total of 3% of the cost of all activities were charitable donations, and 5% were for commercial initiatives, e.g. our partnership for hearing loss prevention with the concert and event organizer abc Production, research projects, sponsoring of community organizations, and other initiatives related to the topic of hearing. Broken down by type of contribution (see second table below), the total of around 4.4 million CHF comprises 68% in-kind contributions (mostly hearing instruments and cochlear implants), 15% direct cash contributions, 12% management costs (e.g. staff salaries and overheads), and 5% time (e.g. employee volunteering).

Monetary value of philanthropic contributions by type of activities

CHF[1]

	2019/20	%	2018/19	%
Total	**4,383,826**	**100%**	**3,267,062**	**100%**
Community investments	4,024,921	92%	2,950,573	90%
Charitable donations	132,884	3%	50,920	2%
Commercial initiatives	226,021	5%	265,569	8%

1 only contributions at Sonova Group level included, does not include contributions at brand level

Monetary value of philanthropic contributions by type of contribution

CHF[1]

	2019/20	%	2018/19	%
Total	**4,383,826**	**100%**	**3,267,062**	**100%**
Cash contributions	676,021	15%	715,569	22%
Time	200,840	5%	291,435	9%
In-kind contributions	2,993,965	68%	1,751,058	54%
Management costs	513,000	12%	509,000	16%

1 only contributions at Sonova Group level included, does not include contributions at brand level

Access to hearing care

Phuong can hear raindrops

Cochlear implants are unaffordable for many families in Vietnam. This is precisely why the Hear the World Foundation supports projects all over the world to help disadvantaged people affected by hearing loss. This support focuses in particular on projects for children, enabling them to achieve their full potential. Three-year-old Phuong is due to receive a cochlear implant that will allow her to hear again. It will mark the beginning of a new life for the little girl.

Phuong and her parents set off for their appointment in Ho Chi Minh City just after sunrise. All three of them are travelling the 35 miles from their home town to the metropolis in the south of the country on their moped – the young family can't afford a car. The journey lasts two hours, amidst a cacophony of strident horns as vehicles force their way through the city's morning traffic. Very little of this urban dawn chorus registers with Phuong, however. She is affected by hearing loss, and not even a hearing aid can help her with high frequencies.

Today, however, the little girl's life is set to change forever. Phuong and her parents are on their way to a specialist audiology store run by the Sonova brand Connect Hearing, and a new life is about to begin for her.

Phuong is participating in the "CI Vietnam" aid program. With this initiative, the Hear the World Foundation, together with the Global Foundation for Children with Hearing Loss, supports children with hearing loss who are dependent on complex technology. Ten children from low-income families in Vietnam have been selected to take part, and these will receive a cochlear implant that relays signals to the auditory nerve via electrodes in the cochlea. "This will enable children to learn how to speak and take part in lessons at a mainstream school," says Elena Torresani, Director Hear the World Foundation. "Our goal is for them to live a life without limitations and be able to grow up like any other child."

Phuong and her parents arrive at the audiology store an hour too early. The little girl is wearing sandals, a checked skirt and a white blouse. Her hair is only a few millimeters long – her head had been shaved in preparation for the operation to fit the implant. Now, a little more than a month later, the system is set to be activated. "I'm excited and happy that this day has finally come," says Phuong's mother Mai.

The girl is the 33-year-old mother's second child, and her elder daughter was also born with severe hearing loss. "I was saddened and shocked when I learnt that Phuong had the same problem," recounts Mai. She and her husband Tien come from poor backgrounds in northern Vietnam. They moved south to where much of Vietnamese industry is located in the hope of improving their income, with Mai finding work in a textile factory and Tien working on building sites. Together, they earn the equivalent of around USD 500 a month. The hearing aids for their two daughters cost several months' income each – "a fortune," says Mai. The family had to rely on loans and help from friends and family. In Vietnam, there is no state health insurance that could offer support in such cases.

Despite the hearing aid, however, Phuong's hearing was getting worse and worse and a cochlear implant was simply not an option for the family, because of the cost. Things changed only when Mai found out about the project run by the Hear the World Foundation and the Global Foundation for Children with Hearing Loss through her daughter's special school. "I immediately wrote them a letter," she recounts. "When I found out a few months later that we had been accepted, I cried with joy."

May and Tien have both taken time off work for activation day. They join their daughter in taking a seat at a child's table in a soundproof room in the audiology store. Phuong spots a yellow plastic duck amongst the toys. "Duck, duck," she cries. Considering her hearing loss, her pronunciation is unusually good, and this is indirectly because of her elder sister: as her parents were already aware of the help that was available to them, Phuong received dedicated speech therapy at a specialist school from an early age.

There is a specialist sitting opposite Phuong and her parents in the audiology store as well. Nguyen Thi Thien Huong is a qualified hearing care professional. Born in Vietnam, she studied in the USA before returning to her homeland to help her fellow citizens with hearing loss enjoy a better future. Her expertise is a rarity in the country, as there are no degree courses available to qualify as an audiologist. Nguyen has been working for Sonova since the end of 2012 and she now volunteers for the Hear the World Foundation project.

Phuong can hear again thanks to the cochlear implant

Nguyen uses a cable to connect Phuong's cochlear implant to a computer. She tests whether the device is working and programs a bespoke hearing profile on-screen. Phuong is still completely unaware of all this activity – she is playing with the duck and some colorful plastic tires. All that is required to activate the cochlear implant that will make Phuong hear again is a single click in Nguyen's software. She gives the parents a quick sign just before the moment of truth. They have no idea how their daughter is going to react to the change. A lot of children cry, others beam with happiness when they hear their parents' voices. Nguyen clicks. Phuong glances off to one side briefly. She appears to reflect momentarily on what has just occurred. Then she carries on playing, as if nothing had happened.

The audiologist explains that she aims to elicit a reaction that is as neutral as possible when activating the implant, adding that she initially sets the cochlear implant to a low level to give the child time to get used to it. She then asks Phuong to do a test. The little girl is to hold plastic rings to her ear and place one on a stick every time a certain sound is played. Phuong has no problem performing this task. "Well done," says Nguyen approvingly each time. Phuong smiles, and her father and mother do too. The audiologist has good news at the end of the test: the cochlear implant is working even better than expected. Nguyen would normally only have expected a discernible reaction above 60 decibels, but Phuong was able to clearly perceive sounds at a volume of 40 decibels. "I'm very happy with the result," she says.

It is raining when the parents leave the audiology store and the raindrops are drumming on the umbrella. Delighted, Phuong looks up at the sky – she can hear the rain now.

CR focus areas

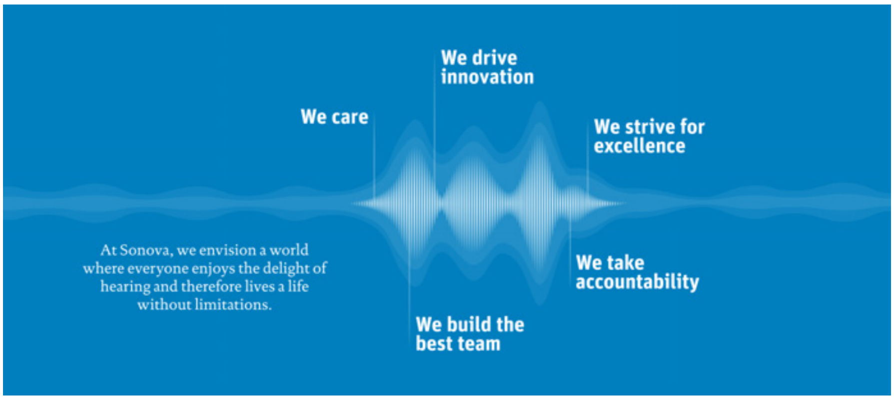
Investment in people

We value diversity as an important key to our success, support the development of our employees, and offer a flexible and inclusive work environment.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 5 and 8. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Our employees are key to our success

The success of Sonova stems not only from our innovative products and services, but our people and our culture. Across our business and brands, we all share one vision: to create a world where everyone enjoys the delight of hearing and lives a life without limitations. This unifying vision, together with our corporate values are the foundation of our culture and create a common understanding of how we want to work and have the best possible impact for all our stakeholders.



Global trends such as demographic changes, a limited availability of specialist talent, and the need to adapt quickly to shifting markets highlight the importance of a proactive staffing strategy for Sonova. We strongly believe that developing talent with the goal of ensuring internal succession is vital to sustainable success. Appointing internally to key positions while retaining and developing skilled employees helps to ensure that Sonova's specialist knowledge and intellectual property remain within the company, sustaining our competitive advantage. In 2019/20, we were able to fill 67.1% of our open leadership positions with Sonova employees and made good progress towards achieving our long-term goal of 70%.

In 2019, the internal leadership recruitment rate (ILRR) includes for the first time data for the whole Group, including Audiological Care Germany. For comparison with the previous year, the ILRR excluding AC Germany would have increased to 54.4%.

Internal leadership recruitment rate (ILRR)

% of employee headcount[1]

GRI 401-1

	2019/20	2018/19	2017/18
Total (% of total internal hires)	**67.1**	**52.3**	**52.8**
Women (% female of internal hires)	51.7	55.0	43.9
Men (% male of internal hires)	48.3	45.0	56.1

1 In 2017/18 former AudioNova was excluded, in 2018/19 – Audiological Care Germany was excluded, in 2019/20 – Audiological Care Germany is included for the total statistics only.

Our conscientious treatment of our workforce, professional leadership culture, and proactive approach to employee retention over the past years have combined to keep our global employee turnover to a level of 14.9%. The average tenure of our managerial staff is 8.8 years, while the total average workforce tenure is 6.7 years.

Employee turnover rates

% of FTE[1]

	2019/20	2018/19	2017/18
Total	**14.9**	**12.3**	**11.9**
Region			
Switzerland	8.0	6.8	8.5
EMEA (excl. Switzerland)	13.4	8.9	7.6
America	20.0	19.5	18.4
Asia/Pacific	15.0	12.2	10.8
Gender			
Women	14.5	12.2	11.9
Men	14.8	12.0	12.1
Age			
under 30 years old	19.1	16.2	15.0
30–50 years old	13.7	10.6	12.1
over 50 years old	12.2	8.2	11.4

1 The employee turnover rate is the percentage of the employees who left Sonova during the fiscal year; this includes continuing and discontinued operations (excl. leaves following company sale). In 2017/18 former AudioNova was excluded from the total workforce, in 2018/19 – Audiological Care Germany.

This year was the second time we conducted Sonova's anonymized annual employee survey, called HearMe. More than 90% of employees participated worldwide, providing valuable information about ways we can boost collaboration across the Group. Of respondents, 83% reported feeling engaged through their work (81% for men, 84% for women). The first concrete initiatives inspired by HearMe results 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.

83%

report feeling engaged through their work at Sonova

Personnel figures

GRI 102-8

The number of employees increased in the current reporting year by 3% to a total of 15,184 full time equivalents. The additional 444 full time equivalent employees stem mostly from growth in manufacturing in Vietnam, our customer-facing staff in the Audiological Care business in Europe as well as some new job positions in R&D.

Employees by region

FTE (end of period)[1]

	2019/20	2018/19	2017/18
Total (Regular and Fixed-term)	**15,184**	**14,740**	**14,242**
Switzerland	1,290	1,224	1,219
EMEA (excl. Switzerland)	6,878	6,748	6,471
America	3,538	3,443	3,539
Asia/Pacific	3,478	3,325	3,013

1 Employee numbers do not show any seasonal or other temporary fluctuation

Employees by employment contract

% of employee headcount[1]

	2019/20	2018/19	2017/18
Regular	84.4	86.6	91.2
Fixed-term[2]	2.6	2.9	4.5
External temporary[3]	9.8[5]	7.2[4]	0.9
Interns	3.2	3.3	3.5

1 Information about FTE not available for temporary hires, therefore % split calculated based on headcount
2 Employees on fixed-term contract
3 Agency temps and contingent workers
4 Increase in external temporary employees compared to previous year due to methodological change in data gathering
5 Increase in external temporary employees compared to previous year due to increased number of time-critical projects that required external support

Human resource organization

The majority of our employees are directly supported by a local human resources (HR) manager. At our corporate headquarters in Switzerland, we develop – in collaboration with our group companies – and monitor a comprehensive set of global human resource processes, standards, and policies, which are implemented locally in line with country-specific regulations and customs. We assess the impact of all our activities through a set of key performance indicators such as turnover, internal leadership recruitment rate, and depth of available in-house talent. Regular audits ensure compliance with internal regulations and local labor law, with the objective to provide excellent working conditions and monitor progress in all our locations. We estimate that around 30% of Sonova's global workforce is represented by an independent trade union or covered by collective bargaining agreements.

Talent development

GRI 404-3

We offer a flexible and inclusive work environment and an open culture that inspires personal growth and professional development. Line and HR managers review the competencies, performance, and potential of our employees through a yearly appraisal process. By setting individual and measurable goals, we promote a sense of accountability.

We believe that every employee deserves an individual development plan. We therefore launched in spring 2019 an initiative that allows employees at all levels to define their development objectives under the appraisal process and discuss them with their managers in designated development conversations. The aim is to ensure that we invest in the fulfilment of each individual's strengths and preferences.

Our global Succession Planning process allows us to mitigate the risk of losing expertise in key positions while identifying and developing promising candidates for internal succession.

Leadership Development programs

Our leadership development landscape is based on a portfolio of different programs:

Training program	Audience	Description
Aspiring Leaders	• Employees with leadership aspirations • 12–16 participants per cohort	The Aspiring Leaders program is two-day program that encourages participants to start thinking about their own leadership brand and about how they can best fulfill and contribute to Sonova's future.
Leadership Foundations	• Mandatory for all new people managers • Recommended for all people managers • 8–16 participants per cohort	The Leadership Foundations program is a two-day intensive program focusing on how we are leading at Sonova based on the evolved Sonova values to covering and emphasizing essential people management and leadership skills.
Leading Effective Teams	• Foundation alumni with direct reports • ideally 9+ months after Foundation • 16–24 participants per cohort	Focusing on effective and productive collaboration, Leading Effective Teams is a yearlong program containing 2 two-day face-to-face workshops: one in the beginning to kick-off the program, and one in the end to close the program with virtual sessions in between. In the program participants are asked to team up to tackle real business problems they are facing as leaders.
Power Sessions for Leaders	• Targeting all leaders • 2–4h workshops • Recommended for all people managers • 8–24 participants per cohort	Power Sessions for Leaders are focused workshops covering specific leadership topics along the lifecycle of human resources processes and beyond to support our leaders in their daily leadership challenges and responsibilities.
Webinars for Leaders	• Targeting all leaders • 1–2h webinars • Recommended for all people managers • Up to 40 participants	Webinars for leaders are focused virtual sessions covering specific leadership topics along the lifecycle of human resources processes and beyond to support our leaders in their daily leadership challenges and responsibilities.

Through intensive feedback, coaching, and experiential learning, the programs give participants the chance to reflect on their personal style, to understand and to increase the impact they have on their performance, and to plan how they will continue to develop as leaders at Sonova. In the reporting year, over 561 employees have participated altogether in over 26,569 days of Leadership interventions.

Learning & Development

SonovaLearning is our group-wide education platform. It also serves as a cross-business learning network that provides consistency and supports change throughout our organization. SonovaLearning offers targeted programs and provides an opportunity for all our employees to enhance their skills and competencies. A new e-learning platform has been launched in 2019 to enhance and complement the 24-7 accessible e-learning offerings. Almost 25,000 pages and articles were reviewed by over 2,500 employees during the last year. In addition, mandatory trainings ensure and enable our employees to do their work correctly and according to relevant rules and regulations.

A strong focus on customer service is also reflected in our training programs: we are convinced that a trusting personal relationship, founded on expertise and understanding, is the best way for customers to reap the full benefit from their hearing solution. A new Sonova Academy in Germany opened in summer 2019, offering face-to-face and online training to further develop the ability of our hearing health care professionals to deliver the best service and customer experience. We measure the success of the career development process in two ways: each line manager assesses development planning and employee progress, while Sonova tracks the internal promotion rate and participation in the training programs.

Traineeship programs

Sonova has an excellent network of research collaboration with various leading universities around the world, where students can participate in joint studies and other activities. We offer them the opportunity to work in our organization as a member of one of our Research and Development teams, either in an internship, or as part of their Bachelor's, Master's, or PhD thesis work.

GRI 401-1

Our talent acquisition process also targets the most sought-after group of professionals in our industry: experts in audiology. To support our constant need for top audiologists, we offer an international Audiological Traineeship program, with training placements in the US, Canada, and Switzerland. This program is an opportunity for ambitious audiology graduates to benefit from a one-year formal development and rotation experience, where they will have the opportunity to work with our talented audiologists in various business units (Audiology, Marketing, Customer Training, Sales, and Research) before starting on their career path with Sonova.

New hire rate

% of new hired FTE

	2019/20	2018/19	2017/18
Region			
Switzerland	7.3	4.4	8.1
EMEA (excl. Switzerland)	38.9	33.7	32.3
America	38.5	29.7	39.6
Asia/Pacific	15.3	32.1	20.0
Gender			
Women	66.3	67.1	66.6
Men	33.7	32.9	33.4
Age			
under 30 years old	41.9	48.4	42.3
30–50 years old	47.1	41.8	48.0
over 50 years old	11.0	9.7	9.7

At Sonova we conscientiously support and invest in Switzerland's effective dual training system, which links formal education with in-company training, providing both theory and necessary practical experience. The number of our apprentices has doubled since 2013, and we train more than 40 apprentices at our headquarters. The range of Sonova apprenticeships is highly diverse, offering training in twelve professions, from polytechnician through logistics clerk to cook. In recent years three apprentices with disabilities successfully completed an apprenticeship at Sonova.

GRI 102-8, GRI 405-1

Diversity and inclusion

Sonova has subsidiaries in over 30 countries and a workforce of over 14,000 dedicated employees representing a broad mix of experiences and backgrounds. We consider this diversity to be key to our success, since it fosters innovation and helps us understand our global customer base. All facets of diversity are important to us; we strive to create an inclusive environment where everyone – regardless of age, gender, language, ethnic origin, religion, culture, sexual orientation, or health status – can contribute and realize their full potential. Our commitment to diversity is recorded in our Code of Conduct and is binding for all our employees.

As the world's largest hearing care provider, Sonova campaigns for equal opportunities and a better quality of life for people with hearing loss. It is our vision to create a world where everyone enjoys the delight of hearing and lives a life without limitations. By offering the most comprehensive range of solutions to treat all major forms of hearing loss, we aim for our consumers and employees to feel fully included in society. To help us reach this challenging goal, our workforce and work culture need to reflect the values of diversity and inclusion.

>21%

employees less than 30 years old

Building a diverse workforce

Our employees bring different skills and characteristics to the table, depending on their age, gender, origins, and personal background. We are convinced that our success as a company largely depends on the extent to which we are able to realize the benefits of this diversity. A variety of perspectives is essential to meet best the many and various needs of our clients and to make a convincing case for the company over the long term with innovative products and services. We therefore make it a priority to recruit and develop a wide range of people who share our passion and bring in new skills, viewpoints, and experiences.

Employees by gender

% of employee headcount[1]

	2019/20	2018/19	2017/18
Women			
Share of total workforce	66.4	65.7	66.0
Part-time employees	16.4	18.4	19.0
Men			
Share of total workforce	33.6	34.3	34.0
Part-time employees	6.0	6.3	6.0

1 Only regular contracts, no fixed-term contracts

Employees by age

% of employee headcount[1]

	2019/20	2018/19	2017/18
All employees			
under 30 years old	21.7	20.7	18.1
30–50 years old	59.7	60.3	61.9
over 50 years old	18.6	18.9	20.0
Women			
under 30 years old	23.9	22.6	19.9
30–50 years old	59.1	59.9	61.9
over 50 years old	17.0	17.4	18.2
Men			
under 30 years old	17.1	17.1	14.5
30–50 years old	61.1	61.1	61.9
over 50 years old	21.8	21.9	23.6

1 Only regular contracts, no fixed-term contracts

To guarantee a balanced mix, we have a special focus on recruiting and promoting women and employees from different cultures in leadership and executive positions. By striving for gender-balanced representation in filling open positions, we aim to achieve a 35% proportion of women in key positions within four years.

We actively support the compatibility of pursuing a career and raising a family by promoting flexible working models such as home office, flexible working hours, and part-time work in leadership positions. Our terms of employment guarantee our employees in Switzerland several additional family-related benefits, including 16 weeks of maternity leave, two weeks of paternity leave, and the possibility of purchasing additional vacation time. In all our production sites, where shift work is standard, employees returning from maternity leave can choose to work at between 50% and 100% of their previous level during their first year back. We operate our own day care center at our headquarters in Stäfa and financially support lower-salary employees in Stäfa and in our production center in Vietnam to help pay for day care.

We are proud that today, women hold 50% of all positions involving staff responsibilities. In lower and middle management, the ratio of women is 56.5% – these are ideal conditions to reach our ambitious gender diversity targets in upper and senior management through professional succession planning and individual development plans.

56.5%

women in lower and middle management positions

Our combined efforts have created momentum and produced the following results in 2019:

- Of all our external hires to management positions, 50% were women
- Of all our internal promotions to management positions, 51.7% were women

The positive trend towards gender balance in lower and senior leadership levels gives us confidence that we are on the right track. To fully leverage the potential of our internal talent and to reach our ambitious targets in middle management, we will further strengthen our efforts to remove unconscious barriers at all touchpoints in the talent management cycle and keep a focus on the development of female talents.

Sonova also provides reasonable accommodation in its job application procedures for qualified individuals with disabilities, or to enable otherwise qualified individuals with disabilities to perform essential job functions.

Women in management positions

% of employee headcount within respective management position

	2019/20	2018/19	2017/18
Women in senior management[1]			
Total	**16.4**[2]	**15.9**[2]	**14.7**
Switzerland	11.7	14.8	–
EMEA (excl. Switzerland)	10.0	8.3	10.8
America	37.9	35.0	38.5
Asia/Pacific	11.8	13.3	14.3
Women in upper management			
Total	**35.1**	**33.1**	**29.1**
Switzerland	20.6	21.3	14.9
EMEA (excl. Switzerland)	36.8	37.4	31.3
America	39.3	33.5	33.8
Asia/Pacific	41.6	36.1	36.9
Women in lower and middle management			
Total	**56.5**	**54.8**	**54.4**
Switzerland	25.6	31.2	27.5
EMEA (excl. Switzerland)	60.0	57.5	57.8
America	56.2	53.1	52.8
Asia/Pacific	56.6	56.9	55.1
Women in non-management			
Total	**69.9**	**69.2**	**68.4**
Switzerland	47.4	45.4	43.3
EMEA (excl. Switzerland)	69.1	68.5	67.8
America	69.9	69.3	70.0
Asia/Pacific	78.7	78.0	78.2

1 Definition of "senior management": Management Board, Managing Directors, Management Board-1.

2 Definition of "senior management" was adjusted in 2019/20 and data restated for 2018/19.

Advancing our culture of inclusion and innovation

Inclusion is a foundation of our corporate culture, and an integral part of how we benefit from the diversity of our workforce. We embrace the differences that make each of our employees exceptional. We are committed to creating a safe, positive, and nurturing work environment where all people feel appreciated, respected, and taken seriously. And we are convinced that this promotes thoughtful and valuable dialog and fosters innovation.

In this context, we are actively addressing the role of unconscious biases and expectations: we are offering training courses to help recognize and prevent stereotypical (often unwitting) role expectations from affecting HR processes and thus hindering our efforts to increase diversity in senior leadership functions.

In 2019, as part of our employee engagement survey, we calculated and benchmarked for the second time, Sonova's inclusion score. 78% of respondents reported a favorable result, representing a positive trend compared to 76% in the previous year.

To raise awareness and continuously advance a culture of inclusion, we also support expanding formal and informal employee networks, providing platforms where people can connect and learn from one another. Women's networks, initiated by our employees, have been established in Canada, the US, Germany, and Switzerland. Since hearing loss should not stop anyone from striving for excellence and innovation nor thriving at Sonova, we have also set-up an informal exchange network with an advisory group of people with hearing loss at the HQ.

GRI 403-2

Occupational health and safety

Sonova promotes and provides a safe and healthy workplace. Occupational health and safety is an integral part of our activities. Sonova has established an effective occupational health and safety culture that supports and protects our employees. We regularly monitor and analyze the potential health and safety risks of our operations and implement both legally-required and voluntary occupational health and safety programs. Sonova's operations have a relatively low exposure to health and safety risk, but we are committed to continuous improvement here as elsewhere. We operate within a highly integrated business model: all operation centers are owned by Sonova. We engage only a small number of contractors and licensees.

Each health and safety incident is investigated to determine its cause and take steps to prevent any reoccurrence. Any incident that requires external medical health care is considered as a work-related injury. First-aid level injuries are not included. Any work-related injury that results in the company employee not being able to return to work the next scheduled work day/shift is considered as a lost-time injury. Lost days refer to working days, not calendar days, and begin right after the accident. In general, at Sonova injuries and lost work days are not caused by the manufacturing processes; they are more likely to be sustained during activities such as movement of goods. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

In 2019/20, we significantly reduced the frequency as well as severity of injuries compared to the previous year, recording a lost day rate (LDR) of 26.0 (2018/19: 47.0) and lost-time injury frequency rate (LTIFR) of 1.4 (2018/19: 2.5). These improvements can be mostly attributed to strict root cause investigation of each incident, regular local internal health and safety audits, and implementation of action plans, such as intensified local training and awareness raising activities to further reduce exposure to work-related health and safety risks. The most common types of accidents were behavior-based, such as slips, trips or falls. No occupational illness or disease cases have been registered in the past two years, leading to an occupational illness frequency rate (OIFR) of zero.

The LDR, LTIFR, OIFR and work-related fatalities reported for 2019/20 and 2018/19 in the table below cover the operation centers in Switzerland, Vietnam and China, the operation and distribution center in the United States as well as the regional European service centers in Spain and the United Kingdom. We strive to reduce further the number of lost days due to work-related injuries and have defined an internal reduction target covering all the sites mentioned above. Each site has a designated person responsible for local implementation of the health and safety program. The data are not comparable to 2017/18 because of a change in reporting scope and methodology. Gender-specific indicators are not considered relevant on an aggregated level. Sonova does not record health and safety statistics for contractors.

Occupational health and safety

	2019/20[4]	2018/19[4]	2017/18
Lost day rate (LDR)[1]	26.0	47.0	8.7
Lost-time injury frequency rate (LTIFR)[2]	1.4	2.5	0.5
Occupational illness frequency rate (OIFR)[3]	0.0	0.0	0.2
Work-related fatalities	0	0	0

1 LDR = total number of lost days due to injuries/total hours worked x 1,000,000 (definition changed in 2019/20 from 200,000 to 1,000,000 and previous years' data adjusted for comparability)
2 LTIFR = total number of lost-time injuries/total hours worked x 1,000,000
3 OIFR = total number of occupational illness or diseases cases/total hours worked x 1,000,000
4 values not comparable to 2017/18, due to changes in reporting scope and methodology for 2018/19 and 2019/20

COVID-19
For Sonova, our first priority is protecting the health and safety of our global team, followed immediately by assuring that our operations can continue while complying with emergency regulations. Employees who may be in contact with hearing care patients or consumers work according to the instructions of the relevant authorities and give maximum priority to safety, health, and hygiene. In countries with high infection rates, employees whose presence at the workplace is not absolutely necessary work from home whenever possible. At our offices, production sites and stores, a strict sanitary and safety protocol is in place to protect our people and avoid any further spread of the virus. Group management is helping our individual companies to execute their COVID-19 plans and contingency measures.

Employee wellbeing

Sonova is committed to foster employees' health and well-being. Our group companies and operation centers take specific prevention and health promotion measures to help maintain and enhance each employee's capacity for productive and fulfilling work. Sonova's global Body & Mind initiative aligns and supports its various prevention measures. The health initiative rests on four main pillars:

- Sound and well-balanced nutrition
- Physical and mental harmony through exercise
- Re-energizing through active relaxation
- Medical care through regular check-ups and vaccinations

Our group companies are responsible for implementing Body & Mind measures locally and for continuously refining programs in all the four areas: nutrition, exercise, relaxation, and medical care. An example of an activity at our operation centers is health coaches leading employees in three-minute break-time exercises to reduce muscle tension. At our headquarters in Stäfa, for example, the Body & Mind initiative in 2019/20 included the following offerings:

- Sports groups and sports events ran by employees (e.g. skiing, biking, badminton, soccer)
- Provision of sports changing rooms with showers
- Yoga classes
- Healthy breakfast options and salad buffet
- Stress management and burnout prevention coaching sessions
- Free medical check-ups
- Health awareness day with focus topic "healthy sleep"

Responsible reorganizations

At Sonova, we are committed to treating our workforce responsibly. In the event of major reorganizations, such as restructuring, relocation, outsourcing, or mergers and acquisitions, we strive to reduce negative impacts on our workforce, ensure employment security, minimize compulsory redundancies, and mitigate the consequences for those made redundant.

We apply such measures on a case-by-case basis and depending on local conditions. At our headquarters in Stäfa, for example, the applicable measures include early retirements, internal mobility, financial compensation, re-training or outplacement services, case management, extended notice periods, and hardship funds.

In the past three financial years, there were no significant job cuts at Sonova affecting more than 1,000 employees or more than 5% of the total global workforce annually.

Investment in people

Global networking for diversity and inclusion

The first Global Woman Network meeting was held in Sonova’s headquarters in Stäfa in the summer of 2019. Co-founder Julie Dopko was an enthusiastic participant. As Senior Director of Human Resources for North America, she explains how to achieve diversity and inclusion in the workplace.

“Pursuing a career without limitations” is written up in large characters on the LED wall in the Audimax conference room at Sonova’s headquarters in Stäfa beside Lake Zurich. The slogan for this inaugural Global Woman Network event sums up what the conference is all about: diversity and inclusion. For two-and-a-half days in July 2019, the hearing aid specialists gathered staff from a range of countries to explain, debate and brainstorm how traditional career barriers can be overcome and an inclusive corporate culture established at Sonova.

One of the around 20 women committed to this cause who are taking part in these intensive discussions is Canadian Julie Dopko. As Senior Director of Human Resources, she is responsible for Canada and North America, one of the company’s largest talent pools worldwide. The HR manager from Kitchener, Ontario, not only brings considerable experience of the issues to the table (she has been actively promoting them through various projects at Sonova Canada for some three years now), but her own career is also proof positive of how well diversity and inclusion can work. Julie Dopko has not let her private life take second place to her job and yet she has risen to the top HR role in her Sonova Group company.

The mother-of-three has taken parental leave after every birth, even spending four years away from her job after her last child was born. “I was at home for a total of about 11 years and then came back in part-time, switching to full-time only later on.” While aware that this is somewhat unusual for a woman in her position, she managed it because she and her husband divide up the tasks equally at home and, in parallel with her parental duties, she always kept up her networking and stayed in contact with her peers. “I’m the best example of children not spelling the end of a career. Without them and these breaks, I would probably not have got half so far in my career.”

Julie Dopko at the Global Woman Network event in Stäfa

Taking over her role in HR at Sonova in 2016 and noticing that there were only a few women in managerial positions, she immediately realized that she had to get things moving. “My philosophy is that the higher up you are in an organization, the greater your responsibility is to give something back. I wanted to see more women in executive roles at Sonova.” The word, the deed. She promptly emailed eight women in her immediate team at work, asking if they would like to meet up for lunch once a month to discuss work issues. After only three months, the group had grown to 80 women. Julie Dopko knows every individual personally and has since worked up mentoring guidelines that are intended to help bring staff together – not just locally, but also on a global scale within the Sonova Group.

A range of topics are discussed at the network’s lunch meetings in Kitchener (which have now moved from the conference room to large, specially booked presentation rooms), including how to strike the right balance between work and family life. Guest speakers give talks on self-awareness and self-confidence and book reviews are also organized. In addition, external networking organizations are invited, such as the Girl Geek Dinner, an informal organization set up to advise companies on how to recruit more women into MINT (Mathematics, IT, Natural Sciences and Technology) professions.

Julie Dopko’s commitments in Kitchener include meetings with Claudio Bartesaghi, Group Vice President Corporate Human Resources Management & Communications. When he moved to headquarters in Stäfa, he asked the Canadian to work with Mevina Caviezel, Director Branding & Corporate Responsibility, to draw up a new diversity and inclusion strategy. The outcome of this project was integrated into the Group’s global corporate strategy in June 2018. “That was a high point for me and an endorsement of all my efforts. It sends a message that it is time to promote more women to executive positions. Inclusion is important. If we want to be an innovative and competitive organization, it’s not enough to be the world’s best hearing aid provider; we need to become more attractive as a company in order to attract talented people. Nowadays, people want to work for a firm where diversity is not just a nice-to-have but is high on the list of priorities.”

45-year-old Julie Dopko has no shortage of plans and ideas up her sleeve, and she has presented several of these at the Global Woman Network meetings in Stäfa, along with the colleagues from other countries and departments. The network ambassadors' ambitions include ensuring more diversity amongst job candidates, rolling back prejudice by using standardized interview forms, enhancing communication between network members, and getting greater buy-in from male staff. Julie Dopko is very happy with the results to date: "The passion shown by my colleagues and the way we are supporting each other is extremely encouraging. When I think that I set up my first group only three years ago and that Sonova already has four official networking groups around the world now, with D&I integrated into our corporate strategy, it makes me very proud. There aren't that many companies that have made it this far. I'm excited about where the journey will take us next."

CR focus areas

Responsible products and services

We offer our customers and consumers innovative technology, high quality products, and expert audiological care, and strictly adhere to health and safety standards.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 3 and 9. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Product quality, safety and reliability

Regulatory and standards

GRI 416-1

Sonova's medical devices are regulated globally by government agencies, healthcare authorities, and other regulatory bodies who verify that we are complying with applicable health and safety regulations throughout our products' life cycle. We work to maintain transparent, constructive, and professional relationships with all applicable regulatory authorities on matters of policy, product submission, compliance, and product performance. The requirements we meet include design controls, marketing approvals, good manufacturing practices, vigilance systems, clinical studies, and other relevant product regulations, standards, and normative documents specified by these agencies.

We evaluate potential product-related risks using a systematic method to estimate, evaluate, control and monitor risks, governed by the ISO 14971 standard, which specifies the application of risk management to medical devices. We ensure up to date knowledge of regulatory and statutory requirements through initial and maintenance training programs.

Each national healthcare authority has specific requirements for products that are made available in its national territory. Requirements for hearing instruments in Europe are mostly centered around European legislation, including the Medical Device Directive 93/42/EEC, the Radio Equipment Directive 2014/53/EU, and requirements for conformity to other applicable international standards. In the US, hearing instruments are regulated by the United States Food and Drug Administration (FDA) and classified as class I medical devices (hearing aids) and class II (wireless hearing aids). Both categories are exempt from the requirement to submit premarket notification submissions and can be introduced into commercial distribution without a premarket FDA clearance notification.

Cochlear implants and their respective accessories from Advanced Bionics are classified in Europe as Active Implantable Medical Devices (AIMDs), regulated by the EU Active Implantable Medical Devices Directive 90/385/EEC; prior to market launch, AIMDs must undergo a formal premarket submission-type process. In the US, they are classified as class III medical devices and must also therefore undergo a separate premarket submission procedure prior to market launch.

All our operation centers and major group companies are certified according to the ISO 13485 standard and fulfill the requirements for quality management systems of the US FDA Quality System Regulation, Title 21 CFR Part 820.

Sonova carefully monitors changes in the relevant worldwide regulatory environment to ensure the conformity of its products at all times. In 2019/20, Sonova has been working on its compliance with recently published changes in European medical device regulation represented by the transition from Medical Devices Directive 93/42/EEC to Medical Devices Regulation (EU) 2017/745.

All products brought into commercial distribution by Sonova group companies are continuously assessed to improve safety and effectiveness. Sonova uses tools such as complaint handling, post-market surveillance, vigilance reporting, reliability and trending analysis, and post-launch engineering to achieve and maintain regulatory compliance.

Advanced Bionics implant reliability

As part of our commitment to providing clear and accurate information, Advanced Bionics reports all device failures in adherence to global standards, as defined by ISO 5841-2:2014 and the principles outlined in the European & Global Consensus on Cochlear Implant Failures and Explantations. Although all CI manufacturers adhere to these standards, other manufacturers may report using different definitions of what constitutes a device failure, and therefore not include the same types of information in their reliability statistics. Advanced Bionics is committed to providing patients and professionals with the most complete reports on all of our returned devices, with data presented clearly and transparently, so they can make fully informed decisions about their hearing needs.

PDF
Advanced Bionics 2019 Global Implant Reliability Report

The prime concerns at Advanced Bionics are the safety and hearing experience of recipients, and the reliability of our products. It is in this spirit that we undertook a voluntary field corrective action in February 2020 and retrieved from the market the unimplanted units of the initial version of our HiRes™ Ultra and Ultra 3D cochlear implants. The vast majority of these devices function correctly, but we took this step in an abundance of caution, having observed an increase in reports of reduced hearing performance. Most importantly, there have been zero reported safety events relative to this issue with these devices. The initial version of the HiRes™ Ultra 3D implant has been superseded by a new version, which includes several improvements to support consistently good hearing performance.

Product reliability global targets

Sonova has set as a priority target the improvement, by more than 20% year-on-year, of its average product reliability rate for both hearing instruments (HI) and cochlear implants (CI). We define the HI product reliability rate as the ratio between the annualized number of in-warranty product returns over the past three months and the number of hearing instruments in the market and within warranty (installed base). We define the CI product reliability rate as the Naìda pediatric system monthly product returns divided by the number of registered Naìda processors used by pediatric recipients. The target focuses on the Naìda pediatric processors, because external parts constitute the vast majority of all product returns, and return rates for pediatric products are comparatively higher than for adults.

In 2019/20, we improved the average HI product reliability rate by 4% and the CI product reliability rate by 27% compared to the previous year. We are working towards achieving the target next year for both HI and CI. Measures have already been initiated, such as the redesign of product components, continuous quality improvements, training and awareness raising activities, and specific root-cause analysis of product returns.

Data privacy and digital ethics

Data privacy and protection

Sonova protects the confidentiality and integrity of the data it holds, including the data of employees, customers, patients, and business partners using 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 covers all personal data collected or processed by Sonova, and applies to all Sonova legal entities and their employees and contractors on a worldwide basis. 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.

Sonova has established a Global Privacy Office, which provides subject matter guidance and training to the management, business functions and employees. The Global Privacy Office is also responsible for the support and monitoring of the Sonova Data Protection Program. The implementation of the Program is part of the regularly conducted internal audits, and the Global Privacy Office and the Internal Audit Team are working closely together when conducting the audits and monitoring deriving actions.

In addition, an important part of the Global Privacy Office's work is to raise awareness and provide training on all levels across the Group. A mandatory online training for all employees has been developed and deployed by the Global Privacy Office, complemented by on- and offline trainings for specific departments and teams (e.g. Marketing, HR, R&D), webinars and communication platforms for knowledge exchange. These trainings contain the essential legal principles and requirements, taking into consideration Sonova's Data Protection Policy and legal frameworks like the EU General Data Protection Regulation (GDPR), the Health Insurance Portability and Accountability Act (HIPAA), the California Consumer Privacy Act (CCPA), the Personal Information Protection and Electronic Documents Act (PIPEDA) or Data Protection and Security laws in China.

IT and cyber security

GRI 418-1

Securing information assets is a priority for Sonova. We are committed to secure digital and non-digital files, records, and information to prevent unauthorized access, modification and loss. IT and cyber security is supported by guidelines issued by the Vice President Corporate IT who acts as Chief Information Officer (CIO) and reports directly to the Group CFO. The guidelines on IT security determine security standards for all functional or business applications controlled by Sonova.

Sonova issued an IT Acceptable Use Directive in 2012/13, which is regularly revised and was last updated in 2018/19 and effective January 1, 2019. The guideline defines the use of IT assets, the secure use of systems and programs, as well as the appropriate and secure management of data. The Information Security Guideline, effective October 31, 2019, specifies processes and responsibilities to ensure IT and cyber security, including digital information processed and stored on our products.

Relevant global and local staff receives training to secure implementation of the guidelines. Our continuing efforts to ensure IT security and cyber security were underpinned during the 2019/20 financial year with further mandatory IT security online training for all employees worldwide. In areas with significant risk of un-detected data security breaches or areas of very sensitive information penetration tests are applied from time to time by qualified external providers. We have not identified substantiated complaints concerning breaches of customer privacy in 2019/20.

Ethical marketing and sales practices

Policies and guidelines

Sonova adheres to strictly ethical marketing practices in all our businesses and takes active steps to prevent inappropriate practices or false claims. We ensure that our advertising, packaging and promotional material provide accurate, balanced, and non-misleading information. This commitment is laid out in our Group Code of Conduct and further refined in policies, guidelines, and standard operating procedures, e.g. on claims management.

PDF
Sonova Code of Conduct

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 services to Sonova;
- 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 Antibribery Policy as well as internal standard operating procedures and country-specific guidelines for interactions with HCPs.

PDF
Sonova Global Antibribery Policy

Claims management

Sonova is committed to ensure that statements declaring or implying that a product or service will provide a benefit to customers or consumers are truthful, non-misleading and fair. We have established a claims management process that defines how to identify, substantiate, and administer a claim for products from all Sonova brands. Claims go through a standardized review and approval process by a dedicated committee before being disseminated. The purpose is to ensure both compliance with global regulatory requirements and a high quality standard of claims. Relevant employees have to complete annual training on the claims management standard operating procedure. In 2019/20, the internal audit function performed an audit of the claims management process and systems.

Animal welfare

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.

CR focus areas

Ethics, risk and compliance

We lead with ethical behavior and integrity, take accountability for our daily actions and conduct our business activities in line with the high standards we have set for our company.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova mainly contributes to SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Business ethics and legal compliance

Code of Conduct and internal regulations

Sonova's commitment to compliance promotes ethical conduct at all levels of the organization amongst colleagues but also in our dealings with our stakeholders. Compliance means that we follow applicable laws and regulations of each country in which we operate while also abiding by our own Code of Conduct and internal regulations. The ultimate oversight for business ethics and compliance lies with the Board of Directors.

Sonova's Code of Conduct defines general principles for ethical behavior; it applies to all employees of the Sonova Group, all its subsidiaries, and any contractors or vendors while performing work for the Sonova Group. Written acknowledgment of the Code of Conduct is part of every new employment and supplier contract.

PDF
Sonova Code of Conduct

The Code of Conduct is reviewed on a regular basis and revised when necessary. It was prepared by the office of the Group General Counsel in consultation with relevant stakeholders and was approved by the Sonova Board of Directors on August 23, 2012, updated in September 2019, and reapproved by the Board of Directors. The revised Code of Conduct contains enhanced content on essential topics such as health and safety, corporate responsibility, minimization of our environmental impact, responsible market practices, dignity and human rights, diversity and inclusion and prevention of any form of discrimination. It has also been updated for a more modern appearance with simpler reading and navigation to ensure that all stakeholders easily understand the content, what action to take in case of a violation, but also the consequences in case of violation. Compliance hotline numbers are on the back for easy access and the number of pages has been substantially reduced. The revised version of the Code of Conduct is now available in 18 languages.

Each employee is required to be trained on the Code of Conduct. All new employees of the Sonova Group, including all 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 Code of Conduct. The annual mandatory Global Compliance training is rolled out to all Sonova employees worldwide, including part-time employees. The training focuses on the content of the Code of Conduct and how to identify and report potential violations, such as conflict of interest, harassment, fraud, discrimination, corruption or breach of secrecy. In 2019/20, we introduced a new Group target of >95% on-time completion for employee annual mandatory Global Compliance training. This annual target was achieved with a training completion rate of 95.3%.

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

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

Group Compliance program

GRI 419-1

Compliance is a shared responsibility at Sonova. Ultimate oversight lies 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. The Group Compliance program covers all employees, including part-time workers and contractors.

During the 2019/20 financial year, Sonova continued to strengthen the Group Compliance program, with a particular focus on our compliance culture, including training sessions (at leadership and at field level) and process enhancements in ethics and anti-bribery compliance. We reinforced overall Code of Conduct compliance with "Speak-Up!", an internal communication and training campaign rolled out across the Sonova Group worldwide with a particular focus on employees with less access to online reporting channels, such as those in operations or audiological care stores. Its two main goals are to increase awareness of the revised Code of Conduct and to foster a culture where employees feel comfortable about raising compliance questions and reporting compliance issues. Posters are visibly displayed in numerous locations and clearly indicate how to easily report non-compliance.

No fines or non-monetary sanctions for non-compliance were levied against Sonova in the 2019/20 financial year.

Internal grievance procedures

GRI 102-17

Sonova maintains an internal compliance helpdesk for general questions and advice regarding Sonova Group policies as well as offers access to an independently operated compliance hotline, which enables internal and external stakeholders 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 and third parties to raise concerns anonymously. The compliance hotline covers all main languages and is available 24/7. The internal "Speak-Up!" online compliance platform is also available 24/7 in 15 languages.

GRI 205-2

All reports through these compliance channels are forwarded to designated functions in the Sonova Group following a specific process and flow-chart and followed up in a timely manner for further investigation and clarification. Reports are kept confidential to the greatest extent possible. No complainant or witness will suffer retaliation because of a report made in good faith. The Audit Committee of the Board of Directors is informed quarterly about any concerns received through the compliance channels, on the number and types of cases, and on measures taken.

Corruption and bribery

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 is available in 15 languages. Key elements of Sonova's Anti-Bribery Policy are:

PDF
Sonova Global Anti-Bribery Policy

- **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.
- **Facilitation payments:** Sonova does not permit making facilitation payments.
- **Direct or indirect political contributions:** Sonova does not allow 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.

The Anti-Bribery Policy has been communicated to all Sonova governance body members and employees worldwide. Sonova business partners – such as distributors or suppliers – must commit to complying with the principles underlying the Anti-Bribery Policy. The content of the Anti-Bribery policy is integrated in the annual mandatory Global Compliance training and was also a key element of the global "Speak-Up!" communication campaign during the 2019/20 financial year.

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.

The Sonova Group Supplier Principles also cover ethical standards, including compliance with laws and regulations on bribery, corruption, and prohibited business practices. These have been communicated to all our suppliers who are regularly instructed to ensure that they adequately understand and are able to comply with all anti-corruption policies and procedures.

Anti-competitive behavior

GRI 206-1

At the core of Sonova's Code of Conduct there is a clear commitment to fair competition. Fair competition is essential because it guarantees that customers and consumers will benefit from the most innovative products and services at the best prices and conditions. At Sonova, we respect and strictly follow antitrust and competition laws and all employees globally have to comply with the principles set out in the Code of Conduct and the Global Competition Law Policy.

Sonova's Global Competition Law Policy describes the basic principles of fair competition in doing business. It is our goal that the Global Competition Law Policy and related trainings focus on the current key aspects of our business. This requires updates from time to time even though the general principles of the policy do not change. An updated Global

Competition Law Policy will be effective as of May 1, 2020. The roll out of the revised policy is supported by bespoke global online training. Both the policy and the training are available in 19 languages.

In the 2019/20 financial year, Sonova was not involved in any legal actions related to anti-competitive behavior or violations of anti-trust and monopoly legislation.

Human rights and labor practices

Commitment and policies

Sonova Group Supplier Principles (SGSP)

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 conduct our business in alignment and compliance with the Universal Declaration on Human Rights and the Eight Fundamental International Labor Organization (ILO) Conventions. Additionally, we recognize the international standards of the United Nations, the ILO, and the Organization for Economic Cooperation and Development (OECD), such as the United Nations Guiding Principles on Business and Human Rights (UNGP) and the OECD Guidelines for Multinational Enterprises. 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 gender, race, color, religion, age, disability, ethnic or national origin, gender identity, pregnancy, marital/parental status, sexual orientation, or any other legally protected status.
- 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 employees in full compliance with applicable law.
- Protecting the privacy of 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 collective bargaining and freedom of association and to join or to refrain from joining worker organizations, including trade unions.
- Ensure that no exploitation of vulnerable groups, such as migrant workers, indigenous people, or local communities, takes place within our supply chain.
- Strengthening access to hearing care, including for those currently underserved by the healthcare system.

Human rights due diligence (HRDD)

GRI 412-1

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 they are not considered key risks from a risk management perspective. They are however monitored and will be more systematically addressed in the context of the HRDD project plan (see below). 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 has relatively high leverage on potential human rights impacts and 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.

Sonova is committed to aligning its HRDD process with the United Nations Guiding Principles on Business and Human Rights (UNGP). Our aim is to conduct HRDD throughout our business to proactively assess, identify, prevent and mitigate actual and potential adverse human rights impacts on potentially affected rightsholders across the value chain. In the financial year 2019/20, we worked with external human rights and business experts to conduct a systematic analysis of existing policies, processes, and responsibilities and consult with key internal and external stakeholders to outline the practical application of the UNGP within the business. A step-wise HRDD project plan is being developed and implementation is planned to start throughout 2020/21. The process framework follows five steps as required by the UNGP:

- Policy commitment
- Assess actual and potential impacts
- Integrate findings and take appropriate action
- Track and communicate performance
- Access to grievance & remedy

Assessments

GRI 408-1, GRI 409-1

In the 2019/20 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.

Training

The annual mandatory Global Compliance training is rolled out to all Sonova employees worldwide, including part-time employees. The training in 2019/20 focused on the content of the Code of Conduct and how to identify and report potential violations (grievance mechanism). It also includes aspects of human rights, such as nondiscrimination and non-harassment.

Responsible supply chain

International supply chain

GRI 102-9

Sonova deals with 413 direct material suppliers to its hearing instruments segment, who deliver components for manufacturing and assembly, and 123 direct material suppliers to the cochlear implant segment. In spending terms, 72.8% of Sonova's purchase volume is located in the Asia/Pacific region, 11.7% in Switzerland, 12.5% in Europe (excl. Switzerland), 2.7% in North America, and 0.3% in Africa. Our suppliers are mainly high-tech design and component makers, or original equipment manufacturers with a high degree of automation. Sonova engages only a very small number of contractors and licensees. Sonova's own manufacturing operations extend from fully-automated processes, such as hybrid circuit production, to highly-skilled manual work, such as assembly of hearing aids and cochlear implants.

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 and consumers. 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, products, and services. Sonova includes this certification in all supply agreements, and periodically requests suppliers to sign it again. The SGSP are available in English and German and are publicly available on the Sonova website. The SGSP require suppliers to put in place and maintain systems that ensure:

PDF

Sonova Group Supplier Principles (SGSP)

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

In 2019 the SGSP were revised and the updated version was published on the Sonova website. All existing suppliers were contacted to secure their agreement with the updated version of the principles.

Identification of critical suppliers

In the 2019/20 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. Critical suppliers for Sonova include suppliers whose items or materials have a direct impact on the performance of our products or come into direct contact with the skin of users (critical components), whose items or materials are not substitutable (e.g. due to criteria related to technology, sustainability, quality, regulations), and who supply high volumes. 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.

GRI 308-1, GRI 414-1

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.

Even after careful supplier selection, we maintain a continuous supplier management process. We annually assess supplier risks, including 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 2019/20 financial year, Sonova audited one critical supplier and visited the other nine critical suppliers at least once in a less formal manner than an audit. The Group Supplier Principles and assessment of social and environmental impacts were always an important topic during the visits. In 2019/20 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 responsible 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 2019/20: 100%, 2018/19: 100%, 2017/18, 100%)
- Share of critical suppliers visited or audited at least once per business year (target 2022/23: 100%; performance 2019/20: 100%, 2018/19: 100%, 2017/18: 100%)
- Share of purchase volume coming from suppliers with certified environmental management systems (target 2022/23: 75%; performance 2019/20: 72%, 2018/19: 66%, 2017/18: 52%)

Long-term supplier collaboration

Sonova strives for long-term collaborations and long-term contracts with its suppliers. In the 2019/20 financial year, 84% of the total purchase volume came from suppliers with more than 10 years of business relationship with Sonova and 95% 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.

COVID-19

The global health and economic crisis resulting from the COVID-19 pandemic is impacting global supply chains and logistics. Sonova is in a constant and close dialog with key suppliers and partners to monitor and manage the impact of the crisis. Our first priority is protecting the health of our global team, followed immediately by assuring that our operations can continue while complying with emergency regulations. All our manufacturing centers remain operational.

Corporate governance

Structure

GRI 102-18, GRI 102-19

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 2019/20 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.

PDF

Sonova Organizational Regulations (OrgR)

Composition of the highest governance body and its committees

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

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 2019/20: Board of Directors.

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

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

Nomination and selection for the highest governance body and its committees

GRI 102-24, 102-25

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.

PDF

Sonova 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. More details on the Management Board are provided in the relevant section of the Corporate Governance chapter of the Annual Report 2019/20: Management Board.

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

Roles, policy, and strategy

GRI 102-26

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.

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 ESG 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 2019/20 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.

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. To reflect Sonova's corporate responsibility and sustainable business approach, and as part of the normal business review of compensation components, the Board of Directors decided that both existing and new business relevant environmental, social and governance (ESG) targets will be more formally reflected in the VCC. This adjustment will take place once business has stabilized. Given the COVID-19 related crisis, the current VCC target focus is on financial, cost and liquidity related measures.

COVID-19
In solidarity with our employees and shareholders, the Board of Directors and the Management Board have decided to take a number of compensation related measures including an immediate voluntary reduction in their cash compensation for the duration of the crisis.

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 semi-annual basis. Currently, Sonova's Group Risk Map consists of 38 risks, of which 15 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.

COVID-19

In response to COVID-19 we have established global and national Crisis Response Teams that are closely linked and have been meeting in a high frequency. The response to the pandemic is structured in three phases 1) Health and Safety 2) Protecting the Core and 3) Preparing for the Rebound. Disaster Recovery and Business Continuity Planning is being updated to reflect the learnings made by the Crisis Response Team together with the global Group companies.

Corporate responsibility organization

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

Our Corporate Responsibility (CR) program aligns closely with our business strategy; its material topics and their impacts, risks and opportunities as well as reporting are reviewed at the highest levels of the company. Responsible behavior in environmental, social and governance (ESG) fields is an integral part into Sonova's core values and continuously overseen by the Board of Directors. The Management Board regularly initiates ESG-related measures and monitors their development in line with Sonova's integrated Corporate Responsibility program and provides updates to the Board of Directors. These are subject to consultation and review by the full Board of Directors on at least a yearly basis. Good governance is supported by a regular dialogue with proxy advisors, and by Sonova's continuously active risk management and our compliance functions.

The CR function develops the CR program for the Sonova Group 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 company-wide 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.

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.

PDF
Sonova Group Tax Principles

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.

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:** Sonova fully complies with the spirit and letter of local laws, regulations and is 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 the Country-by-Country Report (CbCR) since 2017, and filed this voluntarily with the Swiss Federal Tax Administration in 2018. For the years 2018 and 2019, 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 2019/20. 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.

GRI 102-12, GRI 102-13

Public policy

As a general rule, Sonova does not allow donations to political parties. This principle is stipulated in our Global Anti-Bribery Policy.

Sonova Global Anti-Bribery Policy

Sonova actively participates in associations and external initiatives 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), the Hearing Instrument Manufacturers' Patent Partnership (HIMPP), and the Hearing Industry Research Consortium (IRC). Arnd Kaldowski, CEO of the Sonova Group, is member of EHIMA's Board of Directors. Founded in 1985, EHIMA represents the major European hearing instrument manufacturers. In 2019/20, Sonova contributed around 480,000 CHF in membership fees to trade associations and non-commercial organizations. Amongst the largest contributions are membership fees and contributions to Hear-it AISBL, Bluetooth SIG, Inc., and EHIMA.

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

CR focus areas

Safeguarding the environment

We strive to make efficient use of natural resources and minimize the environmental impact of our activities, products, and services over their life cycle.

Our approach

Commitment and policies

Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the whole lifecycle of its products and across all its business activities. We set the priorities and provide the resources needed to reduce our environmental impact through responsible, efficient management of our buildings and infrastructure, processes, products, and services. Our environmental policy supports Sonova's commitment to behave proactively and describes the company's environmental management organization and responsibilities.

Environmental management systems

As part of its strategy of continuous operational improvement, Sonova has established ISO 14001-certified environmental management systems at all its key manufacturing and distribution centers; these require employees to make sound environmental decisions when designing, manufacturing, and servicing products. For non-manufacturing sites, Sonova has adapted its environmental management system to ensure integration of environmental factors in decision-making and improvement in environmental performance. All key Sonova manufacturing and distribution centers are currently certified to the ISO 14001 standard:

- Sonova AG and Advanced Bionics AG (Stäfa, Switzerland)
- Phonak Communications AG (Murten, Switzerland)
- Sonova Operations Center Vietnam Co., Ltd. (Binh Duong, Vietnam)
- Sonova Hearing (Suzhou) Co., Ltd. (Suzhou, China)
- Sonova USA Inc. manufacturing and distribution centers (Warrenville/Aurora, USA)
- Advanced Bionics LLC (Valencia, USA)

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this CR focus area, Sonova contributes to SDGs 6, 7, 9, 12, and 13. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Sonova Group Environmental Policy

Environmental goals and targets

Sonova's environmental program sets clearly defined goals and targets. We continuously monitor progress and optimize environmental performance across the Group. The five most important key environmental targets, current progress, and related UN Sustainable Development Goals (SDGs) are outlined in the table below. All our environmental five-year targets have 2017 as the base year and 2022 as the target year. Most of the programs are on track to reach their targets and necessary measures have been initiated. More details on these are provided in the respective sections below. In the 2019/20 financial year, we raised our level of ambition in the energy and climate target and updated our 2022 target from a 30% to a 50% reduction of carbon emissions intensity compared to 2017.

Sonova 2022 key environmental targets and progress

Goal	2022 target	2019 performance	2018 performance	2017 base year
Energy and climate: Reduce greenhouse gas emissions[1] relative to revenue by 50% (Key SDGs: 7, 9, 13)	9.3 t CO_2 eq per million CHF (-50% vs. base year)	14.7 t CO_2 eq per million CHF (-21.1% vs. base year)	16.4 t CO_2 eq per million CHF (-11.7% vs. base year)	18.6 t CO_2 eq per million CHF
Green procurement: Increase share of purchase volume from suppliers with certified environmental management system (EMS) to 75% (Key SDGs: 12, 13)	75%	72%	66%	52%
Materials: Zero[2] substances of very high concern (SVHC) in Sonova products (Key SDG: 12)	0	4	3	1
Waste: Increase recycling rate to 60% (Key SDG: 12)	60%	53%	53%	47%
Water: Reduce total water withdrawal per employee by 5% (Key SDG: 6)	17.3 m^3 /FTE (-5% vs. base year)	18.1 m^3 /FTE (-0.3% vs. base year)	18.3 m^3 /FTE (+0.3% vs. base year)	18.2 m^3 /FTE

1 Scope 1&2 + air-travel related Scope 3 emissions
2 above the threshold level of 0.1% by weight according to REACH regulation

Environmental legal compliance

GRI 307-1

Thanks to Sonova's low risk exposure to environmental issues and its strict group-wide environmental management, no fines or non-monetary sanctions were levied against Sonova in 2019 and in previous years for noncompliance with environmental laws or regulations.

Energy and climate

Commitment and approach

Climate change is one of the biggest challenges of our time: it requires prompt, effective action from governments, industries, and individuals. Sonova acknowledges its responsibility and is committed to reducing its carbon footprint. The company's strategy requires a steady increase in the energy efficiency of its operations, integrating environmentally friendly energy purchase and generation, and optimizing transportation and distribution logistics. Sonova has set up implementation initiatives that concentrate on our most energy-intensive facilities, while considering other sites that show realistic potential for improvement.

A-

Leadership level score in 2019 CDP climate change disclosure ranking

Sonova strives to be trustworthy and transparent with all its stakeholders. We therefore participate in the Carbon Disclosure Project (CDP). The results are publicly available and accessible on the CDP website. The CDP scoring level (Disclosure, Awareness, Management, Leadership) demonstrates a company's level of environmental stewardship, and actions and approaches in managing climate change. In 2019, Sonova received an A- leadership level ranking for the second year in a row, recognizing our environmental transparency and climate change related actions.

Climate change risks and opportunities

Sonova takes a systematic approach to managing environmental, social and governance (ESG) risks, both in its supply chain and in its own operations. Identifying and mitigating potential risks arising from climate change is an integral part of our strategic risk management process, and it is reviewed and assessed together with all other business risks. From a risk perspective, Sonova's business has a relatively low exposure to climate change risks and we do currently not anticipate significant financial implications for the organization's activities from this source.

Climate change risks are not currently included in the Group Risk Map as they do not appear to be key risks, given of the nature of Sonova's goods and services. The company has not identified significant climate change related regulatory, physical, market, cost, legal, or other risks to its business, including changes in emission limits, energy efficiency standards, carbon taxes, or carbon trading schemes. At the same time, Sonova does not anticipate major current or future climate change related business opportunities. The topic mainly has indirect and limited influence on our business, e.g. in terms of production processes.

Energy

GRI 302-1

In 2019, the total energy consumption of the Sonova Group from heating (fuel oil, natural gas, district heating), electricity, and vehicle fuels (diesel, gasoline, liquefied petroleum gas, liquefied natural gas, ethanol) amounted to 119,975 megawatt-hours (MWh). Of this total, 57,705 MWh can be attributed to the Wholesale business and 62,270 MWh to the Audiological Care business. The Wholesale business accounts for a higher proportion of electricity consumption because of the air conditioning systems necessary in operation centers in China, Vietnam and the US. On the other hand, the Audiological Care business accounts for a higher proportion of heating because of a stronger presence in Europe, where cold winters make heating more relevant.

4.7%

reduction of total energy consumption compared to 2017 (base year)

Compared to the previous year, total energy consumption stayed almost on the same level with a slight reduction of 0.3% despite higher production volume and growth in employee numbers. This improvement in energy intensity was mainly thanks to a reduction in total fuel consumption of Sonova's corporate car fleet and decreased heating consumption in the Audiological Care business, offsetting an increase in heating for the Wholesale business that was primarily due to temporary adjustments to our HVAC system at our headquarters in Stäfa. Over the past two years, Sonova reduced its total energy consumption by 4.7%.

Energy consumption

MWh

	2019		2018		2017	
	Audiological Care[1]	Wholesale	Audiological Care[1]	Wholesale	Audiological Care[1]	Wholesale
Total	**62,270**	**57,705**	**63,971**	**56,351**	**68,888**	**56,997**
Heating	29,297	9,089	30,991	7,879	36,926	7,812
Electricity	22,020	35,733	20,769	35,405	18,688	34,465
Vehicle fuels	10,953	12,882	12,211	13,067	13,275	14,720

1 extrapolation, only partial data available

Sonova is committed to increasing the share of renewable energy in its total energy budget. In line with our greenhouse gas reduction target, we have set a target of 100% renewable electricity for all key manufacturing and distribution centers by 2022. Across the company, our target is to increase the share of renewable energy to 20% of total energy consumption by 2022. In 2019, 14,331 MWh of electricity came from renewable sources, representing an increase in the renewable energy share of total energy consumption from 9% to 12%, compared to the previous year. In 2019, the 5,000-square meter solar panel system on the roofs of our manufacturing center in Suzhou, China, activated in 2015, generated 427 MWh of renewable electricity.

Renewable energy

MWh

	2019	2018	2017
Total energy consumption	**119,975**	**120,322**	**125,885**
Non-renewable energy consumption	105,644	109,704	120,365
Renewable energy consumption	14,331	10,618	5,520
Share of renewable energy	12%	9%	4%

Greenhouse gas emissions

GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4

Sonova aims to achieve by 2022 a 50% reduction of greenhouse gas (GHG) emissions in relation to revenues compared to the base year of 2017. The GHG total for our target comprises Scope 1, 2, and air-travel related Scope 3 emissions. In 2019, we further reduced GHG emissions intensity by 10.6% from 16.4 to 14.7 metric tons of CO_2 equivalents (t CO_2eq) per million CHF revenues, compared to 2018. This results in a total reduction of GHG emissions intensity by 21.1% compared to 2017 levels, keeping us well on track to achieve our 2022 target.

Sonova Group's absolute carbon footprint of Scope 1 and 2 emissions for 2019 amounted to 32,119 t CO_2eq, down by 9.5% from the previous year's emissions of 35,500 t CO_2eq. The main reason for the absolute reduction in Scope 1 and 2 GHG emissions is increased use of renewable electricity in our Wholesale business, as well as group-wide efforts to improve energy efficiency in our infrastructure and production processes. Sonova Group companies developed local carbon footprint reduction measures in line with the global environmental program, to help reach the 2022 environmental targets. Examples include improving building automation and optimizing electricity use for heating, ventilation, and air conditioning at our operation centers in Vietnam and China, electricity use reduction programs covering the data center, manufacturing, and offices at Advanced Bionics headquarters in Valencia, USA, and replacing conventional lighting with LED technology in several Group companies. Energy efficiency and reduction are also taken into account when constructing new buildings. For example, construction of the new headquarters of Phonak Communications in Switzerland started in 2019 and will be completed in 2020. The new building is designed for minimal energy consumption. Solar panels will provide a large part of the required electricity.

21.1%

reduction of greenhouse gas emissions relative to revenue compared to 2017 (base year)

Greenhouse gas (GHG) emissions – Scope 1+2

t CO_2 eq

	2019		2018		2017	
	Audiological Care[1]	Wholesale	Audiological Care[1]	Wholesale	Audiological Care[1]	Wholesale
Total Scope 1+2	**18,671**	**13,448**	**19,386**	**16,114**	**20,576**	**18,125**
Scope 1	8,900	5,245	9,584	5,049	11,048	5,446
Scope 2	9,771	8,203	9,802	11,065	9,528	12,679

[1] extrapolation, only partial data available

In 2019, we estimated Scope 3 emissions for three categories: upstream transportation and distribution (11,543 t CO_2eq), business travel (10,648 t CO_2eq), and employee commuting (21,558 t CO_2eq), which totals to 43,749 t CO_2eq of Scope 3 emissions.

Greenhouse gas (GHG) emissions – Scope 3

t CO_2 eq

	2019[1]	2018[1]	2017
Total Scope 3	**43,749**	**42,931**	**43,542**
Upstream transportation and distribution	11,543	11,543	11,543
Business travel	10,648	9,830	10,441
Employee commuting	21,558	21,558	21,558

1 Studies to gauge emissions from upstream transportation and distribution, as well as employee commuting, are not carried out every year; our estimates are based on values from the 2017 study and survey.

Total Scope 1, 2, and 3 absolute greenhouse gas emissions for 2019 amounted to 75,868 t CO_2eq, a reduction of 3.3% compared to the previous year (78,431 t CO_2eq) and a reduction of 7.8% compared to 2017 (82,243 t CO_2eq). The majority of Sonova's GHG emissions are Scope 3 emissions (58% in 2019).

7.8%

reduction of total absolute Scope 1-3 greenhouse gas emissions compared to 2017 (base year)

Business-related air travel

Sonova is a global company: business-related air travel is essential to maintain and improve operations, and to collaborate with internal and external stakeholders. However, we are committed to reduce our carbon emissions from business-related air travel by systematically using information and communications technology to substitute for air travel. In 2019, the carbon emissions from business-related air travel on a group-wide basis were 10,648 t CO_2eq. This represents an emissions increase of 8.3% compared to the previous year (2018: 9,830 t CO_2eq), which is mostly due to an increase in business activities and intensified global collaboration across the Sonova Group in the financial year 2019/20. We will continue our strict enforcement of travel policies and increased use of web-conferencing tools.

Corporate car fleet

Sonova also estimated the carbon footprint of its corporate car fleet in 2019. All vehicles owned or leased by Sonova Group companies were taken into account. The estimated total carbon footprint of Sonova's corporate car fleet is around 6,259 t CO_2eq in 2019, which represents a reduction of 5.8% compared with 2018 emissions of 6,645 t CO_2eq. This decrease compared to the previous year is mostly due to a reduction in distance driven across the entire Sonova car fleet.

Employee commuting

In 2017, Sonova conducted for the first time a worldwide survey to estimate its carbon footprint from employee commuting; this amounted to 21,558 t CO_2eq. The global survey is not carried out every year. Hence, for 2019, we base our carbon footprint calculations on the numbers from the 2017 survey results. Because the availability of public transport differs across countries, Sonova's initiatives to promote environmentally friendly commuting are influenced by the local infrastructure. The headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns. This initiative started in 2006 and increased the proportion of employees who commute using public transportation, by foot, or by bike from 41% in 2006 to 61% in 2019. The target for 2025 is to achieve a share of 67% by further strengthening the mobility program. In 2019, Sonova France also launched a mobility program, with elements including installation of charging stations for electric vehicles and financial incentives for using public transport.

Upstream transportation and distribution

In product distribution, air freight is clearly the dominant contributor to Sonova's carbon footprint, accounting for around 98% of relevant CO_2 emissions. Based on a study conducted in 2017, the carbon emissions for the hearing instruments segment are estimated at 10,708 t CO_2eq in absolute terms and 7.2 kg CO_2eq per kg transported in relative terms. The equivalent carbon emissions for the cochlear implant segment were estimated at 835 t CO_2eq and 4.0 kg CO_2eq per kg transported, respectively. The study is not carried out every year, so total Scope 3 emissions for upstream transportation and distribution for 2019 are estimated at 11,543 t CO_2eq, based on the 2017 study results.

Eco-friendly products

Sonova is committed to minimize the impact of its products and packaging on the environment and human health throughout the entire life cycle and to foster the transition toward a more circular economy. Our global environmental program covers the different stages of the product life cycle from product design, to procurement and manufacturing, packaging and distribution, consumer use, and end-of-life.

Product design

Sonova performs Life Cycle Assessments (LCA) as part of the product research and development phase. The aim is to reduce the use of hazardous substances, avoid other environmental risks, minimize consumption of resources, and design for recycling and easy end-of-life treatment.

Through new approaches in product design, we are trying to shrink the size of products and reduce material use. One example is RogerDirect™, introduced this year. Since 2013, Roger™ communication technology has bridged the understanding gap in loud noise and over distance by wirelessly transmitting a speaker's voice directly to the listener. Until now, hearing aid wearers had to plug an extra component into their hearing aids or use an intermediary streamer to receive the Roger signal. Marvel hearing aids with RogerDirect eliminate the need for extra components or accessories, resulting in a device that is up to 42% smaller.

As a medical device manufacturer, the Sonova Group takes a proactive approach to evaluating materials in its products and components to assess environmental, health, or safety risks. Sonova may restrict substances because of customer or legal requirements, or because the company believes it is appropriate, based on a precautionary approach. Evaluating alternative materials is a continuous process, relevant to all stages of the production.

The main materials used in Sonova products are polymers (e.g. nylon, silicone, acrylonitrile-butadiene-styrene, acrylic polymers), metals (steel, titanium, tin), and semimetals (e.g. silicon). Sonova complies with the EU directive on Restriction of Hazardous Substances (RoHS 2015/863/EU), which governs the use of heavy metals and halogenated compounds in electrical and electronic equipment, and with the EU's regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH EC 1907/2006) for the safe manufacture and use of chemical substances throughout their lifecycle. Sonova's suppliers are also required to prove their compliance with the RoHS directive and the REACH regulation in their respective processes and supply chains.

In accordance with REACH regulation, Sonova continuously updates the list of substances of very high concern (SVHC) that may be present in its products above the regulatory threshold level of 0.1% by weight of the article. This list is made publicly available on the Phonak website. By the end of the 2019/20 financial year, there were four SVHC substances requiring communication in accordance with the REACH regulation: DEHP, 1,3-propanesultone, lead titanium trioxide, and lead. It is our target to have zero SVHC present in Sonova products above the 0.1% threshold level by 2022.

Other substances classified as hazardous – but excluded from the RoHS directive – include solder paste and wire, paint, organic solvents, oil emulsions, mineral oil, and water-based cleaning solution. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

Procurement and manufacturing

GRI 308-1

We insist on environmentally friendly business practices throughout our supply chain: we do not restrict our environmental standards to our own operations, but consider them equally crucial in selecting our suppliers. The Sonova Group Supplier Principles recommend that suppliers use the international ISO 14001 standard as the starting point and basis for their work. All new suppliers are screened using environmental criteria. Our target for 2022 is to increase the share of our purchase volume from suppliers with certified environmental management systems (EMS) to 75%. In 2019, we increased the share of our purchase volume coming from suppliers with certified EMS to 72% (2018: 66%). This assessment was made based on desk research as well as internal or external audits and visits. However, based on our supplier visits and assessments, the percentage of suppliers actively using an environmental management system and complying with certain environmental standards (with or without certification) is even higher and above 90% of the purchasing volume.

PDF

Sonova Group Supplier Principles (SGSP)

72%

purchase volume from suppliers with certified environmental management systems

Sonova has been advancing the industrial use of 3D printing technology for many years: at the beginning of the millennium, Sonova was one of the first companies to start digitally producing custom shells for In-The-Ear (ITE) hearing aids and earpieces. Today, we print hundreds of thousands of custom-made products every year, such as the Virto™ M-Titanium, combining the strength and lightness of titanium with the versatility of 3D printing to produce Phonak's smallest custom ITE hearing aid – and saving material with a shell that is thinner than traditional custom shells.

Packaging and distribution

We continuously strive to further reduce the waste we generate, and the carbon footprint of our product packaging and transportation. Our current focus is the SLIM Packaging Project which aims at substantial reduction in the packaging size and weight of selected hearing aids, along with the number of hard cases. A new SLIM packaging solution implemented in 2019 allowed us to decrease the amount of packaging materials and improve the carbon footprint relative to the previous packaging concept by almost 40% per shipped pair, as revealed by an internal comparative screening life cycle analysis. The largest climate change impact from our packaging arises in the transportation phase. Since the SLIM packaging is lighter, the impact from transport is significantly lower.

Consumer use

An important task in our research and development process is improving the energy efficiency of our products to reduce energy consumption during the use phase. We also provide a broad range of repair and refurbishment services to lengthen the life cycle of our products and their components.

Since 2018, we have continuously increased the proportion of products that are based on our proprietary SWORD™ (Sonova Wireless One Radio Digital) chip – a low-voltage radio chip with the lowest power consumption of any hearing aid using Bluetooth®[1] Classic, and the world's such chip to be compatible with small hearing aid batteries.

Since 2016, Sonova's Phonak, Unitron, and Hansaton brands have continuously expanded their portfolios of hearing aids with a built-in lithium-ion rechargeable battery. Our increasing focus on rechargeable hearing solutions helps us to reduce the use of disposable batteries. In 2019, with its Marvel 2.0 technology upgrade, Phonak expanded its portfolio of rechargeable hearing aids, introducing the Phonak Audéo™ M-RT Receiver-In-Canal (RIC) hearing aid with integrated T-Coil as well as the Phonak Bolero™ M Behind-The-Ear (BTE) and Phonak Sky™ M pediatric product families. In October 2019, Unitron expanded its portfolio based on the Discover platform and launched the new Stride™ P R (BTE) and Moxi™ Jump R (RIC) products, both featuring proven Sonova lithium-ion rechargeable batteries. As part of the EXCITE product series, Hansaton offers the lithium-ion powered AQ XC rechargeable devices, with 24 hour battery life between charges and only three hours' charging time. Advanced Bionics also offers rechargeable battery options for cochlear implant sound processors.

1) The Bluetooth® word mark is a registered trademark owned by the Bluetooth SIG, Inc. and any use of such marks by Sonova AG is under license.

Product end-of-life

Sonova complies with the EU directive on Waste Electrical and Electronic Equipment (WEEE), which requires such equipment to be returned to the manufacturer for recycling or environmentally friendly disposal.

Sonova Group companies from the Audiological Care business offer different battery collection programs, in which customers can bring the used hearing aid batteries back to the store or take home a box, collect their batteries and bring them back to the store for recycling. The batteries collected are forwarded and disposed of through officially authorized disposal agents. In 2019, a total of more than two metric tons of batteries were collected at different stores worldwide. One example is the battery collection initiative of Connect Hearing Canada, where customers can collect their used hearing aid batteries in "The Little Green Box" and return them to the clinic for recycling once the box is full.

GRI 306-2

Waste

53%

of total waste recycled

For Sonova, dealing with materials sustainably means avoiding or reducing waste wherever possible, collecting recyclables separately and disposing of hazardous waste in environmentally compatible ways. Our long-term target for 2022 is to increase the recycling rate to 60% through group-wide efforts to reduce waste, improve waste separation and foster recycling.

In 2019, the recycling rate remained stable at 53%, We slightly reduced the volume of total waste by 1% compared to the previous year, despite an increase in production volume. Recycling waste decreased by roughly 2% compared to the previous year, to 1,146 metric tons. Solid waste sent to disposal, such as municipal solid waste or material left over from manufacturing processes, remained stable at 995 metric tons.

Sonova complies with legal requirements to transport and dispose of hazardous waste solely through officially authorized disposal agents. The main categories of hazardous waste substances are solvents, oil emulsions, paints, adhesives, soldering paste, filters, petroleum, and washing fluids. The amount of hazardous waste was slightly reduced in 2019 to 39 metric tons.

Waste

metric tons

	2019	2018	2017
Total waste	**2,179**	**2,201**	**2,043**
Non-hazardous waste	995	995	1,030
Hazardous waste	39	40	56
Recycling waste	1,146	1,165	958
Recycling rate	**53%**	**53%**	**47%**

Water

GRI 303-1

Sonova uses water provided by utilities primarily for sanitary services and kitchen and garden areas. Our manufacturing processes do not require significant amounts of water. In our environmental program we therefore mainly focus on conserving water in our office buildings, e.g. with low-volume water equipment in restrooms.

Sonova takes a systematic approach to managing ESG risks, both in its supply chain and in its own operations. Risks related to water are reviewed and assessed together with all other business risks. Water availability and quality risks are not currently included in the Group Risk Map, as we do not consider them key risks.

The sources of all water withdrawn are municipal water supplies or other public or private water utilities. In 2019, water consumption at Group level was at 139,707 cubic meters (m^3), which represents a slight decrease of 0.7% compared to the previous year. Our 2022 target is to reduce the total water consumption per employee to 17.3 m^3, which corresponds to a reduction of 5% compared to 2017. Currently we are at 18.1 m^3 water consumption per employee. This is a 0.3% reduction compared to 2017. We will further intensify measures to achieve our 2022 target.

Sonova returns water to the sewage system without contamination. The company has experienced no spills from operating processes or other instances of water contamination.

Water use

m^3

	2019	2018	2017
Total municipal water supply	139,707	140,627	132,505
Municipal water supply per full-time employee (FTE)	18.1	18.3	18.2

Biodiversity

Sonova's global activities, products, and services are not considered to have a significant direct or indirect impact on biological diversity and natural ecosystems, such as loss of biodiversity, destruction of natural habitats, and deforestation.

GRI 302-1, GRI 303-1, GRI 305-1, GRI 305-2, GRI 305-3, GRI 306-2

Environmental reporting and system boundaries

Sonova's environmental data monitoring and reporting includes energy consumption, carbon footprint, materials, waste disposal, and water consumption and is based on the calendar year. The company reports and discusses environmental performance to the limits of the available data. Actual data was collected whenever feasible, and estimated if data collection was not feasible given the decentralized organizational structure of these businesses and their small, often rented facilities.

The tables above show environmental data from Sonova Group companies that operate as headquarters, manufacturing sites, wholesale distributors, as well as Group companies with audiological care activities. Energy consumption, car fleet and air travel data are provided for all entities in the 2019 environmental data reporting. Waste and water data were collected for all Group companies that operate as headquarters, key manufacturing and distribution centers, as well as larger wholesale distributors. For Group companies with only audiological care activities, waste and water data are only monitored where feasible and not included in this report. Overall, the entities covered in the waste and water data reporting account for 92% of Sonova's employees (excluding employees of Group companies with only audiological care activities). Data for the AudioNova Group companies, acquired in September 2016, were included for the first time in the 2017 environmental reporting.

Sonova's environmental management system monitors greenhouse gas emissions arising from its consumption of electricity, heating oil, natural gas, district heating, and vehicle fuels such as diesel and gasoline. The company measures its carbon footprint using country-specific grid emission factors and, if available, specific emission factors provided by energy utilities. Scope 2 emissions were calculated using the 'market-based' approach in accordance with the Greenhouse Gas Protocol Scope 2 Guidance. When reported according to the 'location-based' approach, the Scope 2 emissions were 23,561 t CO_2eq. Sonova purchased 6,727 MWh as renewable energy certificates (RECs), which were accounted for under the market-based approach for Scope 2. The measurement methodology and reporting format for the carbon footprint are based on the standards and guidance of the Greenhouse Gas Protocol. Sonova followed the financial control consolidation approach for setting organizational boundaries. Key emission factor sources for calculating greenhouse gas emissions include the International Energy Agency (IEA) for electricity and the UK Government GHG Conversion Factors for Company Reporting for other emissions sources. Global warming potentials from the IPCC's fourth assessment report (AR4) were applied to calculate CO_2 equivalents. Relevant gases included are CO_2, CH_4, and N_2O.

Sonova differentiates between direct emissions (Scope 1) from sources such as burning natural gas, indirect emissions (Scope 2) from sources such as using electricity, and, starting in 2017, indirect emissions (Scope 3) from upstream transportation and distribution, business travel, and employee commuting. Since 2014, we have also investigated the environmental impact of our corporate car fleet – a further Scope 1 emission source. For the car fleet and air travel data, all Sonova Group companies were taken into account.

About this CR Report

Reporting profile

Reporting practice

GRI 102-50, GRI 102-51, GRI 102-52

Sonova reports in an annual cycle. The 2019/20 reporting period covers the financial year from April 1, 2019 to March 31, 2020. The most recent previous Annual Report and Corporate Responsibility Report were released on May 21, 2019.

The Sonova CR Report for 2019/20, when combined with the Business and Financial Report 2019/20, complies with the Global Reporting Initiative (GRI) Standards and forms an integral part of Sonova's UN Global Compact Communication on Progress. See our GRI content index for details on how the report content maps against the GRI Standards and UNGC principles. The index refers to the content of the online CR Report. Additional relevant information about economic performance and remuneration is provided in the Compensation Report, Corporate Governance Report, and Financial Review chapters of the Annual Report.

Entities

GRI 102-45, GRI 102-1

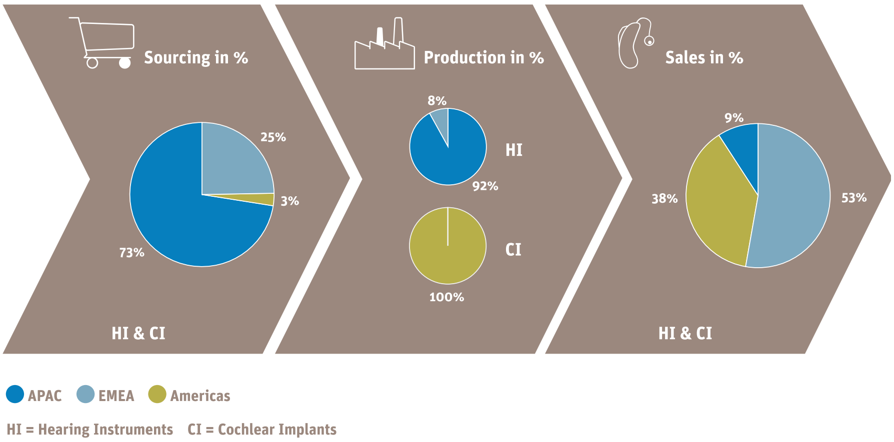
The information and data provided relate to the entire Sonova Holding AG, including its Group companies, unless explicitly noted. Some environmental data stems from actual data collection, whereas other data of selected Group companies were only estimated. Whenever applicable, it is stated in the respective sections whether the data is measured or estimated.

Organizational profile

GRI 102-1, GRI 102-2, GRI 102-3, GRI 102-4, GRI 102-5, GRI 102-6, GRI 102-7

Sonova, headquartered in Stäfa, Switzerland, is a leading provider of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and AudioNova. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Pursuing a unique vertically integrated business strategy, the Group operates through three core businesses – hearing instruments, audiological care and cochlear implants – along the entire value chain of the hearing care market. The Group's sales and distribution network, the widest in the industry, comprises over 50 own wholesale companies in over 30 countries and more than 100 independent distributors. This is complemented by Sonova's audiological care business, which offers professional audiological services through a network of around 3,500 locations in 19 key markets. Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and major operation sites in Switzerland, the United States, China, and Vietnam. Across all businesses, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Sonova Holding AG is a Swiss public limited company. More details on our products, services, brands, and activities as well as financial information, including a list of significant shareholders is provided in the 2019/20 Financial Report and Business Report.



GRI 102-10, GRI 102-48, GRI 102-49

Restatements and significant changes

In the “Investment in people” section, selected data provided in earlier Sonova CR Reports were restated due to changes in reporting scope, data collection methods, or metrics definition. Wherever applicable, details are stated in the respective tables. There were no further significant changes during 2019/20 in the scope, boundary, or measurement methods applied in the report, that would require a restatement of information provided in earlier Sonova CR Reports. There were no changes to the organization’s size, structure, ownership, or supply chain that could cause or contribute to significant ESG impacts during the reporting year. The list of material topics has been updated as described in the section “CR program”.

GRI 102-54

Declaration and assurance

This report has been prepared in accordance with the GRI Standards: Core option.

PricewaterhouseCoopers AG has provided independent assurance on specific data outlined in the CR Report 2019/20. For more detail, see the Independent Assurance Report. The compensation report, the consolidated financial statement, and the financial statement of Sonova Holding AG in the 2019/20 Annual Report have been audited by a statutory external auditor.

GRI 102-53

Contact

If you have questions regarding this CR Report 2019/20 or its contents, please contact
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Phone: +41 58 928 01 01 | Fax: +41 58 928 20 11 | Email: cr@sonova.com

Independent Assurance Report

on the Sonova Corporate Responsibility Reporting 2019/20
Stäfa

We have been engaged to perform assurance procedures to provide limited assurance on the aspects of the 2019/20 Corporate Responsibility (CR) Reporting of Sonova Holding AG, Stäfa and its consolidated subsidiaries (“Sonova Group”) included in the 2019/20 CR Report.

Scope and subject matter

Our limited assurance engagement focused on the selected data and information disclosed in the CR Report of Sonova Group for the year ended on 31 March 2020:

- The tables ‘Internal leadership recruitment rate (ILRR)’, ‘Employee turnover rates’, ‘Employees by region’, ‘Employees by employment contract’, ‘New hire rate’, ‘Employees by gender’, ‘Employees by age’, ‘Women in management positions’, ‘Occupational health and safety’ and the indicator ‘employee engagement rate’ in the section ‘Investment in people’, the tables ‘Energy consumption’, ‘Greenhouse gas (GHG) emissions – Scope 1+2’, ‘Greenhouse gas (GHG) emissions – Scope 3’, and the indicator ‘purchase volume from suppliers with certified environmental management systems’ in the section ‘Safeguarding the environment’ (CR indicators);
- The management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of CR indicators.

Criteria

The management reporting processes with respect to the CR reporting and CR indicators were prepared by Sonova Group based on the internal policies and procedures as set forth in the following:

- the Sonova Group internal CR reporting guidelines based on the ‘GRI Standards’ published in October 2016 by the Global Reporting Initiative;
- the Sonova Group internal reporting manuals ’Environmental Reporting’ dated 12th of December 2017 and ‘HR KPI Calculation Factsheet’; and
- Procedures, by which the data for the CR indicators reporting is gathered, collected and aggregated internally.

Inherent limitations

The accuracy and completeness of CR indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with Sonova’s internal guidelines, definitions and procedures on the CR reporting.

Sonova's responsibility

The Board of Directors of Sonova Holding AG is responsible for both the subject matter and the criteria as well as for the selection, preparation and presentation of the selected data and information in accordance with the criteria. This responsibility includes the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention to indicate that the identified CR information selected and contained in this report is not stated, in all material respects, in accordance with the reporting criteria.

We planned and performed our procedures in accordance with the International Standard on Assurance Engagements (ISAE 3000) (Revised) 'Assurance engagements other than audits or reviews of historical financial information', and, in respect of greenhouse gas emissions, with the International Standard on Assurance Engagements (ISAE 3410) 'Assurance Engagements on Greenhouse Gas Statements'. These standards require that we plan and perform the assurance engagement to obtain limited assurance on the identified sustainability information prepared, in all material aspects, in accordance with Sonova's internal policies and procedures.

A limited assurance engagement under ISAE 3000 (Revised) and ISAE 3410 is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement. The procedures selected depend on the assurance practitioner's judgement.

Our independence and quality control

We are independent of the Sonova Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) that are relevant to our audit of the financial statements and other assurance engagements in Switzerland. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the work performed

Our assurance procedures included, amongst others, the following work:

- *Evaluation of the application of Group guidelines*
  Reviewing the application of the Sonova Group internal CR reporting guidelines;
- *Site visit and management inquiry*
  Remote site visit procedures at Sonova Operation Center in Vietnam. The selection was based on quantitative and qualitative criteria;
  Interviewing personnel responsible for internal reporting and data collection at the site and at the Sonova Corporate level;
- *Assessment of the key figures*
  Performing tests on a sample basis of evidence supporting selected CR indicators concerning completeness, accuracy, adequacy and consistency;
- *Review of documentation and analysis of relevant policies and principles*
  Reviewing relevant documentation on a sample basis, including Sonova Group CR policies, management of reporting structures and documentation.

Conclusion

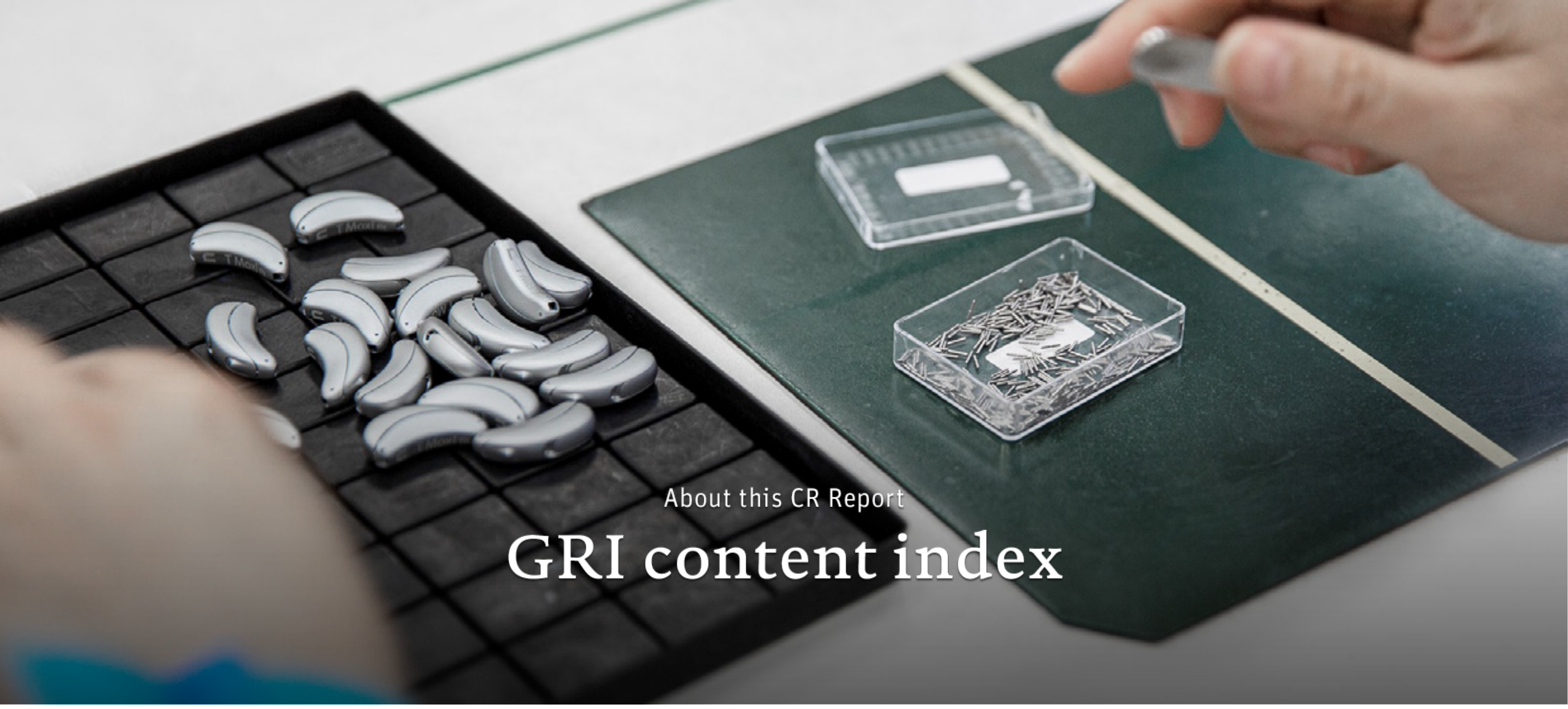
Based on our work performed nothing has come to our attention causing us to believe that in all material respects:

- The CR indicators outlined in the scope and subject matter section and disclosed in the 2019/20 CR Report of Sonova Group are not stated in accordance with Sonova Group internal policies and procedures; and
- The management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of these key performance indicators are not functioning as designed.

PricewaterhouseCoopers AG

Stephan Hirschi   Raphael Rutishauser

Zurich, 15 May 2020



GRI content index

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Disclosure	Description	UNGC	SDG	Reference	External assurance
GENERAL STANDARD DISCLOSURES					
1. Organizational profile					
102–1	Name of the organization			Reporting profile	No
102–2	Activities, brands, products, and services			Reporting profile	No
102–3	Location of headquarters			Reporting profile	No
102–4	Location of operations			Reporting profile	No
102–5	Ownership and legal form			Reporting profile	No
102–6	Markets served			Reporting profile	No
102–7	Scale of the organization			Reporting profile	No
102–8	Information on employees and other workers	6	8	Investment in people	Yes
102–9	Supply chain			Ethics, risk and compliance	No
102–10	Significant changes to the organization and its supply chain			Reporting profile	No
102–11	Precautionary Principle or approach			Ethics, risk and compliance	No
102–12	External initiatives			Ethics, risk and compliance	No
102–13	Membership of associations			Ethics, risk and compliance	No
2. Strategy					
102–14	Statement from senior decision-maker			Message from the CEO	No
3. Ethics and integrity					
102–16	Values, principles, standards, and norms of behavior	1	16	CR program	No
102–17	Mechanisms for advice and concerns about ethics	1	16	Ethics, risk and compliance	No

4. Governance					
102–18	Governance structure			Ethics, risk and compliance	No
102–19	Delegating authority			Ethics, risk and compliance	No
102–20	Executive-level responsibility for economic, environmental, and social topics			Ethics, risk and compliance	No
102–21	Consulting stakeholders on economic, environmental, and social topics		16	Ethics, risk and compliance	No
102–22	Composition of the highest governance body and its committees		5, 16	Ethics, risk and compliance	No
102–23	Chair of the highest governance body		16	Ethics, risk and compliance	No
102–24	Nominating and selecting the highest governance body		5, 16	Ethics, risk and compliance	No
102–25	Conflicts of interest		16	Ethics, risk and compliance	No
102–26	Role of highest governance body in setting purpose, values, and strategy			Ethics, risk and compliance	No
102–27	Collective knowledge of highest governance body		4	Ethics, risk and compliance	No
102–28	Evaluating the highest governance body's performance			Ethics, risk and compliance	No
102–29	Identifying and managing economic, environmental, and social impacts		16	Ethics, risk and compliance	No
102–30	Effectiveness of risk management processes			Ethics, risk and compliance	No
102–31	Review of economic, environmental, and social topics			Ethics, risk and compliance	No
102–32	Highest governance body's role in sustainability reporting			Ethics, risk and compliance	No
102–35	Remuneration policies			Business report: Compensation report	Yes
102–36	Process for determining remuneration			Business report: Compensation report	Yes
102–37	Stakeholders' involvement in remuneration		16	Business report: Compensation report	Yes
5. Stakeholder engagement					
102–40	List of stakeholder groups			Stakeholder engagement	No
102–41	Collective bargaining agreements	3	8	Stakeholder engagement	No
102–42	Identifying and selecting stakeholders			Stakeholder engagement	No
102–43	Approach to stakeholder engagement			Stakeholder engagement	No
102–44	Key topics and concerns raised			Stakeholder engagement	No
6. Reporting practice					
102–45	Entities included in the consolidated financial statements			Reporting profile	No
102–46	Defining report content and topic Boundaries			CR program	No
102–47	List of material topics			CR program	No
102–48	Restatements of information			Reporting profile	No
102–49	Changes in reporting			Reporting profile	No
102–50	Reporting period			Reporting profile	No
102–51	Date of most recent report			Reporting profile	No
102–52	Reporting cycle			Reporting profile	No
102–53	Contact point for questions regarding the report			Reporting profile	No
102–54	Claims of reporting in accordance with the GRI Standards			Reporting profile	No
102–55	GRI content index			GRI content index	No
102–56	External assurance			Assurance Report	No
SPECIFIC STANDARD DISCLOSURES					
Access to hearing care					

103–1	Explanation of the material topic and its Boundary			CR program	No
103–2	The management approach and its components			CR program	No
103–3	Evaluation of the management approach			CR program	No
Own indicator	Unit sales of hearing instruments (HI) and cochlear implants (CI) in low- and middle-income countries		3, 4	Access to hearing care	No
Investment in people					
103–1	Explanation of the material topic and its Boundary			CR program	No
103–2	The management approach and its components			CR program	No
103–3	Evaluation of the management approach			CR program	No
401–1	New employee hires and employee turnover	6	5, 8	Investment in people	Yes
403–2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		8	Investment in people	Yes
404–3	Percentage of employees receiving regular performance and career development reviews	6	5, 8	Investment in people	No
405–1	Diversity of governance bodies and employees	1	5, 8	Investment in people	Yes
Own indicator	Employee engagement rate		5, 8	Investment in people	Yes
Responsible products and services					
103–1	Explanation of the material topic and its Boundary			CR program	No
103–2	The management approach and its components			CR program	No
103–3	Evaluation of the management approach			CR program	No
416–1	Assessment of the health and safety impacts of product and service categories			Responsible products and services	No
418–1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		16	Responsible products and services	No
Own indicator	Product reliability rate for hearing instruments (HI) and cochlear implants (CI)		3, 9	Responsible products and services	No
Ethics, risk and compliance					
103–1	Explanation of the material topic and its Boundary			CR program	No
103–2	The management approach and its components			CR program	No
103–3	Evaluation of the management approach			CR program	No
205–2	Communication and training about anti-corruption policies and procedures	10	16	Ethics, risk and compliance	No
206–1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices			Ethics, risk and compliance	No
308–1	New suppliers that were screened using environmental criteria	8		Ethics, risk and compliance	No
308–2	Negative environmental impacts in the supply chain and actions taken	8		Ethics, risk and compliance	No
408–1	Operations and suppliers at significant risk for incidents of child labor	4, 5	8, 16	Ethics, risk and compliance	No
409–1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	4, 5	8	Ethics, risk and compliance	No

412–1	Operations that have been subject to human rights reviews or impact assessments	1, 2		Ethics, risk and compliance	No
414–1	New suppliers that were screened using social criteria	2	8, 16	Ethics, risk and compliance	No
414–2	Negative social impacts in the supply chain and actions taken	2	8, 16	Ethics, risk and compliance	No
415–1	Political contributions		16	Ethics, risk and compliance	No
419–1	Non-compliance with laws and regulations in the social and economic area		16	Ethics, risk and compliance	No
Own indicator	On-time mandatory employee Global Compliance training completion rate	10	16	Ethics, risk and compliance	No
Safeguarding the environment					
103–1	Explanation of the material topic and its Boundary			CR program	No
103–2	The management approach and its components			CR program	No
103–3	Evaluation of the management approach			CR program	No
302–1	Energy consumption within the organization	7, 8	7, 12, 13	Safeguarding the environment	Yes
303–1	Water withdrawal by source	7, 8	6	Safeguarding the environment	No
305–1	Direct (Scope 1) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–2	Energy indirect (Scope 2) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–3	Other indirect (Scope 3) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–4	GHG emissions intensity	7, 8, 9	12, 13	Safeguarding the environment	Yes
306–2	Waste by type and disposal method	8	12, 13	Safeguarding the environment	No
307–1	Non-compliance with environmental laws and regulations	8		Safeguarding the environment	No

UNCG = UN Global Compact Principle
SDG = UN Sustainable Development Goal
All references refer to the 2016 version of the GRI Standards

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Disclaimer

This report contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

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