



Letter to shareholders

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.

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.

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

Arnd Kaldowski

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

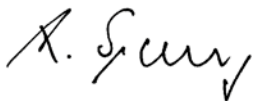
In 2019/20, as part of its commitment to good Corporate Governance, Sonova invited tenders for its audit services. After a carefully conducted review process, the Board decided to follow the Audit Committee's suggestion and propose a change in auditor to the 2020 Annual General Shareholders' Meeting. 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

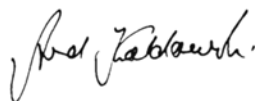
Growing, innovating, continuously improving: these strategic objectives call on the skills and commitment of every Sonova employee, every day. We knew already how much we gain from the motivation and enthusiasm of our people, but are even more impressed by the understanding, flexibility, and initiative 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

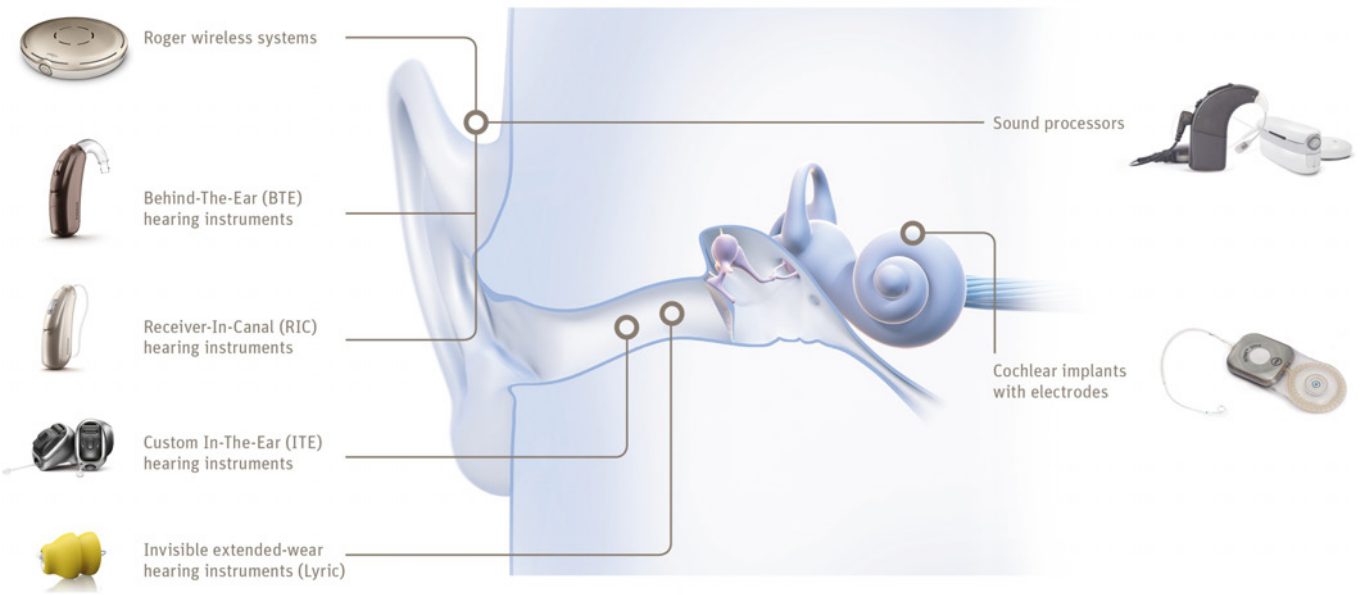
Our product and service offering

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.

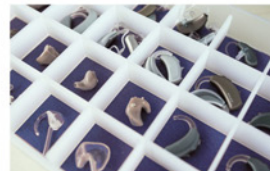
Hearing Instruments Business



Cochlear Implants Business



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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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.

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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.

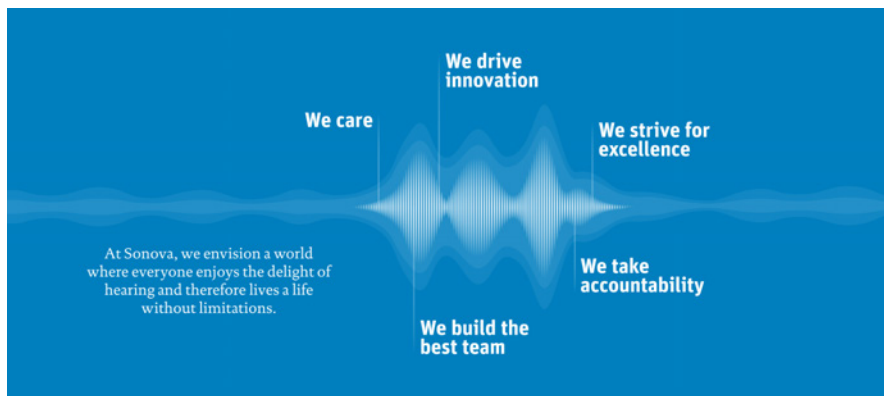
Our innovation framework addresses the needs of this growing consumer base by broadening the capabilities of our products: continuing to improve hearing performance while optimizing comfort and fit, then leveraging connectivity and the range of new applications that it enables – including, in the future, 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.

STRATEGY AND BUSINESSES

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 Brasília, 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 quality¹. They value connectivity: Marvel is rated the best and easiest connectivity solution² – 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 wearers³. It is not surprising that 95% of hearing care professionals would recommend Marvel hearing aids to their peers⁴.

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.

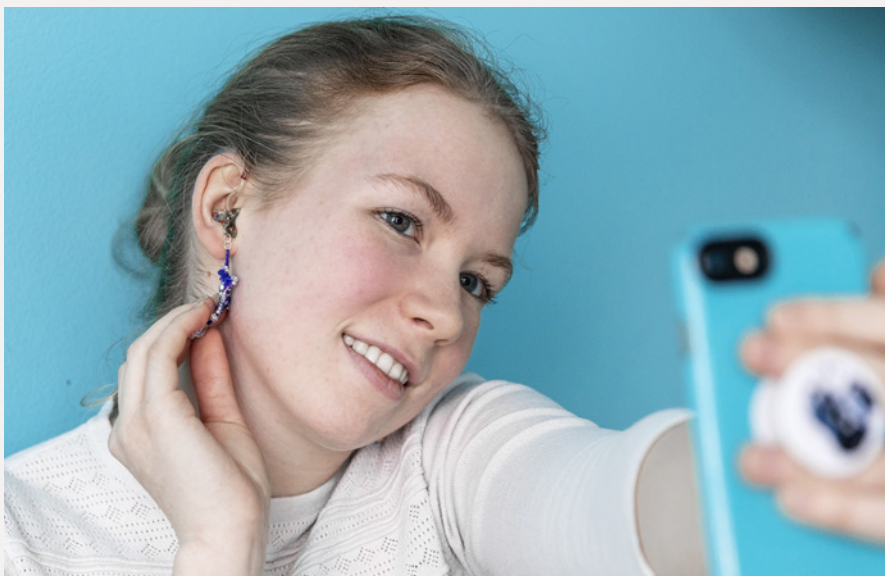


Hearing Instruments business

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.



FROM TEEN TO TEEN

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”

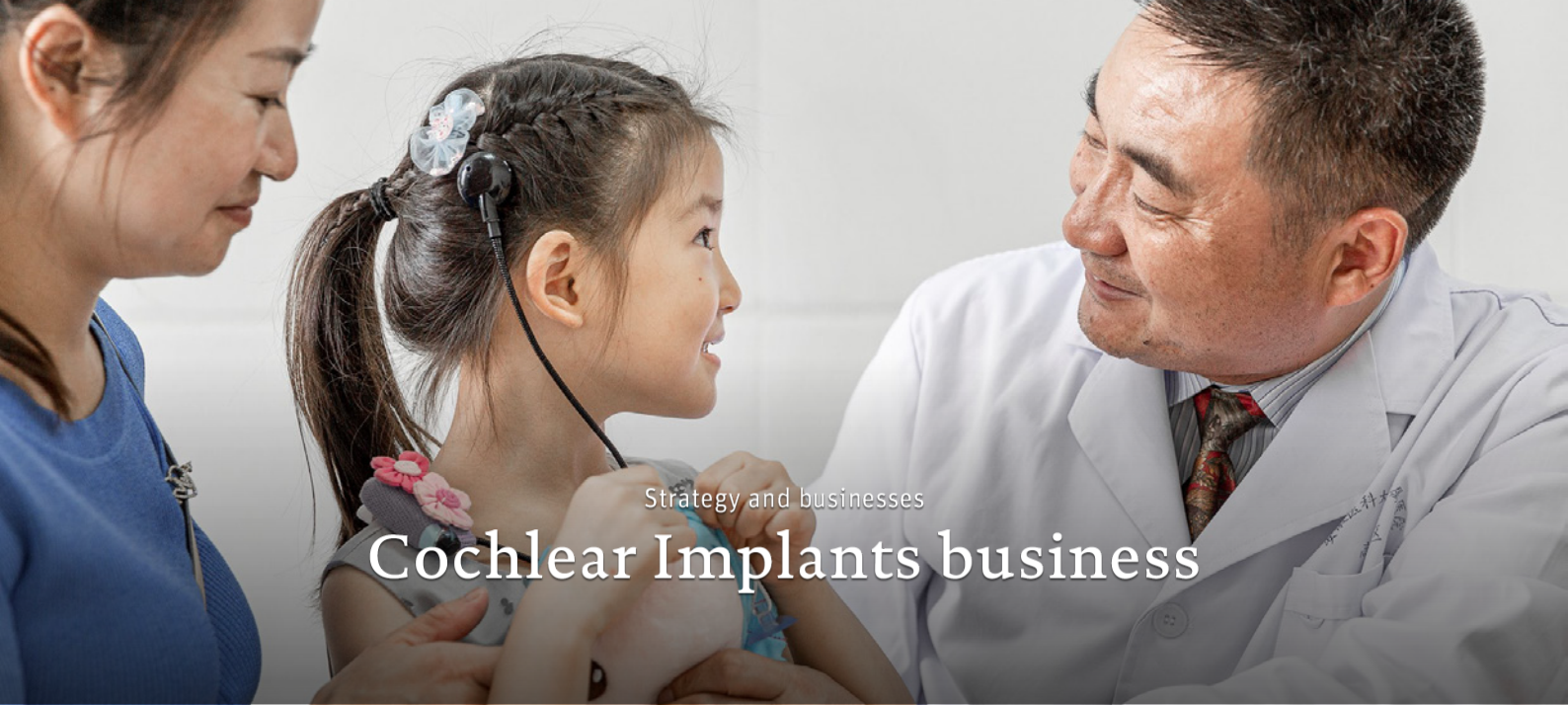
The store is divided into three thematic areas: hearing protection, hearing innovations and expert solutions. As Conny Polleunis explains, “We didn’t just want to help people with hearing loss; we also wanted to support people with normal hearing – which means that there is something of interest even 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.”

A photograph of a man and a woman in an office setting. The man, wearing a blue shirt and glasses, is holding a document and looking at it. The woman, wearing a beige blazer, is also looking at the document. They are standing in front of a large potted plant. The background shows an office environment with windows and other plants.

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	Registered shareholders
	31.3.2020	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 ¹³⁾	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 Greverer

(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 Greverer 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 Greverer 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 adaptations 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.

COMPENSATION REPORT

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.

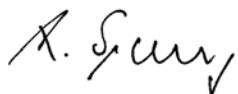
As outlined in this compensation report, the total compensation awarded to the members of the Board of Directors for this term of office is well within the limit approved by the 2019 AGM. The compensation awarded to the members of the Management Board is also within the limit approved by the 2018 AGM, 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.

COMPENSATION REPORT

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.

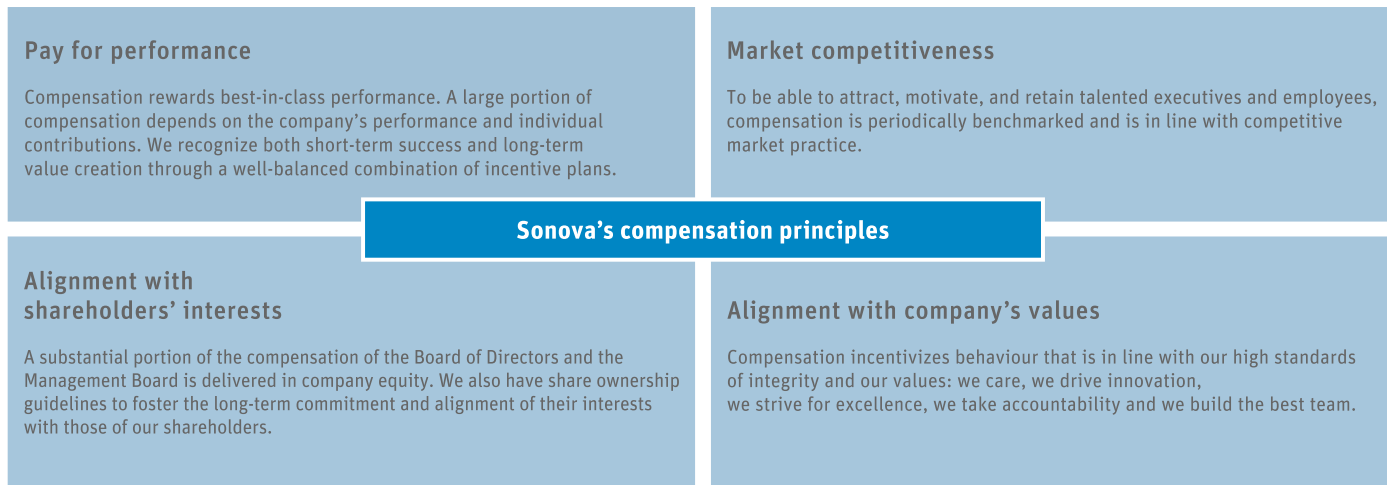
Yours sincerely,

A handwritten signature in black ink, appearing to read "R. Spoerry". The signature is written in a cursive, flowing style.

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:



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.

COMPENSATION REPORT

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			<ul style="list-style-type: none"> – Preview of compensation proposal for the following financial year – Approval of EEAP grant size and plan regulations 	<ul style="list-style-type: none"> – Reconfirmation of EEAP target group for the following financial year – Review of equal pay considerations
Management Board (MB) matters	<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – Approval of EEAP holding period introduction for MB 	<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – Equity valuation (options and Performance Share Units/PSU) – Target compensation (including the EEAP grant) review for the following financial year
Governance	<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – Review of proxy advisor/ shareholder feedback on compensation report – Board evaluation 		<ul style="list-style-type: none"> – 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.

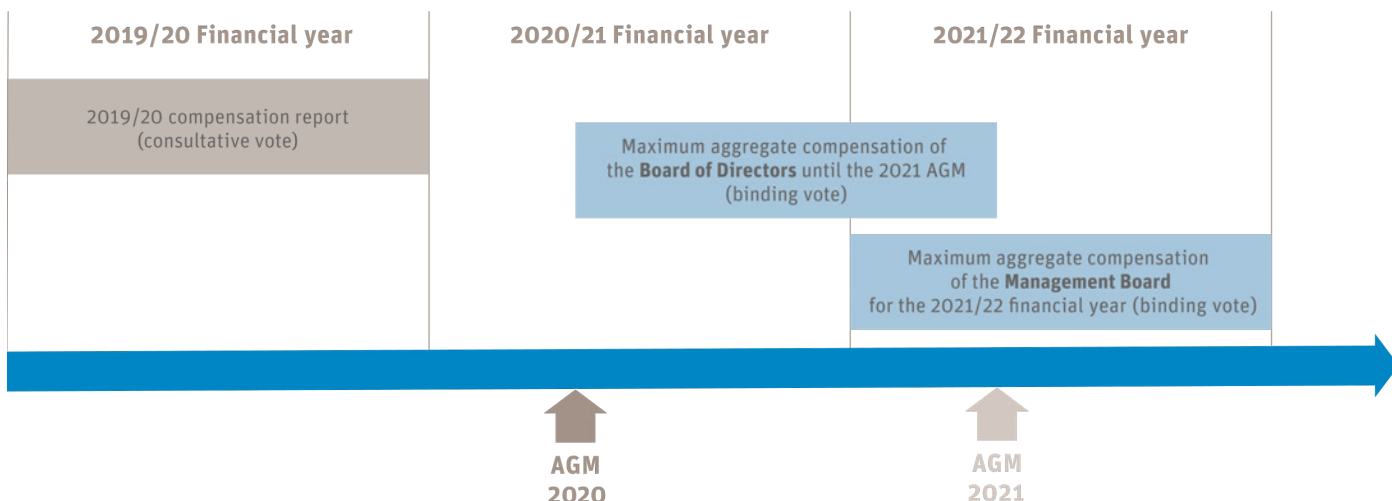
The external advisors had no other mandates during the reporting year.

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).

COMPENSATION REPORT

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.

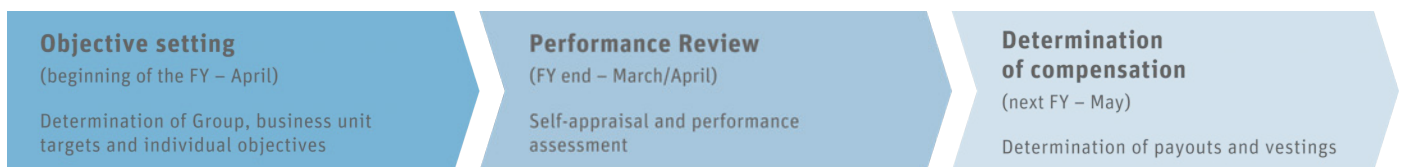
A thorough review was conducted during the course of the previous reporting year to help determine appropriate compensation for the Board of Directors and the Management Board both in terms of structure and overall levels.

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 award⁷⁾		
Executive Equity Award Plan (EEAP)		
Social and other benefits		
Other benefits		

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

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

³⁾ Only for MB members with a Swiss employment contract

⁴⁾ Flat rate cash car allowance

⁵⁾ If applicable

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

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

4.2 Board of Directors compensation system

Role, responsibility and commitment

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

Requirements – in terms of qualifications, skills, and experience – for directors of international listed companies are becoming ever more stringent. Sonova's Board of Directors has the relevant and necessary skill set 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.

COMPENSATION REPORT

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

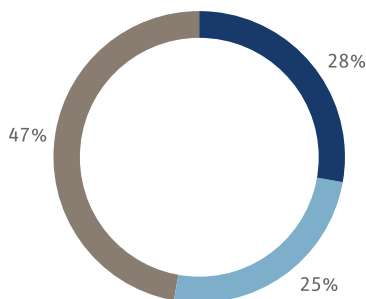
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- 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.

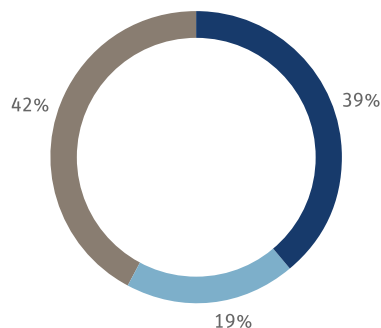
As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company’s strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has 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



■ Base salary ■ VCC ■ EEAP ■ Base salary ■ VCC ■ EEAP

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 objectives²⁾					
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 SLI¹⁾ constituents that remain in the index during a performance period of three years and two months from grant. The slightly shorter performance period provides sufficient time to test for performance and receive approval of the calculation prior to vesting. The SLI[®] was selected in order to compare Sonova's performance to companies with a comparable geographic footprint, providing a relevant and challenging benchmark for Sonova's value creation.

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: 20 th percentile TSR (multiple = 0) Target: 50 th percentile TSR (multiple = 1.0) Cap: 80 th 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.

COMPENSATION REPORT

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. Spoerry³⁾ 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 Jacobi⁴⁾ 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 Vanjoki⁵⁾ 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. Spoerry³⁾ Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	502,500	399,821	902,321	54,808
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	8,000	130,500	199,910	330,410	17,007
Lynn Dorsey Bleil⁴⁾ Member of the Audit Committee	106,000	7,500	113,500	199,910	313,410	19,033
Lukas Braunschweiler⁵⁾	80,000	3,500	83,500	199,910	283,410	157,567
Stacy Enxing Seng Member of the Nomination and Compensation Committee	107,500	8,000	115,500	199,910	315,410	19,169
Michael Jacobi Chairman of the Audit Committee	125,000	8,000	133,000	199,910	332,910	17,164
Ronald van der Vis Member of the Audit Committee	107,500	8,000	115,500	199,910	315,410	19,169
Anssi Vanjoki Member of the Audit Committee	107,500	8,000	115,500	199,910	315,410	33,031
Jinlong Wang	100,000	6,000	106,000	199,910	305,910	18,525
Total (active members)	1,356,000	59,500	1,415,500	1,999,101⁶⁾	3,414,601⁶⁾	355,473

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

- 1) Attendance fees and expenses are based on the number of meetings attended by each member of the Board of Directors (no attendance fees for the Chairman).
- 2) Employer social security contributions on the cash retainer, 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.

COMPENSATION REPORT

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.

COMPENSATION REPORT

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

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

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

Explanatory comments to the compensation tables:

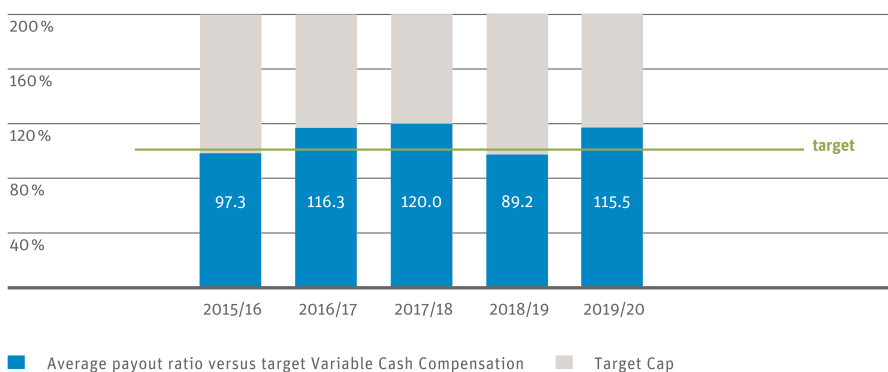
- The total compensation of CHF 13.0 million for the 2019/20 financial year is above the total of CHF 12.1 million for the previous year.
- The fixed compensation has marginally decreased by 1% compared to the previous year.
- The markedly higher VCC payout due to the strong business performance is outlined 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.

COMPENSATION REPORT

The following table shows the shareholding requirements relative to the fixed base salary and the indicative actual shareholdings.

	Base salary	Share requirements ¹⁾	Actual shares ²⁾	Fulfillment of share ownership guidelines	Share ownership ratio to base salary
	in CHF	in CHF	in CHF	in %	ratio
Arnd Kaldowski, CEO	900,000	1,000,000	1,177,026	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							Total options
	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⁾	
Arnd Kaldowski	28,119	32,901	86,543 ¹⁰⁾					147,563
Hartwig Greverer	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 Greverer	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



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.

COMPENSATION REPORT

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