FINANCIAL REPORT

Annual Report 2020/21

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Letter to shareholders

Dear shareholders,

Successfully navigating the challenges imposed by the COVID-19 pandemic

Despite a global pandemic, with its restrictive effects on the healthcare market and consumer-facing businesses, the Sonova Group achieved solid sales performance in 2020/21. A sharp dip in activity in April 2020 was followed by a swift recovery, reflecting the market's strong fundamentals, the resilience of consumer behavior, and Sonova's own growth momentum. This was somewhat tempered by a later period of increased infection rates and government restrictions. Nevertheless, we achieved strong sales and earnings growth in the second half-year, reflecting both the robust execution of our strategy and the benefits of our structural optimization initiatives. We also recorded a strong cash flow performance in both halves.

For the year as a whole, the impact of the pandemic on the hearing care industry – including restrictions on personal movement, consumer activity, and elective surgery – resulted in a decline in sales of 6.8% in local currencies and 10.8% in Swiss francs. Sonova has weathered the crisis robustly: we have outpaced the market, grown share and are well-positioned to continue to do so.

We navigated the challenges of this unprecedented year through a series of swift and decisive measures. We quickly took the essential steps to assure the health and safety of our employees and customers, to protect our core financial flexibility, and to contain costs. We were therefore fully prepared to drive sales growth as the market rebounded.

We accelerated our structural optimization and growth initiatives, which are well on track. These enabled us to drive outperformance in the second half-year and emerge from the crisis stronger than when we entered.

We maintained a high level of investment despite difficult market conditions, launching groundbreaking new products such as the Phonak Paradise hearing aid platform and the Advanced Bionics Naída Marvel CI sound processor. These well-received innovations give us a further increased share of a fast-recovering market.

> The market's strong fundamentals remain intact, despite short-term challenges from the pandemic.
>
> Robert Spoerry

All in all, the experience of this year has been a validation of Sonova's strategy. It gives us, not just the strength and agility to grow in favorable conditions, but the resilience to come through severe challenges in a strong position. You will find more details in the Strategy & Business section of this report.

As in previous years, we also feature the story of an individual who has benefited from our hearing solutions. This time it is Charles Owens in the US, who can continue his distinguished career as a professional saxophone player and thus live his live without limitations, sharing his joy in music with the world.

Hearing Instruments segment

Sonova's Hearing Instruments segment was able to outgrow the market and gain market share throughout the year. The overall market decline resulting from the COVID-19 pandemic meant that full-year sales were down by 6.1% in local currencies, but the segment returned to growth of 6.5% in the second half-year, supported by solid performances in both the Hearing Instruments and Audiological Care businesses.

A significant growth milestone, both for this year and the future, was the launch of the Phonak Paradise hearing aid platform in August 2020. Paradise builds on the global popularity of Phonak Marvel, the most successful platform in the Group's history and still an industry benchmark two years after its introduction.

Paradise's key innovations start with PRISM™, an entirely new sound-processing chip offering unrivaled sound quality and supporting many unique features for a strongly improved hearing performance. Paradise is also Phonak's first hearing aid platform to include a motion sensor, for brilliant speech intelligibility when the wearer is moving and having a conversation. In addition, certain functions can be controlled just by tapping on the ear. Multiple Bluetooth® connections let users effortlessly enjoy hands-free phone calls, music, television, and a wide range of other services and applications. We were able to successfully launch Paradise worldwide during the pandemic, and the market response has been excellent, matching the performance of Marvel over the equivalent period.

The Audiological Care business also made good progress during this year. Its strategy is to provide best-in-class service through deep expertise, the industry's broadest solution portfolio, and an omni-channel approach to the market that gives consumers full control over how they interact with their provider through a seamless combination of face-to-face, remote, and online interactions.

This year, we made significant progress in executing our omni-channel strategy by further integrating our systems and procedures, streamlining our store network, and expanding our lead generation capabilities. We accelerated the rollout of our World of Hearing stores, flagship centers where consumers can experience the full range of Sonova solutions: ten such stores were open by the end of the financial year. We also expanded our online presence through our eStores, and entered the China hearing care market through a combination of online and in-store partnerships.

Although consumer-facing service businesses in general were seriously restricted by the pandemic, our omni-channel approach allowed us to transfer our consumers' care seamlessly to online and remote channels during the lockdown, and then return to safely distanced in-store care as consumers reverted to their preferred form of contact.

Cochlear Implants segment

The Cochlear Implants segment, operating under the Advanced Bionics brand, has undergone a very challenging year: the development was significantly restricted by the necessity for hospitals in many countries to concentrate on dealing with the pandemic, thereby reducing the number of elective surgeries. There was also a residual impact from our voluntary field corrective action taken in February 2020. The result was a sales decline of 15.9% in local currencies. Despite a strong and effective focus on cost reductions this year, the lower sales level had a negative effect on profitability.

This year has, however, seen important measures taken to support a prompt return to growth and profitability. A strong and well-communicated program to assure product quality and reliability has substantially mitigated the impact of the voluntary field corrective action, regaining customer confidence and establishing a pipeline of new recipients when elective surgeries become possible again.

Even more important, this year has seen the launch of two new sound processors based on Phonak Marvel's proven technology: the Naída™ CI Marvel for adults; and the Sky CI™ Marvel, the world's first dedicated sound processor specifically designed for children. The benefits of the Marvel technology – adaptive sound programs, hands-free calling, direct wireless connectivity – can transform the lives of cochlear implant recipients. The market has shown great enthusiasm for the potential of these processors – enthusiasm that we are confident will translate into sales in the 2021/22 financial year.

Financial performance

The results were significantly influenced both by the COVID-19 pandemic and the strengthening of the Swiss franc, which represented a strong headwind to growth. Nevertheless, through prompt implementation of cost savings and additional support measures, we were able to achieve strong results despite these challenges.

Group consolidated sales for the 2020/21 financial year were CHF 2,602 million, a decrease of 6.8% in local currencies and 10.8% in Swiss francs. The full-year figure reflects a steep decline in the first quarter, followed by a return to the prior-year level in the second quarter and sales growth in the second half-year.

Reported operating profit before acquisition-related amortization (EBITA) stood at CHF 663.3 million, up 30.5% in local currencies and 19.7% in Swiss francs. Adjusted for restructuring costs, an impairment of previously capitalized development costs and for a CHF 124.4 million one-time income item from a successful Advanced Bionics patent-infringement lawsuit, EBITA reached CHF 603.0 million, up 5.6% in local currencies but down 2.9% in Swiss francs. Adjusted earnings per share (EPS) were CHF 7.71, up 15.5% in local currencies and 4.3% in Swiss francs.

Sonova has maintained a strong cash flow, despite a challenging year. The Group ended the year with a net debt position of CHF 83.3 million, and the balance sheet remains solid. The equity ratio is 46.8%.

Returning cash to shareholders

Given Sonova's strong cash and balance sheet position, the Board of Directors will propose to the Annual General Shareholders' Meeting (AGM) in June 2021 a dividend of CHF 3.20 per share, which represents a payout ratio of 42%. After the previous year's stock dividend, this year's cash dividend, if approved, would be 10% higher than in the 2018/19 financial year. In addition, the Board of Directors has approved a new share buyback program, worth up to CHF 700 million, for the 2021/22 financial year.

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

Sonova's mission is to have a positive effect on our consumers' lives. This closely aligns with our aspiration to have a positive effect on society as a whole, through running our business in a sustainable and responsible manner. We regard our ESG strategy as integral to our overall strategy; we promote and apply it at every level of the Group. The COVID-19 pandemic, by strongly focusing us on the health and safety of our employees, customers, and consumers, has confirmed the importance of these principles in our day-to-day operations.

The challenges of this year have not impeded significant progress toward achieving our ESG goals. We have further reduced our carbon footprint, exemplified by the opening of one of the first zero-energy commercial buildings in Switzerland. We target to achieve carbon neutrality in our own operations by the end of 2021 and to align our reduction targets with the <1.5°C global warming goal advocated by the Science Based Targets initiative (SBTi). We have accelerated action on diversity and inclusion: at year-end 34% of all upper and senior management positions were held by women. We have also introduced ESG targets as an element of the objectives for the variable cash compensation of the members of our Management Board.

Institutional investors increasingly evaluate companies based on recognized ESG performance as well as financial indicators. We are therefore very pleased that our progress in this area has been validated by indices such as the Dow Jones Sustainability Index and FTSE4Good, and that our ESG performance has been described for several years now as industry-leading by the relevant ratings agencies.

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

Changes to the Management Board and to the Board of Directors

In February 2021, we announced that Birgit Conix will become Sonova's Chief Financial Officer (CFO) and will join the Management Board as of June 2021. She is a seasoned CFO with more than 25 years of international experience in finance, strategy, and business operations across multiple industries including many years in the healthcare sector. Most recently, she was CFO and member of the Executive Board of TUI AG. Hartwig Grevener, after serving more than eight years as CFO of the Sonova Group, has decided to leave us after the 2021 AGM in June. We want to sincerely thank Hartwig Grevener for his important contributions to the strong development of the Sonova Group.

At the same time, we announced that the Board of Directors nominated Greg Behar and Roland Diggelmann as new Board members for election at the 2021 AGM. They both have an outstanding track record in leading successful global healthcare businesses and their nomination is a continued step in the rejuvenation of the Board. Greg Behar has been CEO since 2014 of Nestlé Health Science SA, a global leader in the science of nutrition. Roland Diggelmann has been CEO since 2019 of Smith & Nephew plc, a UK-based leading global medical technology company.

Beat Hess, Vice Chair and member of the Board of Directors since 2012, has reached Sonova's age limit for Board membership and will retire from his position. In addition, Michael Jacobi will not stand for re-election, having served as a member of the Board of Directors since 2003 and as Chair of the Audit Committee from 2004 to 2019. We are very grateful to Beat Hess and Michael Jacobi for the experience, insight, and hard work that they have contributed to Sonova over the years, and we wish them all the best in their future plans.

If re-elected, the Board of Directors intends to appoint Stacy Enxing Seng as Vice Chair of the Board of Directors after the 2021 AGM, to succeed Beat Hess.

As part of our ESG strategy, we strongly believe that a more balanced gender representation on the Board of Directors is in the best interests of the Sonova Group, and we are committed to achieving a 30% proportion of women on the Board well before the time this becomes a legal requirement in 2026.

Our thanks

A crisis is, above all, a test of strength. After this eventful year, we have even more reasons to thank our employees for their strength to keep on innovating, improving, and expanding our solutions and businesses, despite all the challenges we have faced. Our customers and colleagues in the world of hearing care have shown an unwavering commitment to the people they serve, and great flexibility in adjusting to new ways of connecting to them and to us. Our consumers, as the experience of the second half-year shows, do not let anything get in the way of advancing their hearing journey. Our shareholders have shown continued trust in our strategy – and we feel the results justify that trust. At the end of such a year, we have many things to be grateful for; we thank you all.

Outlook

As we predicted in last year's letter, Sonova has grown faster than the market and increased its market share. The attractive fundamentals of the hearing care market remain intact despite the pandemic. There is pent-up demand to be satisfied and new demand emerging. We are confident that the strong recovery will persist, and that consumers will continue to demand even better hearing performance and technological innovation, delivered through an ever wider spectrum of channels. As a global market leader, Sonova is in a strong position – in innovation, in financials, in market access and in operational efficiency – and we expect to participate fully in a resurgent market.

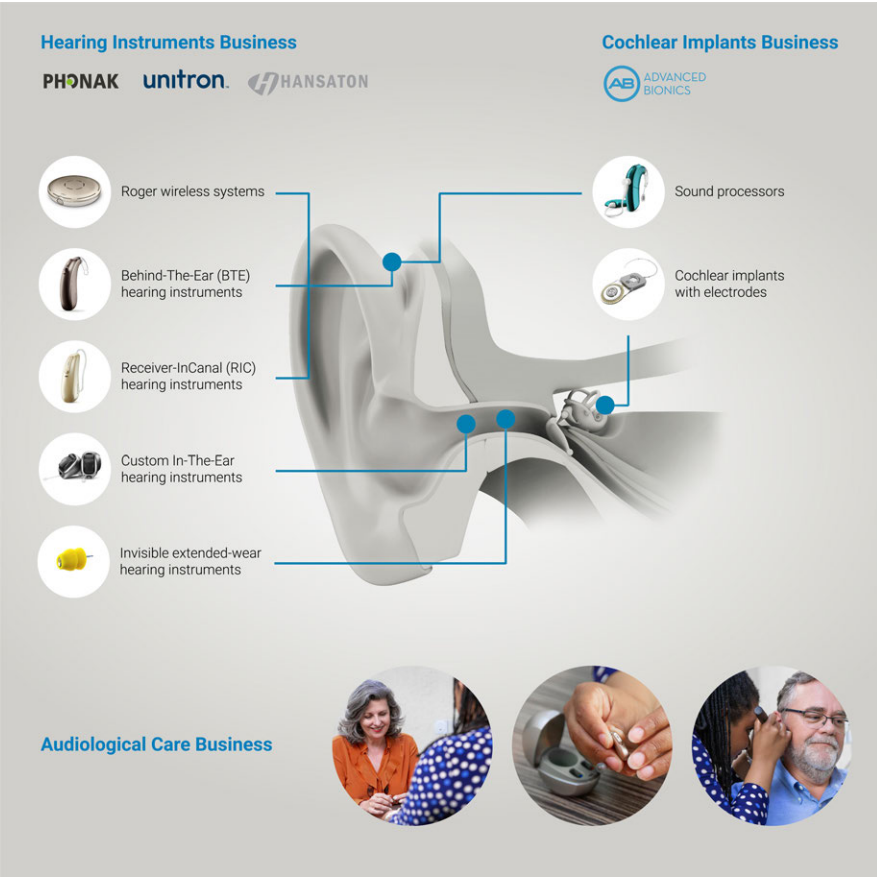
> We are confident in a strong recovery and that Sonova is in an excellent position to continue to outperform the market.
>
> Arnd Kaldowski

Robert Spoerry
Chair 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.



Phonak

Phonak Paradise

In August 2020 Phonak introduced the new Phonak Paradise technology platform with the launch of Audéo™ Paradise, the multifunctional Receiver-In-Canal hearing aid which delivers improved hearing performance and speech understanding[1 2] coupled with industry-leading wireless connectivity. Benefiting from Sonova's next generation sound processing chip PRISM™ (Processing Real-time Intelligent Sound Management) with more processing power and twice the memory of its predecessor, Phonak Paradise offers a host of newly developed features. Paradise technology runs on AutoSense OS™ 4.0, the latest version of Phonak's automatic operating system. AutoSense OS eliminates the need for manual adjustments and allows to automatically detect, adjust and adapt to a wide range of hearing environments in-stereo. Consumers can thus enjoy a crisp, natural hearing experience, rediscovering the wonders of sound. With the industry leading universal connectivity of the Paradise hearing aids, consumers can have hands-free phone conversations while connecting with popular voice assistants like Siri® or Google Assistant™ via a double tap of their ear. Multiple simultaneous Bluetooth connections are now possible, allowing the wearer to easily switch streamed audio from one device to another across virtually any smart device or operating system. In quiet situations, soft voices over distance are enhanced by a speech enhancer. With Motion Sensor Hearing, the hearing aids can detect when the wearer is moving while having a conversation and will automatically adjust the directional microphones to focus on the direction of speech. Paradise wearers will also have more control over how they hear thanks to a new personalized noise cancelling feature in the myPhonak app.

With the launch of Phonak Naída Paradise in February 2021 the Paradise technology with all its newly developed features became available to those with severe and profound forms of hearing loss. Like all Paradise hearing aids, Naída Paradise offers industry-leading connectivity and is also equipped with RogerDirect™. This means wearers can also receive the Roger remote microphone signal with no additional accessory required. Launched in 2013, Roger™ technology is proven to boost hearing performance in loud noise and over distance. In fact, hearing aid wearers who receive the Roger signal have better speech understanding in noise and over distance than people with normal hearing.[3] Some Roger microphones and receivers have also been shown to help users understand up to 61% more speech in a group conversation in 75dBA of noise than using hearing aids alone.[4]

1) Appleton, J., & Voss S.C., (2020) Motion-based beamformer steering leads to better speech understanding and overall listening experience. Phonak Field Study News in preparation. Expected end of 2020.
2) Wright, A. (2020). Adaptive Phonak Digital 2.0: Next-level fitting formula with adaptive compression for reduced listening effort. Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed August 19th 2020.
3) 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.
4) Thibodeau L. M. (2020). Benefits in Speech Recognition in Noise with Remote Wireless Microphones in Group Settings. Journal of the American Academy of Audiology, 31(6), 404–411. https://doi.org/10.3766/jaaa.19060

Unitron

Blu platform

Unitron's new Blu platform introduced in April 2021 provides next-generation sound performance. Powered by the new Sonova PRISM™ (Processing Real-Time Intelligent Sound Management) chip, Blu delivers an adaptable, personalized and freeing experience. It starts with Integra OS, the new signal processing system, that optimizes the listening experience to each wearers specific situation from highly complex to very quiet. Furthermore, with a new family of hearing instruments that offer Made-For-All technology, plus enhanced personalization capabilities and seamless connectivity, Unitron Blu is designed to keep up with the complexity of everyday life wherever the day may take them. Unitron's Moxi B-R hearing aid, recognized in 2021 with the prestigious Red Dot: Product Design award, Unitron's 7th award since 2014. Moxi Blu is Unitron's next generation of hearing instruments, thoughtfully designed to meet the needs of real people.

Advanced Bionics

Naída CI Marvel

Through the close collaboration between the brands Advanced Bionics (AB) and Phonak, cochlear implant (CI) recipients can now benefit from the breakthrough Marvel hearing technology. With Sky CI™ Marvel, the world's first dedicated CI sound processor for children and Naída™ CI Marvel for adults, AB lets CI recipients connect to the moments they love. Furthermore, the Marvel technology has been extended to bimodal-hearing wearers[1] with the introduction of Phonak Sky Link Marvel and the new Naída Link Marvel. As a bimodal system, these devices wirelessly communicate with each other and feature all of the connectivity benefits of Marvel, including Sonova's unique universal Bluetooth® connectivity and RogerDirect™. Naída CI Marvel comes with AutoSense OS™ 3.0, which delivers excellent sound quality and performance in a variety of situations throughout the day. This machine-learning algorithm analyzes the sounds in the listener's environment every 0.4 seconds and identifies whether the wearer is for example in a noisy restaurant, car, concert hall or at home. It then engages the appropriate cochlear implant system features to customize and enhance the wearer's hearing experience based on the specific characteristics of the listening environment. AutoSense Sky OS™ 3.0 works similarly to the adult version in Naída CI Marvel but is uniquely designed for a child's typical listening environments, providing excellent sound quality and performance wherever the child goes.

1) Many cochlear implant recipients use one sound processor and one hearing aid. This is known as bimodal hearing.

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Strategy and businesses

We foster a world in which there is a solution to every hearing loss and all people equally enjoy the delight of hearing.

Hearing loss should never mean losing connection – to the voices of loved ones, a favorite melody, birdsong, the crash of waves. At Sonova, we know how vital hearing is to happy and healthy living. That is why we have set ourselves the mission to bring ever better hearing performance to ever more people through continuous innovation in our products, applications, services, and sales.

The Sonova Group

The Sonova Group fulfils its mission through its three core businesses: Hearing Instruments, Audiological Care, and Cochlear Implants. Hearing Instruments delivers market leading audiological performance and consumer experience through innovative technology platforms that support a full range of hearing aids and wireless communications devices. Audiological Care meets the hearing needs of consumers directly with expert services and advanced solutions provided through an omni-channel approach, leveraging its retail network and online presence. Cochlear Implants serves those people whose hearing loss is beyond the point where hearing aids can help, offering them the combined benefits of Sonova audiological performance and cochlear implant expertise. The three businesses together form a closely integrated structure, with extensive cross-collaboration and sharing of talent, technology, and market insights.

Our business model is similarly integrated: we offer the broadest range of products and solutions to address every type of hearing loss. We take a multi-channel approach to the market, aiming to give customers and consumers complete choice about the way they interact with us. We operate actively in every phase of our industry, from initial research to post-sales service. We drive the cycle of innovation, drawing on our understanding of consumer needs to regularly launch technology platforms that bring life-enhancing new capabilities and measurably improved hearing performance to our entire product range.

Our proven strategy

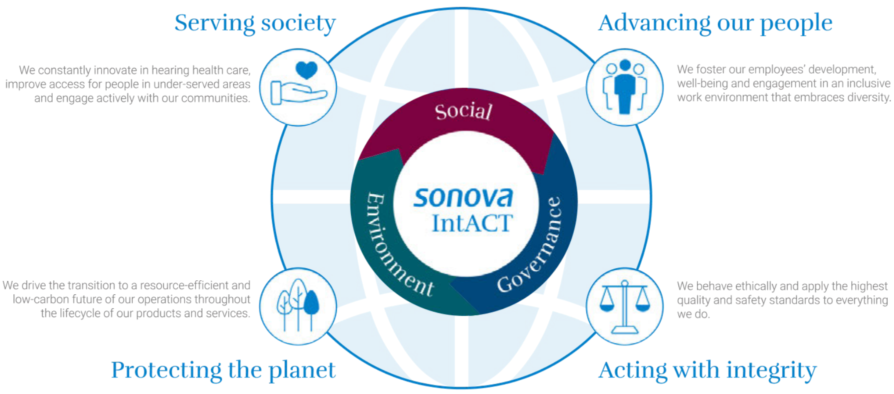
Our strategy remains unchanged from previous years, despite the worldwide impact of the COVID-19 pandemic. Indeed, the experience of this year has demonstrated the strategy's validity and resilience. Having rapidly taken the essential steps to assure the health and safety of our employees, customers, and consumers, and having put in place cost-structure and liquidity measures to secure our financial flexibility, we were able to drive the sales rebound by increasing the number and intensity of customer contacts, launching new technology platforms, investing further in product development, and accelerating our lead generation activity. As a result, we were well placed to participate in the market's faster-than-anticipated recovery. By continuing to lead innovation, extend consumer and market access, improve our processes, and invest in growth, we have sustained the agility we need to thrive in good times and to weather the challenges that come along the way.

Driving innovation

In our innovation framework, as in all our processes, we aim to achieve significant measurable improvement in clearly defined benchmarks: hearing performance, comfort and fit, digital apps and connectivity, and emerging new functionalities. Taken together, these capabilities make our product much more than just a hearing aid – it becomes a multi-functional device that supports healthy living. The products and solutions launched across our businesses and brands during the past financial year represent further important steps in this direction, with sophisticated enhancements to the hearing experience, increased ease-of-use and connectivity, new supporting apps, and the addition of a motion sensor, enabling new modes of functionality.

New milestones in ESG

Sonova has long been committed to continuous improvement in its environmental, social, and governance responsibilities. "We take accountability" is one of our core values, and we aim to further embed our ESG commitments across all dimensions of the business and to track and optimize our ESG performance with the same intensity as we do our key financial indicators. We are proud that we are highly ranked in major ratings agencies' sustainability indices, both as a recognition of our efforts an assurance to investors that we are making good progress.



This year, we have introduced a range of new, measurable ESG targets with firm dates for achievement. Among those in the environmental area, we aim to achieve carbon-neutral operations by the end of 2021 and to align our reduction targets with the effort to keep global warming below 1.5°C, as advocated by the Science Based Targets initiative (SBTi). In the social area, our new commitments include a goal of 40% of key positions held by women by 2025. In governance, we are extending and intensifying our long-established system of ESG risk assessments and audits of our suppliers, and establishing a strong digital ethics and cybersecurity function.

You can read the full account of our performance for the year in the Corporate Responsibility report.

Strategic focus areas

Products and solution innovation

Two years ago, we introduced Phonak's groundbreaking Marvel platform: the result was two years of clear market leadership, with an industry-record number of instruments sold and every form factor marking significant sales growth over its predecessor. Even in 2020, Marvel remained the top-ranked hearing aid among hearing care professionals.

This year, we took Marvel to the next level with the launch of Phonak Audéo Paradise, which combines an entirely new sound processing chip with a motion sensor and allows for multiple simultaneous Bluetooth® connections. Paradise provides unrivaled sound quality, with adaptive speech enhancement, dynamic noise cancellation, and motion sensor hearing, which self-adjusts for conversations on-the-go. Multiple connectivity provides even greater ease-of-use and access to a wide range of digital apps and services, controllable by a tap of the finger on the ear. The motion sensor does not just contribute to hearing performance and easy handling: it opens up a path to add further capabilities and benefits through sensor technology in the future.

In 2021, our Cochlear Implants business launched two breakthrough sound processors founded on Marvel's leading technology and market reputation: the Naída™ CI Marvel for adults, and the Sky CI™ Marvel: the world's first dedicated sound processor specifically designed for children. The benefits that these bring to recipients – self-adjusting sound programs, hands-free calling, direct no-hassle enjoyment of music and television, and compact wireless communication, all without the need for additional connection devices – can transform lives, and are currently unique to our cochlear implant solutions. Marvel technology is now also available to "bimodal" recipients, who have a sound processor on one ear and a hearing aid on the other, thereby providing state-of-the art solutions for all cochlear implant wearers.

The powerful market performance of these advanced technologies, along with the continuously increasing customer satisfaction and penetration that Sonova has seen over the past decade, suggest that an excellent hearing experience still remains vital to consumers, and that there are ample opportunities to further advance through even better performance and additional functionalities. We know that we are far from having achieved our solutions' full potential – and therefore from any "commoditization" in our business.

Market and consumer access

An omni-channel strategy gives us a flexible and agile method of approaching consumers who have different preferences about where and how they want to engage with us and our hearing solutions, by providing our sales people with multiple points of contact and influence. Success in this strategy relies on having access to a broad set of sales and lead generation channels, paired with a systematic, process-driven approach to define and track the indicators that mark new opportunities.

We have applied this approach in our Audiological Care business, not just in its day-to-day operations, but also in opening up new markets. This year, we established a presence in China (where over 90 million people are affected by hearing loss) through partnerships with Tencent and its WeChat app, the largest social media platform in China, and Alibaba Health, part of the world's largest eCommerce platform. These are backed by agreements with two major retail networks to provide fitting services, which give consumers the choice of an all-online or partially in-store experience. This is just the first step in our omni-channel approach to the Chinese market, but it has already brought success: within three months of launch, we were China's leading hearing aid manufacturer in terms of online share. We have taken the same systematic approach to eCommerce, acquiring or launching new eShops in a targeted way to gain new consumers, enter new markets, or extend existing consumer connections.

Across Sonova, we have increased our focus on systematic lead generation, gaining in-house consumer understanding at the early pre-sales stage. This benefits not just our Audiological Care business, but all our sales activities, as it allows us to establish strong direct-to-consumer connections that can extend throughout their hearing journey.

Improvement and optimization

The process improvement and structural optimization programs that we announced over the past two years are well on track – indeed, we accelerated them during the period when the COVID pandemic focused our attention on cost. We have already seen a positive effect on profitability – while continuing to invest in our growth initiatives – and we expect them to generate an attractive ROI. Sonova will emerge from the pandemic in a much stronger position.

Cost savings and efficiency are less than half the story, however. By far the most important improvements we can make are those that generate growth, both during the post-COVID market rebound and beyond. We see this with the commercial excellence initiative in our Hearing Instruments business: through a systematic approach to territory design, market segmentation, and targeting, we are able to reduce non-value-adding tasks. This increased productive use of time and enabled us to allocate resources to more competitive accounts with higher growth potential, thereby raising sales productivity by 20%, with an equivalent sales growth in the targeted areas. These improvements are not one-off cost savings, but a source of yearly contributions to the bottom line.

Elsewhere in Sonova, our regular “Kaizen” cooperative operational improvement events – more than 100 this year in production functions alone, with over 50 in other functions – continue to generate substantial productivity improvements. Our labor productivity has risen by over 10% in the last 12 months; our working capital position has improved significantly over two years – and all during a period when the business has grown and increased its market share.

Feature story

“It’s like having new ears!”

Charles Owens is a jazz musician – and he wears hearing aids from Sonova brand Phonak. The saxophone player, who is over 80, finds them crucial, not only for listening to music and communicating with the members of his band, but also to help him teach his students and stay fully focused when his nine-year-old grandson practices saxophone with him.

“Where’s Glo?” Clad in a black suit, white shirt, red tie and matching fedora, Charles Owens strolls through the back door of the Lighthouse Café in December 2019. In one hand, he is carrying his saxophone case and, in the other, a bouquet of roses for Gloria Cadena, who is over 90 and decides which jazz bands get to play in the club.

It’s time to open the doors for the jazz brunch that has been a weekend tradition since 1949 in the club, a few miles south of Los Angeles, whose global fame was kickstarted by the film La La Land. Charles gathers his band to discuss the bebop classics he wants to play that morning. “The important thing with jazz is to play with enthusiasm,” he says, surveying the packed room with satisfaction. He can hardly wait to take the stage, raise the tenor sax to his lips, and entertain the public. For Charles and the saxophone, it was love at first sight.

It all started back in 1949: Ten-year-old Charles and his parents are on their way from San Diego to Oklahoma to visit his father’s family. “They were all musical,” he recalls. Charles discovers every instrument imaginable in the sitting room – guitar, drums, trumpet, trombone, and a silver-plated alto saxophone. He tries them all out, but is particularly taken with the sax. “When we got back home, I asked my mother if I could have it,” he recounts. “She bought it from Uncle Henry and had it shipped to California.” Seeing his enthusiasm for the instrument, his parents sign him up for lessons.

At high school, Charles starts a band with some friends and they play at parties on weekends. The money he makes goes towards music, books, and shoes. His dream is to master the saxophone as well as emulate the great jazz musicians. When a teacher asks him just before graduation what he intends to study at university, there’s only one possible choice: music.

And he does it, too, playing in the brass band in college and earning money on the side in a fast food restaurant. “My burgers were good, but I knew that wasn’t the life for me,” he recalls. Charles signs up for the military and joins the Air Force Band, which takes him to Boston and the Berklee College of Music to study jazz. There, he switches from alto to tenor sax and learns piano, trombone, flute and clarinet. In Boston, he begins his career as one of the most multi-talented jazz musicians there is ever likely to have been. His sheer versatility enables him to work with the world’s top musicians.

Shortly after his 32nd birthday in 1971, he heads for the bright lights and big city of the West Coast to buy a house for himself and his family. With financial support from his wife, Charles plays in jazz clubs, but feels guilty as he is no longer earning any money. His mother constantly pushes him to find a part-time job instead of spending hours perfecting his technique. “Let them talk,” Duke Ellington eventually tells him while he is touring with his orchestra. “Jazz is your vocation – you have to practice!”

His discipline and patience begin to pay off and Charles is soon a sought-after session musician. “It’s a blessing when you find out what God put you on earth to do,” he says emphatically. “It’s even better when you can do it your whole life and it pays the bills.”

In 2015, a call comes through from Hollywood. “They said, ’they’re making a film in the Lighthouse Café, come down and bring your sax’.” By this point, Charles and his band have been playing regularly at the club for more than 20 years. The film, which will see him taking the stage behind Ryan Gosling, Emma Stone and John Legend, is called La La Land. To Charles’ delight, it will bring jazz to a whole new audience and entice the curious into the Lighthouse Café.

Before the premiere in December 2016, Charles and his band would sometimes play to only a handful of brunch-time regulars. This all changed after the film, with fans jostling in queues round the block for hours before the doors open each weekend. All the tables are booked out this Saturday morning as well.

“Am I glad that you’re all here,” says Charles when greeting his guests. “It’s depressing to play with no audience – it’s enough having to do that every day at home!” Before the laughter has even died away, the first rich notes from his saxophone are floating through the air as tourists look up from their smartphones and tap their feet to the beat.

After the first set, Charles introduces the members of his band and points across to the Sonova team standing beside the stage with their cameras and spotlights; they are making a short film about him. "The moviemakers are in today, as you can see," he says. "It's not 'La La Land II' – they are filming me because I wear a hearing aid." He takes a short pause, wishing to make sure that everyone is paying attention to him. "Something a lot of you don't know – I'm half deaf. Not exactly ideal for a musician!"

Charles had noticed his hearing loss not on stage but at home. His family's complaints that he was turning up the television too loud were becoming more and more frequent. When they turned the volume down, he could no longer hear anything, and he was finding it harder and harder to conduct a conversation. "I had got used to asking what someone had just said and always getting them to repeat it," remembers Charles. He thinks his ears have suffered because he always likes to stand right next to the percussion. "The drums could never be loud enough for me." For a long time, he was too proud to get a hearing aid and was embarrassed about admitting to his hearing loss. However, once sitting in front of the television with his family became no fun anymore and communicating with them was becoming increasingly difficult, he acquired his first hearing aid. It was a lot better than having no help at all, but there were still some problems – on the phone, for example. "Everything was distorted and crackly."

Things changed radically when he acquired his Phonak hearing aids. "It's like having new ears! As if I'd been underwater before and have finally come up to the surface," says Charles enthusiastically. "These are really first-class hearing aids." When his phone rings, all he has to do is press a button on the device and he is directly connected, and can hear the voice at the other end clearly and distinctly. "Now, I can hear the rain on the roof again, the birds singing, and the pastor at church. Previously, it took a lot of effort to discuss song arrangements with his bandmates, catch what a taxi driver was saying, or understand what fans were asking him. Now, he finds all this easy again and it is also a lot more fun to listen to his nine-year-old grandson practicing his saxophone with him. "You can't put a price on that, and there isn't a note I would want to miss. Now, I can finally hear them all again."

The hearing aids also make his work easier with students at the University of California, Los Angeles (UCLA). He teaches saxophone there once a week – a job that brings him tremendous satisfaction. "I want to pass on what I have learned," explains Charles. "And more than ever before, I want jazz to reach as many people as possible so they can forget their troubles for a moment as they listen."

In 2010, Charles released an album of original compositions and cover tunes. It was entitled Joy, a synonym for his attitude to life and to jazz. "I will play music until the last drop of energy in my hearing aid batteries drains to nothing," he says with a laugh, and lifts up his sax again. It's time to entertain his audience and spread joy.

In December 2020, Charles is fitted with the Phonak Audéo™ Paradise hearing aids. These multi-functional devices deliver improved hearing performance and speech understanding[1], coupled with industry-leading wireless connectivity. To try them out for the first time, Charles has come to the Sonova brand Connect Hearing's audiological store. Both the jazz musician and the audiologist have to wear masks for the occasion. Coronavirus is spreading in Los Angeles as well, so safety precautions are strictly observed during the fitting.

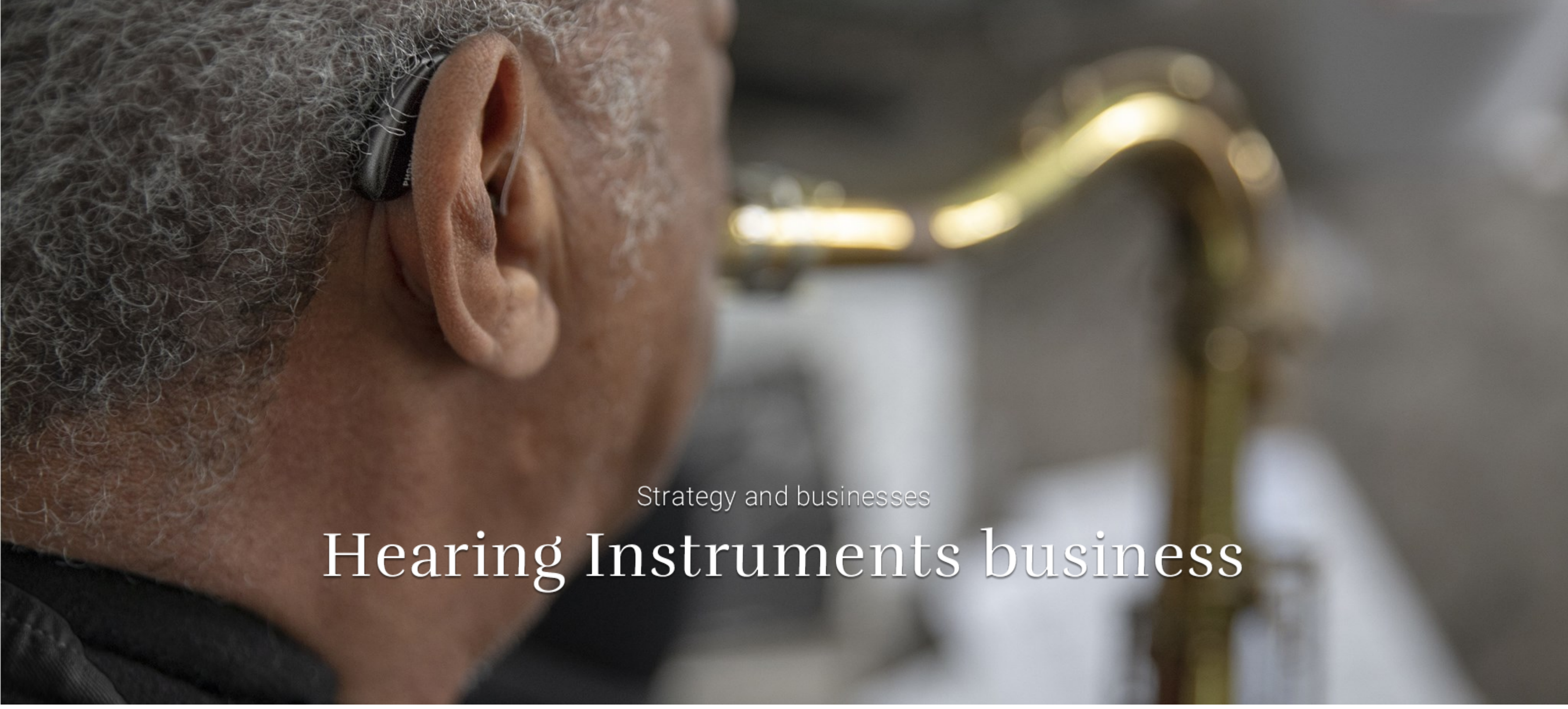
Charles Owens examines his new hearing aids.

"This fitting makes me feel like an artist," says Ivan Wu, Senior Regional Director for Connect Hearing. His creative challenge is to reproduce the sounds of the world in as much varied detail as possible in the ears of his client, and to translate the musician's wishes into commands for the computer program.

Charles is excited. "It's like having a top-of-the-range car and upgrading to the latest model – adding the little details is always the cherry on the cake." With Phonak's Paradise devices, these include a motion sensor that adjusts the hearing aids automatically when Charles is sitting still, playing saxophone or going for a stroll with his wife, for example. "For a lot of our customers, we only have to dial in two or three settings," comments Ivan Wu. "With Charles, we have a whole gamut of possible voices and background noises to consider."

Charles hears one little difference straight away. "Voices are even crisper, despite the masks!" But he adds that the acid test will come only when he is able to play in front of a live audience in a club again. Charles is confident that this will soon be possible. He can hardly wait.

1) Appleton, J., & Voss S.C., (2020) Motion-based beamformer steering leads to better speech understanding and overall listening experience. Phonak Field Study News in preparation. Expected end of 2020; Wright, A. (2020). Adaptive Phonak Digital 2.0: Next-level fitting formula with adaptive compression for reduced listening effort. Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed August 19th 2020.



Strategy and businesses

Hearing Instruments business

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

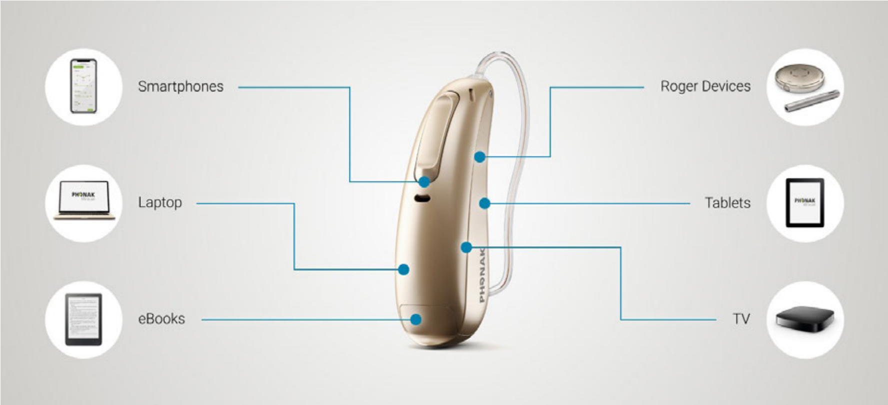
The world of sound is rich, complex, and ever-changing. At Sonova, we strive to give people with hearing loss the most natural possible hearing experience: clear, comprehensible, joyous and individual – with effortless connection and communication.

Through its Phonak and Unitron brands, Sonova's Hearing Instruments business meets this challenge through consistent technology leadership in the areas that make the greatest difference to the consumer's experience. Our products do not simply provide excellent audiological performance, they are also multi-functional instruments that link the consumer with essential devices, support, and services to simplify and enrich life. Our goal is ever-closer contact with consumers and with the hearing care professionals who serve them, using our products to deepen our understanding of their needs and, through our industry-leading wireless connectivity capabilities, to deliver tailored digital solutions "straight to the ear."

Paradise: a new paradigm

Phonak's market leading Marvel platform, launched two years ago, set entirely new standards with its unmatched sound quality, connectivity with billions of Bluetooth®-enabled devices, and top-rated first-fit acceptance. This year, Phonak has surpassed the breakthrough Marvel platform with the launch of Phonak Audéo Paradise, which combines an entirely new sound processing chip with a motion sensor to further improve hearing and allows for multiple simultaneous Bluetooth® connections.

Paradise adds extra dimensions to the hearing experience. Excellent hearing performance, whether in background noise, on the go, or listening to soft speech, is essential for the consumer and significantly advanced with Paradise. Comfort and ease of use are integral to the design. Connectivity opens up new possibilities for social and digital engagement. With the new motion sensor, the hearing program recognizes movement and optimizes speech recognition. Moreover, users can activate voice assistants, answer or reject calls, or even pause or resume audio streaming simply by tapping their ear. From the user's point of view, the instrument becomes an integral part of an active and full life. From our point of view, each new functionality is an opportunity to extend and deepen our contact with the consumer.



The market response to Paradise has been very strong, achieving similar penetration rates to Marvel's in the same period since launch. A poll of hearing care professionals nine weeks after the launch found that 92% would recommend Paradise Audéo to a colleague, and 69% say that it takes Marvel to the next level.

Commercial excellence: a way of life

Our systematic, global commitment to commercial excellence aims for growth beyond that secured by product innovation alone. A robust yet dynamic go-to-market model allows us to drive excellence in sales execution, bolstered by demand generated through targeted marketing campaigns. Together, they create a virtuous cycle where increased productivity releases funds to re-invest in further growth. We have achieved very strong results in the first year after implementing our commercial excellence initiative in October 2019. For instance, sales territory redesign has increased sales productivity, and with it the number of customers each salesperson reached per week, by more than 25%. At the same time, we have been able to increase the number of "feet on the street" by 20% in our key markets, boosting both the reach and intensity of sales contacts. In the highly competitive US government services market, we have been able to increase market share by 30% in the past two years.

Unique multi-channel market approach

Sonova's aim is to address all forms of hearing loss through the broadest product and solution portfolio in the industry – but also through the broadest market presence, including our own Audiological Care network. Our multi-channel model gives us, our professional customers, and our consumers the widest possible spectrum of points of contact, supporting an integrated, consistent market approach with great reach and depth.

One example of the benefits of this approach is the launch of Paradise in August 2020 – at a time when the COVID pandemic made large physical meetings impossible. Our virtual launch events reached more than 8,000 live attendees in over 14 countries, with thousands more downloads of the event, which we were able to follow up with dedicated online meetings and training. The result was that we were not just contacting more people, we were increasing the depth of our contact at each customer account. By constant monitoring and management of the sales process, we were able to optimize the use of resources (including our own and our customers' time) and kickstart sales even before in-store visits were feasible. In the future, we will be able to implement a targeted blend of on-line and in-person contact to sustain continued sales growth.

Strategy and businesses

Audiological Care business

We deliver best-in-class service and expertise with the most technologically advanced solutions through one of the world's largest store networks.

Our Audiological Care business makes Sonova the world's second-largest provider of hearing care, with the potential, capability, and determination to achieve further significant profitable growth. Our omni-channel strategy gives us early, direct, and intimate understanding of our consumers' needs. Our recognized audiological expertise and access to the full range of Sonova products and solutions offers an excellent consumer proposition at every stage from first contact to specialist medical treatment. Our consistent yet flexible market approach keeps our sales process efficient and productive, and our dedication to continuous improvement frees up resources for the strategic expansion of our network.

Audiological Care's global platform comprises around 3,200 points of sale, employing over 6,500 employees in 20 key markets. In each country, we operate through single recognized store brands, but we implement consistent and integrated business practices and systems worldwide. Our close connection with Sonova's other businesses and shared systematic approach provides us – and them – with valuable insights and tools to deepen consumer contact, expand into new markets, and drive further consumer-relevant innovation.

A comprehensive omni-channel strategy

The hearing care market is influenced by a wide range of evolving consumer needs: for ever-better hearing performance, for ease-of-use, for expert services, for medical solutions, and also for value, convenience, and choice. Our omni-channel strategy offers a multitude of possible contact points on the way to satisfying those consumer needs: from building awareness on social media, through apps and websites, to call centers, in-store consultation, and home visits. This gives us the flexibility to fulfill rapidly evolving requirements; for instance, during the COVID pandemic we were able to pivot swiftly from safely distanced in-store support to online consultation and back again as user preferences changed. It also gives us a rich, detailed knowledge of changing consumer behavior which we can apply to generating further leads and informing Sonova's product development.

To make full use of this knowledge, we launched in late 2019 the Lead Generation Factory in Berlin: an independent hub with the goal of building in-house expertise in digital lead generation, increasing revenue at a lower cost per lead, and serving younger, more affluent consumers through our omni-channel proposition. The results have fully fulfilled our high expectations, generating tens of thousands of new leads, significant revenue growth, and higher average sales prices. We are now expanding this capability to the whole of the EU and expect to roll it out worldwide over time.

Entering China, accelerating eCommerce

Healthcare is among the fastest-growing consumer needs in China, and the size of the market is only matched by its complexity: there is no one-size approach. We have therefore committed to implementing our full omni-channel strategy in this market. As a starting point for further expansion, and based on the established habits of Chinese consumers, we have launched our presence on Tencent Health, part of the WeChat platform used daily by more than 1.3 billion Chinese people, and on Alibaba Health, part of the largest B2C eCommerce platform in the country. Through these channels, Chinese consumers can find information about hearing care, conduct a digital hearing self-test, and book an appointment with one of the retail networks, totaling more than 300 stores, with which we have established partnerships through our Hearing Instruments wholesale business.

Our own eCommerce activity in multiple markets has also significantly and rapidly accelerated, both through our own branded eShops and through the acquisition in 2019 of the French company Audilo; we are now present in 13 countries. The success of Audilo is clearly reflected by its performance, with sales doubling in 2020. The overall mission for eCommerce is to increase consumer awareness, expand the sales value generated per customer with ancillary products and services, reach new consumers in our existing markets, and enter new markets where we do not yet have a physical presence.

World of Hearing

We have been using the market knowledge gained through our own multiple channels and shared from other Sonova businesses to configure our store network to best reflect consumer needs and optimize operating return. This involves adjusting location density to provide more even coverage and reduce average consumer journey time; providing different store formats, including remote fitting centers to support our omni-channel proposition; and opening more of our flagship World of Hearing stores as regional hubs of expertise, to which other stores can send referrals.

Launched in 2018 and with 10 stores opened by the end of the financial year in four markets, our World of Hearing store concept establishes our differentiation through deep audiological expertise. Sonova stands for a premium level of hearing performance, features, and solutions; World of Hearing gives these a physical market presence, offering consumers direct contact with the full solution spectrum from simple hearing protection to tailored, “medicalized” treatments. The results have been very encouraging, including a 20% reduction in lead time, younger customers, and a higher share of premium products sold. We are now building one World of Hearing store every month and intend to have rolled out the concept globally in the near future.

Strategy and businesses

Cochlear Implants business

We are committed to continuously enhancing our cochlear implant systems to improve the lives of those with the most significant hearing loss.

Sonova’s Cochlear Implants business operates under the Advanced Bionics brand, a recognized technology leader that employs approximately 900 people and is active in 85 countries worldwide.

A cochlear implant is a unique solution for a major or complete loss of hearing. Unlike a hearing aid, which amplifies sound, a cochlear implant electrically stimulates the hearing nerve directly. A sound processor worn behind the ear converts sound into the electrical signal transmitted to the implant. Every part of this system offers opportunities for technological advances that can create significant improvement in the quality of life for recipients and help them on their journey towards hearing self-sufficiency.

Benefiting from Marvel's advantages

Advanced Bionics gains a unique competitive advantage from its long-standing R&D collaboration with Phonak, Sonova's premium hearing instrument brand. This allows advances in Phonak sound quality, connectivity, programming, and user control to be made available through Advanced Bionics sound processors. In this context, we are delighted this year to have received regulatory approval for our new Naída™ CI Marvel and Sky CI™ Marvel processors, which bring the breakthrough features of Phonak's Marvel platform – automatic adjustment to different listening environments with AutoSense™ OS 3.0, universal Bluetooth® connectivity, hands-free phone calling, integrated RogerDirect™ wireless communication – to adult and child recipients worldwide.

We have also introduced new fitting software, Target CI, which replicates for our sound processors the functionality, look and feel of Phonak's hearing aid fitting. This is advantageous for the majority of audiologists who work in both areas, particularly when fitting "bimodal" recipients who have a sound processor on one ear and a hearing aid on the other. Target CI is the first fitting software that allows these patients to have fitting for both ears done by the same software in the same session.

To bring these advances to the market meant developing a portfolio of 48 separate products – hardware, software, accessories – integrated into a single system. Strong collaboration across Sonova is the key that makes this possible.

Focus on quality

In February 2020, Advanced Bionics announced a voluntary field corrective action, retrieving the unimplanted initial version our HiRes™ Ultra and Ultra 3D implants from the market because of an increase of reports of reduced hearing performance. We want to acknowledge the impact that this had on recipients and audiologists and surgeons who work with them.

We have taken a number of steps to support our recipients and customers and to further ensure the reliability of our products: we have increased monitoring and partnering with clinics, developing custom software tools and integrity testing to support their experience. We are actively communicating through our sales force to provide regular updates. We have made further improvements in product development and statistical testing, developing new reliability tests and studies and even more stringent requirements. In the revised version of these implants (launched in February 2020), we have not seen a single confirmed reoccurrence of the failure mode that prompted the retrieval of the initial version. Moreover, we are grateful that 95% of our top clinics who purchased from us before the voluntary field action have returned with new orders, and we are working hard to regain the remaining 5%.

Operational improvements for the long term

The COVID-19 pandemic had the greatest impact on Advanced Bionics among Sonova’s businesses, both because of the general postponement of elective surgeries and the local effects of the pandemic on our manufacturing facility in California. Our strategic position was that every response to the crisis should have lasting value to the business, so we accelerated our efforts to raise efficiency and lower costs, while improving reliability and assuring compliance with the new European medical device regulatory regime. We streamlined our supply chain and administrative functions, consolidating our US back-office with the Hearing Instruments business, and transferring financial functions in the EU to Sonova’s shared service center. In manufacturing, an intensive program of Kaizen workshops generated a 5% year-on-year improvement in productivity along with significant increases in product yield, materials use, and training efficiency. At the same time, we implemented processes to further ensure product reliability and quality control.

Corporate governance

Good governance supports responsible corporate behavior, transparency, and sustainable business practices.

Sonova's mission is to have a positive effect on our consumers' lives. This closely aligns with our aspiration to have a positive impact on society as a whole by running our business in a sustainable, responsible manner. "We take accountability" is one of our core values: Environmental, social, and governance (ESG) improvement indicators are therefore embedded throughout our business and we strive to optimize them with the same intensity as we do our financial ones. We see good corporate governance as an essential pillar of our ESG strategy, ensuring that the company is managed in the long-term interests of its key stakeholders. The details of what constitutes good corporate governance continue to evolve, and the Board of Directors as well as the CEO constantly monitor developments to ensure that our commitments keep pace with expectations.

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, 2021. 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, 2021:

	2021	**2020**	**2019**
Market capitalization in CHF million	16,125	11,231	12,870
In % of equity	582%	538%	542%
Share price in CHF	250.40	174.40	197.00

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 7.7 to the consolidated financial statements provides a list of the significant companies of the Sonova Group as of March 31, 2021.

Shareholders

Registered shareholders

As of March 31, 2021, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2021	Registered shareholders 31.3.2020
1 – 100	9,321	8,340
101 – 1,000	8,201	7,780
1,001 – 10,000	1,322	1,074
10,001 – 100,000	216	211
100,001 – 1,000,000	34	37
> 1,000,000	8	7
Total registered shareholders	**19,102**	**17,449**

Significant shareholders

The following overview shows the significant shareholders as of March 31, 2021 based on shareholdings recorded in the share register and notifications on the SIX Swiss Exchange online reporting platform. Significant shareholders may also hold non-registered shares.

	2021 [1]	2021 [1]	2020 [1]	2020 [1]
	No. of shares	In %	No. of shares	In %
Beda Diethelm [2]	6,710,440	10.42	6,667,002	10.35
Family of Hans-Ueli Rihs [2] [3]	3,692,049	5.73	3,679,600	5.71
BlackRock, Inc.	3,334,392	5.10	3,334,392	5.10
UBS Fund Management (Switzerland) AG	1,948,684	3.03	n/a	< 3
Harding Loevner LP [4]	n/a	< 3	1,972,763	3.02
FIL Limited [4]	n/a	< 3	1,969,770	3.01

1) Or at last reported date if shareholdings are not registered in the share register.
2) 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.
3) Hans-Ulrich Rihs, Gabriela Rihs and Stefan Rihs as a group jointly control 3,692,049 registered shares (corresponding to 5.73% of total Sonova share capital) pursuant to the last disclosure notice. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.
4) In 2020, Sonova reported according to Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA) the sales of shares by FIL Limited and Harding Loevner LP reducing their holdings to less than 3%.

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) 2020/21, 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 2020/21 except for Art. 5: The 2020 Annual General Shareholders' Meeting (AGM) authorized the Board of Directors to increase the share capital at any time until June 11, 2022 by a maximum amount of CHF 321,990.65 by issuing a maximum of 6,439,813 registered shares that are to be fully paid up, each with a nominal value of CHF 0.05. Increases in partial amounts shall be permissible. (see section capital structure below; the Articles of Association are available here).

Capital structure

Share capital

As of March 31, 2021, 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 Annual General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2021, the company held 1,355,464 treasury shares (1,970,548 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

The 2020 Annual General Shareholders' Meeting authorized the Board of Directors to increase the share capital at any time until June 11, 2022 by a maximum amount of CHF 321,990.65 by issuing a maximum of 6,439,813 registered shares that are to be fully paid up, each with a nominal value of CHF 0.05. Increases in partial amounts shall be permissible. The Board of Directors did not make use of this authorization in FY 2020/21.

Conditional capital

The 2005 Annual General Shareholders' Meeting 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, 2021, 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 2020/21, a total of 170,694 options and Stock Appreciation Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2019/20, the number of options and SARs granted totaled 208,245. As of March 31, 2021, there were 1,119,468 options, performance options and SARs outstanding (compared with 1,118,053 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, 2021, the capital of Sonova Holding AG comprised the following:

	2021	2020
Ordinary capital (in CHF)	3,219,907	3,219,907
Total shares	64,398,137	64,398,137
Authorized Capital (in CHF)	321,990.65	
Authorized shares	6,439,813	
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 in 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.

The Board of Directors did not make use of the authorized capital in the FY 2020/21.

Share buyback program

On August 31, 2018, Sonova announced a 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 for up to 36 months. On March 16, 2020, as a precautionary measure, Sonova announced the suspension of the Group's share buyback program to reflect uncertainties regarding the financial impact of the coronavirus (COVID-19) pandemic.

As of March 31, 2021, Sonova has repurchased no further registered shares through this buyback program.

The transactions before March 16, 2020, were conducted via a separate trading line on the SIX Swiss Exchange as part of the share buyback program (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 2020/21 financial year, there were no business connections between individual members of the Board of Directors, 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; and
- 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 evaluation

The Nomination and Compensation Committee and the Board of Directors evaluate current and prospective members of the Board according to a skills and experience competency matrix to ensure that an appropriate mix of relevant skills and experience is represented in the Board of Directors. 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, and expertise in legal, regulatory, compliance, and corporate governance. In the nomination and evaluation processes, by following the matrix criteria, the Nomination and Compensation Committee as well as the Board of Directors are committed to consider characteristics such as, and including but not limited to, gender, age, nationalities or country of origin, ethnicity, cultural background, ways of believing and mindsets to establish balance in terms of diversity and inclusion.

The Nomination and Compensation Committee/Board of Directors uses this information, including when potential gaps are identified, to help create profiles for new director searches.

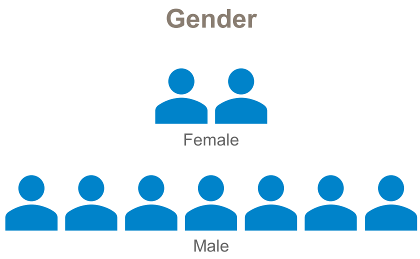
Furthermore, an annual self-assessment is conducted to evaluate the work of the Board of Directors in order to:

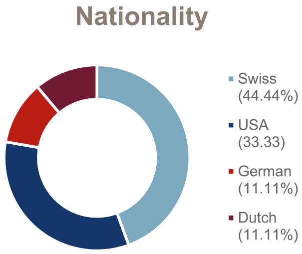
- Ensure and enhance a comprehensive understanding of the business and the company;
- Evaluate the work of the Board of Directors, its committees, the individual board members and the Chair;
- Make the best use of the human capital represented on the Board of Directors; and
- Optimize efficiency, effectiveness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

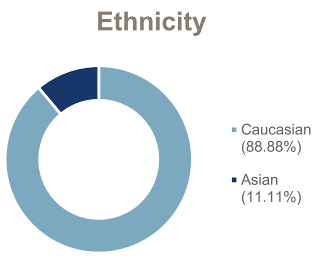
The Chair of the Board of Directors initiates the annual Board of Directors self-assessment by distributing an evaluation questionnaire, which has previously been approved by the Board of Directors. The Chair of the Board of Directors is responsible for collecting the assessments and for initiating the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

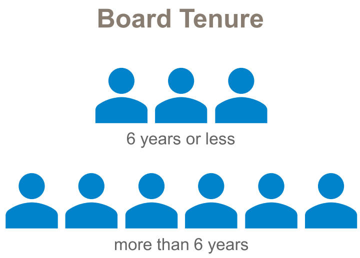
Composition of the Board of Directors

As of March 31, 2021, the composition of the Board of Directors in terms of these relevant characteristics is as follows:









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 justified individual 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 Annual 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 2020 Annual 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. Adrian Widmer was elected to the Board of Directors for the first time at the AGM in 2020.

Name	Position	First elected
Robert F. Spoerry	Chair	2003
Beat Hess	Vice Chair	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
Adrian Widmer	Member	2020

Robert F. Spoerry

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

Robert F. Spoerry is also the non-executive Chair of the Board of Directors 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 Chair of the Board of Directors.

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 Chair of the Board of Directors and Chair 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 Directors of Conzzeta Holding AG
- Non-executive Chair of the Board of Directors of Mettler Toledo International Inc.

After many years as Nomination and Compensation Committee member and Chair, Robert F. Spoerry decided not to stand for re-election as a member of the committee at the 2021 AGM.

Beat Hess

(born 1949, Swiss citizen) has been Vice Chair and a non-executive member of the Board of Directors 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, 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:

- Chair of the Board of Directors of LafargeHolcim Ltd. (since May 2016; previously Vice Chair)

Having reached Sonova's age limit for Board membership, Beat Hess will not stand for re-election at the Annual General Shareholders' Meeting in June 2021 when his term of office expires.

Lynn Dorsey Bleil

(born in 1963, US citizen) has been a non-executive member of the Board of Directors since 2016. She serves on the Audit Committee.

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 and through her various board mandates in this sector, she brings very valuable strategic perspectives to the Group and contributes her broad knowhow as a Board member.

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 Chair 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 and has been a non-executive member of the Board of Directors since 2018.

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.

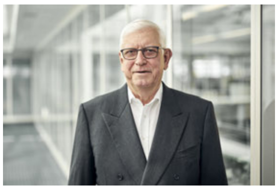
Lukas Braunschweiler brings broad CEO experience from a variety of tech-oriented companies and industries in an international environment. Having served as CEO of Sonova from 2011 to 2018, he has not only a comprehensive knowledge of Sonova as a company and its business but also a broad experience in 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:
- Chair of the Board of Directors of Tecan Group AG
- Member of the Board of Directors of the Schweiter Technology Group (until April 1, 2021)
- Member of the Board of Directors of Sulzer Ltd. (until April 14, 2021)
- Member of the Board of Directors of private, non-listed BURU Holding AG
- President of Swiss Management Association SMG

Lukas Braunschweiler is foreseen to become member and Chair of the Nomination and Compensation Committee after the Annual General Shareholders’ Meeting in June 2021.

Michael Jacobi



(born 1953, Swiss and German citizen) has been a non-executive member of the Board of Directors since 2003 and serves as member 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

After 18 years as member of the Board of Directors, Michael Jacobi will not stand for re-election at the Annual General Shareholders’ Meeting in June 2021 when his term of office expires.

Stacy Enxing Seng

(born 1964, US citizen) has been a non-executive member of the Board of Directors 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 as well as in the healthcare 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 of Directors.

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.
- Venture Partner, Lightstone Ventures

Stacy Enxing Seng is foreseen to become the Vice Chair of the Board of Directors after the Annual General Shareholders' Meeting in June 2021.

Ronald van der Vis

(born 1967, Dutch citizen) has been a non-executive member of the Board of Directors since 2009 and Chair 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 GrandVision NV, the world's leading optical retailer. He was group CEO at GrandVision NV from 2004 to 2009.

With his extensive international expertise in the retail sector and his broad M&A, corporate finance and strategic experience, 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
- Chair 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 of Directors since 2013.

He served as operating partner at Hony Capital after he was Chair and CEO at PizzaExpress Group Holdings Limited. Previously he held a number of senior positions at Starbucks including Senior Vice President of Starbucks Corp., President of Starbucks Asia Pacific Region, as well as Chair and President of Starbucks Greater China Region. 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, particularly in the retail sector with a strong network both in China and in the United States, Jinlong Wang brings valuable insights to the Board of Directors. Thanks to his extensive operational and 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:

- Independent non-executive director of Swire Properties Limited
- Independent non-executive director of Kerry Group PLC.

Adrian Widmer

(born 1968, Swiss citizen) has been a non-executive member of the Board of Directors since 2020 and serves on the Audit Committee.

Since 2014 he is Group CFO of Sika AG, a global specialty chemical company based in Switzerland. Adrian Widmer previously served as Head Group Controlling and M&A at Sika from 2007 to 2014. Prior to joining Sika, he held various management positions at BASF, Degussa and Textron Inc. in the areas of finance and controlling, business development and general management.

With his broad management background, his experience in M&A and business development and particularly his financial expertise as active CFO, Adrian Widmer is well qualified to serve on the Audit Committee as a financial expert and is an ideal sparring partner for Sonova's CFO.

Adrian Widmer holds a Master of Science degree in Business and Economics from the University of Zurich, Switzerland and completed the Advanced Management Program of INSEAD Fontainebleau in France.

Outside mandates:

- Group CFO of Sika AG
- Member of the Board of Directors of Swiss Steel Holding AG (until the 2022 AGM)

Adrian Widmer is foreseen to become Chair of the Audit Committee after the Annual General Shareholders' Meeting in June 2021.

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 Chair and the members of the Compensation Committee, who must be elected by the shareholders. If the office of the Chair 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 of Directors 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, available here), the Organizational Regulations (available here), and the Committee Charters of the Board of Directors (available here). The committees usually meet before the Board of Directors meetings, report regularly on activities and make proposals to the Board of Directors on their findings. The overall responsibility for duties delegated to the committees remains with the Board of Directors.

Audit Committee

The members of the Audit Committee are Ronald van der Vis (Chair), Lynn Dorsey Bleil, Michael Jacobi and Adrian Widmer. Adrian Widmer is foreseen to become the Chair of the Audit Committee after the Annual General Shareholders' Meeting in June 2021 with Ronald van der Vis and Lynn Dorsey Bleil to remain members.

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 but no less than four times per year. During the reporting period, the Audit Committee met six times. The Chair 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 (Chair), Beat Hess, and Stacy Enxing Seng. After many years as Nomination and Compensation Committee member and Chair, Robert F. Spoerry decided not to stand for re-election as a member of the committee at the AGM 2021. Lukas Braunschweiler and Roland Diggelmann are proposed to be elected as members of Nomination and Compensation Committee after the Annual General Shareholders' Meeting in June 2021 with Stacy Enxing Seng to remain a member. Lukas Braunschweiler is foreseen to become the Chair of the Nomination and Compensation Committee.

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. In the selection and nomination processes, the committee considers independence, expertise, experience and skills (including those related to economic, environmental and social aspects) needed for the respective corporate body's tasks seeking – where possible – to establish balance in terms of diversity such as, and including but not limited to, gender, age, nationalities or country of origin, ethnicity, competencies, experiences, ways of believing and mindsets. 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 Annual 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 but no less than three times per year. During the reporting period, the committee met seven times.

Working methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held five regular virtual meetings and had six extraordinarily scheduled virtual meetings on additional subjects relevant to the challenges posed by COVID-19. The table below shows the individual members' attendance at Board of Directors and committee meetings, as well as the average length of the meetings:

	Regular BoD meetings [1)]	Extraordinary BoD meetings [2)]	AC meetings [3)]	NCC meetings [4)]
No. of meetings in 2020/21	5	8	6	7
Robert F. Spoerry	5	8	6 [5)]	7
Beat Hess	5	8		7
Lynn Dorsey Bleil	5	8	6	–
Lukas Braunschweiler	5	8		
Michael Jacobi	5	8	6	–
Stacy Enxing Seng	5	8		7
Ronald van der Vis	5	8	6	–
Jinlong Wang	5	8	–	–
Adrian Widmer	5 [6)]	6 [7)]	5 [7)]	
Average meeting length	4.5 h	1.5 h	3 h	3 h

1) Regular Board of Directors meetings
2) Extraordinarily scheduled meetings of the Board of Directors on additional subject matters appropriate in the course of COVID-19
3) Regular Audit Committee meetings
4) Regular Nomination and Compensation Committee meetings
5) As guest
6) Guest at Board meeting before AGM in June 2020
7) Guest at the meeting before the AGM in June 2020

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 but were not limited to, 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 Chair. 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 Chair 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 in connection with specific tasks when necessary.

During the 2020/21 business year, the five regular meetings of the Board of Directors were attended by the CEO, the CFO and other members of the Management Board to review, amongst other topics, performance against plan, key initiatives, and strategic matters. Six of a total of eight extraordinary conference calls of the Board of Directors were attended by the CEO and the CFO. If necessary, the Board of Directors also consults with other internal experts (such as the Group General Counsel) or external advisors. No external party was invited to nor attended a Board meeting in the last business year. Five extraordinarily scheduled meetings relating to the business implications of COVID-19 were attended by the CEO and the CFO. Adrian Widmer was invited to the Board meeting before the 2020 AGM at which he was elected as a member of the Board of Directors.

Five of a total of seven meetings of the Nomination and Compensation Committee were held in the presence of the CEO and the Group Vice President Corporate Human Resources.

All six meetings of the Audit Committee were attended by the Chair, the CEO, the CFO, and the Head of Internal Audit and Risk. Representatives of the auditors have been invited to three of these meetings.

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 Annual 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. The 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 Chair of the Audit Committee. In addition, the Chair of the Board of Directors is invited to the Audit Committee as a guest, and is thus kept fully informed but has no voting rights.

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 entire Board of Directors. 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 Chair of the Audit Committee with respect to Compliance responsibilities.

Environmental, Social and Governance Management (ESG)

Sonova's environmental, social and governance (ESG) strategy is integrated into its overall strategy. Unvarying behavior in environmental, social and governance fields is an integral part into Sonova's core values. "We take accountability" is one of our core values: ESG improvement indicators are therefore embedded throughout our business and we strive to optimize them with the same intensity as we do our financial ones.

Sonova has established an ESG Council, which oversees and further develops the Group's ESG strategy, including commitments and targets, and monitors progress on key performance indicators and initiatives. The ESG Council meets at least on a quarterly basis and consists of the Group CEO, selected members of the Management Board, the Group General Counsel & Compliance Officer, and the Corporate Responsibility team. Progress on ESG targets is also regularly reviewed by the full Management Board and ESG targets are an element of each Management Board member's variable compensation. The Board of Directors approves the ESG strategy, initiatives and targets and receives progress updates on at least a yearly basis (see the comprehensive Corporate Responsibility Report).

Some of key ESG topics at Sonova include climate change, diversity & inclusion (D&I), talent development & employee engagement, responsible supply chain management, data privacy and digital ethics. For example, a comprehensive D&I report including initiatives and specific targets is prepared by the CEO and Corporate Human Resource Management and reviewed annually by the entire Board of Directors. Responsible behavior also 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 (see the relevant chapters in the Corporate Responsibility Report for more information on the specific ESG topics).

Good governance is supported by a regular dialogue on ESG topics with proxy advisors, investors, and rating agencies, and by Sonova's continuously active risk management and our compliance functions.

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 (available here), 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 based 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 Chair. The consolidated input is reviewed first by the NCC and subsequently finalized by the entire Board of Directors. Finally, the results are reviewed and discussed between the Chair and the CEO.

Arnd Kaldowski

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

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

Hartwig Grevener

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

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

Hartwig Grevener will be succeeded by Birgit Conix after the AGM in June 2021 (Company announcement available here).

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.

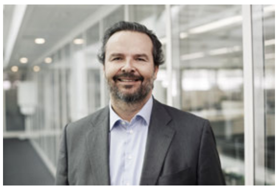
Victoria Carr-Brendel holds a Ph.D. in microbiology and immunology from University of Illinois at Chicago.

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 rights 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 2020 AGM for the period until completion of the 2021 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 Annual 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 Annual General Shareholders' Meeting 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 Chair 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/she/it already possesses, thereby exceeds the 33⅓% 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 Annual General Meeting on June 11, 2020, Ernst & Young AG, Zurich, was newly elected as auditor for Sonova Holding AG and the Sonova Group for the 2020/21 financial year. Martin Mattes has served as lead auditor for the auditing mandate. Previously, PricewaterhouseCoopers AG had been elected auditor for Sonova Holding AG and the Sonova Group from July 5, 2001 until the 2020 AGM. As part of its commitment to good corporate governance, Sonova invited tenders for audit services commencing in the 2020/21 financial year. After a carefully conducted review, the Board of Directors decided to follow the Audit Committee's recommendation and proposed the appointment of Ernst & Young as auditor of the statements of the Group and of Sonova Holding AG for the 2020/21 financial year. This proposal was approved by the 2020 AGM.

Fees

The auditors charged the following fees during FY 2020/21 and 2019/20:

1,000 CHF	Ernst & Young 2020/21	PricewaterhouseCoopers 2019/20
Audit services	1,665	1,839
Audit-related services	34	15
Tax services	103	121
Other non-audit services	12	5
Total	**1,814**	**1,980**

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 2020/21, the external auditors attended 3 out of 6 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 on a quarterly basis.

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

The employees of the Sonova Group help people to hear the world, thereby changing lives. 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 2021 Annual General Shareholders' Meeting (AGM). This report includes COVID-19 related measures on their compensation.

It has the following structure:

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

Dear Shareholders,

The exceptional circumstances surrounding the COVID-19 pandemic affected Sonova from the end of our 2019/20 financial year and throughout the 2020/21 financial year, particularly in the first quarter. The Nomination and Compensation Committee (NCC) therefore dedicated substantial time to the business in this context and held two meetings in addition to the regular four annual sessions.

COVID-19 related short-term compensation measures

In addition to covering regular agenda items, the Board of Directors and Management Board have reviewed the impact of COVID-19 and taken coordinated measures for Sonova to adapt to the rapidly changing situation, care for its people, preserve Sonova's competitiveness, maintain liquidity, and be best positioned for 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, also outlined in last year's report, were 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 NCC met our objectives and carried out our responsibilities in the financial year. All efforts of our employees, the Management Board, and the Board of Directors during the financial year have continued to focus on achieving our ambitious targets.

Among other adjustments, the compensation related cost measures included postponing compensation increases to the next year where feasible, putting employees in some of our locations on furlough, introducing short-term work and similar arrangements. The following short-term measures related to the compensation of the Board of Directors and Management Board have been implemented:

- The Chair of the Board of Directors waived 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 waived 20% of their cash retainer and committee fees for the term of office from the 2020 AGM until the 2021 AGM.
- For the Management Board, no salary increases were applied during the 2020/21 financial year.
- The CEO waived 50% of his monthly base salary and each of the other Management Board members 20% of their monthly base salary from April 2020 until September 2020, when revenue and profitability recovered to levels similar to those of the previous year.
- The Management Board also decided to defer 50% of the Variable Cash Compensation (VCC) payout for the 2019/20 financial year; this then occurred in October 2020, when revenue and profitability returned to levels similar to those of the previous year.

- Given the need to adapt to an uncertain and rapidly changing economic situation, more dynamic rolling VCC targets were set for the 2020/21 financial year and firmly governed as circumstances continued to change.
- It was also decided that the maximum VCC payout for Management Board members during the 2020/21 financial year should be capped at 100% (versus 200% normally). Even though management could outperform the financial objectives for the year, the cap at 100% was enforced.
- The COVID-19 pandemic caused the market to shrink temporarily, thereby impairing Sonova’s growth strategy during an interim period. To reflect this, the performance period of the CEO’s one-time performance option award (to replace lost compensation at the former employer) has been extended, as outlined later in this report.
- As already outlined in last years’ compensation report, the Board of Directors anticipated the possible need to suspend, for the time being, the ROCE performance hurdle for options under the Executive Equity Award Plan (EEAP). However, given the strong management of profitability, along with the efficiency of employed capital during the COVID-19 crisis, the Board decided to not apply this suspension.

These measures were largely already outlined in the 2019/20 compensation report.

2020/21 and 2021/22 regular compensation

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.

To reflect Sonova’s corporate social responsibility and sustainable business approach, relevant environmental, social, and governance (ESG) targets have been more formally reflected in the VCC from the second half of the 2020/21 financial year.

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, rolling performance target setting and performance assessment, 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.

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 position’s responsibilities. For the Management Board, as outlined above, no salary increases were applied during the 2020/21 financial year and such changes, if any, for the 2021/22 financial year will again be in line with those across the organization.

After the 2021 AGM, compensation of the Board of Directors will return to the levels established before the pandemic.

Changes in the Board of Directors and Management Board

As announced on February 11, 2021 and outlined in the corporate governance report, Beat Hess, Vice Chair and NCC member, will not stand for re-election as he has reached Sonova's age limit for Board membership. In addition, Michael Jacobi will not stand for re-election, having served as a member of the Board of Directors since 2003 and as Chair of the Audit Committee from 2004 to 2019. All other current members will stand for re-election to the Board of Directors at the 2021 AGM. Gregory Behar and Roland Diggelmann are proposed for election to the Board of Directors at the 2021 AGM.

The Board of Directors had several sessions focusing on its succession planning. It used an assessment matrix considering the breadth and depth of competencies and experience required by Sonova to support our business and its strategies. To ensure a balanced overall board composition and long-term planning, these criteria include, among others, executive management experience and acumen, international experience, expertise in the areas of finance, M&A and human resources, industry affinity, as well as diversity in terms of background, industry, functional knowledge, nationalities, gender, and age.

The two new members of the Board of Directors proposed for election at the 2021 AGM have an outstanding executive track record in successfully leading sizeable businesses as CEOs. They bring extensive international experience and have knowledge which is very relevant to Sonova's business. Furthermore, they will significantly rejuvenate the Board of Directors.

In light of these changes, and if elected/reelected at the AGM 2021, the Board of Directors will:

- Appoint Stacy Enxing Seng as Vice Chair of the Board of Directors
- Appoint Adrian Widmer as Chair of the Audit Committee
- Appoint Lukas Braunschweiler as Chair of the NCC, taking over from Robert Spoerry, with the objective to separate the role of the Chair of the Board from the Chair of the NCC
- Appoint Roland Diggelmann as a member of the NCC

As part of our ESG strategy, we strongly believe that a more balanced gender representation on the Board of Directors is in the best interests of the Sonova Group, and we are committed to achieving a 30% proportion of women on the Board well before the time this becomes a legal requirement in 2026.

As announced on February 11, 2021 and outlined in the corporate governance report, Birgit Conix will succeed Hartwig Grevener as Sonova's Chief Financial Officer (CFO) as of June 2021. This will be reflected in next year's compensation report.

2021 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 2020 AGM, due in part to the temporary compensation reduction outlined above. The compensation awarded to the members of the Management Board is also within the limit approved by the 2019 AGM, again in part due to the temporary compensation reduction as well as the cap enforced on the VCC.

At the 2021 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 2022/23 financial year.

No changes to the compensation system of the Board of Directors and the Management Board are foreseen, other than those outlined in this compensation report. The specific short-term adjustments made to compensation to ensure strong shareholder alignment during the COVID-19 related crisis are lifted from the 2021 AGM and 2021/2022 financial year respectively.

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, that aligns well with our shareholders' interests. We look forward to our continued dialogue.

Yours sincerely,

Robert Spoerry
Chair of the Nomination and
Compensation Committee

2. Compensation policy and principles

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

Sonova's compensation principles

Pay for performance

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

Market competitiveness

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

Alignment with shareholders' interests

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

Alignment with company's values

Compensation incentivizes behaviour that is in line with our high standards of integrity and our values: we care, we drive innovation, we strive for excellence, we take accountability and we build the best team. ESG considerations are now more formally integrated in the compensation of the Management Board.

The compensation of the Board of Directors consists of fixed compensation only, paid partly in cash and partly in the form of restricted shares. The independence of the Board of Directors in its supervisory function is reinforced by the practice that no performance-related compensation is awarded.

The compensation of the Management Board consists of fixed and variable, performance-based, compensation components. The base salary and benefits form the fixed components and are determined based on current market practice. Performance 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 of 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. Sonova ensures that newly elected members receive appropriate introduction and orientation and that the members of the Board of Directors receive ongoing 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. According to these rules all members are considered independent.

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 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 (Chair 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 Chair 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 Chair 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	recommends	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 (Chair of the Board of Directors), Stacy Enxing Seng, and Beat Hess.

The NCC meets as often as business requires but at least three times per year. In the 2020/21 financial year, it held six meetings covering, among others, the following pre-defined recurring agenda items during the course of the regular meetings:

Item	May Beginning of the financial year	September	November	February End of the financial year
Compensation policy & process			– Preview of compensation proposal for the following financial year (incl. MB) – Approval of EEAP grant size (incl. MB) and plan regulations – Review of equal pay considerations	– Reconfirmation of compensation proposal for the following financial year – Reconfirmation of EEAP target group for the following financial year
Management Board (MB) matters	– Approval of actual vesting of EEAP and payout of VCC for CEO and MB for the previous financial year – Setting of VCC and EEAP performance targets for the new financial year – Approval of individual targets for CEO and MB	– Approval of ESG criteria for MB VCC for the next financial year	– Review of Sonova's succession planning at MB level as covered in the full BoD	– Equity valuation (options and Performance Share Units/PSU) – Target compensation (incl. EEAP grant) review for the following financial year
Governance	– AGM preparation – Approval of the corporate governance and the compensation report as well as the compensation part of the AGM invitation – Proposal of the maximum aggregate amount of compensation of the MB and the BoD – Share ownership status review	– Review of proxy advisor/ shareholder feedback on compensation report – Board evaluation		– Review of draft compensation report – NCC agenda for the following financial year

Special ad hoc items such as personnel changes at executive level are covered as and when appropriate. There has been greater interaction between the Board of Directors and the NCC, and also the Management Board, in the context of the current COVID-19 related crisis: for example, additional NCC meetings were held in April and July 2020 to review COVID-19 related compensation proposals including rolling target setting as outlined in this compensation report.

As a general rule, the Chair 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 is discussed.

There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chair 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 2020/21 reporting year, Aon was once more tasked with the performance share unit (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 2021 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 and employer's contributions to Sonova's pension plan

Variable compensation components:
- Short-term cash incentive award (VCC): maximum possible payout under the VCC, should the achievement of all performance objectives reach the cap

- Long-term equity incentive award (EEAP): fair value of the equity awards at grant (options and PSUs)

Due to the maximum possible VCC payout, the maximum aggregate compensation amount submitted to shareholders' vote is very likely to be 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 regarding the compensation of the members of the Board of Directors and the Management Board were revised in 2014 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 in their entirety 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 2018/19 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 reported in the compensation report for the 2018/19 financial year and implemented during the 2019/20 financial year.

The analysis showed that, at the time that it was conducted, Sonova's Management Board compensation structure was more performance oriented (and less fixed) than at other companies, and that levels were 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.

An update of the total compensation benchmark of members of the Board of Directors and of the Management Board is planned for the 2021/22 financial year.

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 normally approved at the beginning of the financial year and achievements against those objectives are generally 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]		
Travel allowance		
Pension benefits		
Pension Fund		
Variable compensatin components (performance related)		
Short-term cash incentive award Variable Cash Compensation (VCC)		
Long-term equity incentive award[6] Executive Equity Award Plan (EEAP)		
Social and other benefits		
Other benefits		

[1] Mandatory social security constributions (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] Awarded in the form of options and PSUs

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 Chair 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 Chair, 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 Chair 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 (Chair 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 structure 2020 AGM to 2021 AGM

Annual fees in cash in CHF	Chair[1]		Board members excl. Chair	
	Standard	Actual (reduced due to COVID-19)[2]	Standard	Actual (reduced due to COVID-19)[2]
Cash retainer	470,000	0 (social security contributions for the portion delivered in restricted shares are covered)	100,000	80,000
Vice-Chair	n.a.	n.a.	15,000	12,000
Chair of AC	n.a.	n.a.	40,000	32,000
Chair of NCC	Included in cash retainer	Included in cash retainer	40,000	32,000
Member of NCC/AC	n.a.	n.a.	20,000	16,000
Travel allowance[3]	500	0	500	0

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

[1] Including work and attendance in the NCC (Chair) and the AC (attendance)
[2] Given the COVID-19 context, the Chair waived his cash retainer (net of social-security contributions for the portion delivered in restricted shares) and the other members of the Board of Directors waived 20 % of their cash retainer and commitee fees for this term of office from the 2020 AGM to the 2021 AGM.
[3] Multiplied by the number of meetings attended

The table above provides an overview of the normal compensation structure of the Board of Directors as well as the temporary reductions made during the period.

As outlined in the introduction to this compensation report, the compensation related short-term measures taken in response to the COVID-19 related crisis included that the Chair of the Board of Directors waived 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 waived 20% of their cash retainer and committee fees for this 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% 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

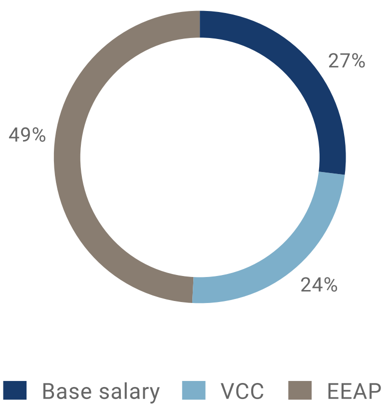
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- 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.

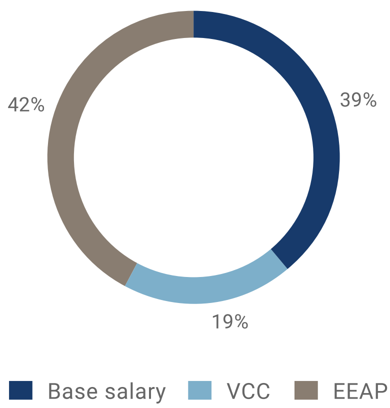
As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company's strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has proven effective over many years; however, certain specific short-term adjustments are being made to ensure continued alignment during the 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 2020/21 financial year:

Compensation mix of the CEO, Arnd Kaldowski



Compensation mix of the other members of the Management Board[1)]



1) Average mix

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 2020/21 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 – ESG objectives**[1] **D – Individual objectives**[1]	ROCE	rTSR
Delivery	Cash, regularly	Country specific	Cash	Options	PSUs
Restriction period	n.a.	n.a.	n.a.	Five years from grant date	
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: 181%** **Range of fixed base salary: 0 % –248%**	
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 133%** **Range of fixed base salary: 0 % –199%**	

[1] For second half of the 2020/21 financial year

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 COVID-19 related crisis included a freeze on salary increases for the Management Board in the 2020/21 financial year. Moreover, the CEO waived 50% of his monthly base salary, and each of the other Management Board members 20% 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 key performance indicator (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 normally based on three categories of performance objectives: Group and/or business unit and individual performance objectives. During the course of the 2020/21 financial year, ESG targets were more formally introduced. The performance objectives that must be met to achieve the target VCC are mutually agreed at the beginning of the financial year.

In line with our strategy and to reflect Sonova's corporate social responsibility and sustainable business approach, business relevant ESG targets are formally reflected in the VCC from the second half of the 2020/21 financial year. As already outlined in the 2019/20 compensation report, 10% of the overall VCC targets for each member of the Management Board were shifted (5% each from the financial and from the individual targets) and linked to specific, tangible ESG related initiatives.

Group performance objectives are based on the budget; the specific KPIs can include sales, EBITA, FCF, EPS and ESG. 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 respectively operational and capital efficiency, and ESG reflects Sonova's sustainability focus. 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.

With the introduction of ESG targets, group and business unit financial performance objectives are generally weighted at 75% of the overall VCC. ESG performance objectives represent 10% of the overall VCC on an annualized basis. 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. With the introduction of ESG targets, the total weight of the three to six individual performance objectives for each member of the Management Board is generally 15% of the overall VCC. The weight can be increased up to 35% for exceptional reasons, such as supporting key strategic initiatives, including research and development.

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%–30%	10% –30%	0%	100%[1]	200%
EBITA	0%–20%	10% –30%			
FCF	20%–30%	10% –30%			
EPS	20%–40%	0% –35%			
B – Business objectives[2]					
Sales		0% –30%	0%	100%	200%
EBITA		0% –20%			
OPEX		0% –30%			
ASP		0% –10%			
C – ESG objectives[3]					
ESG objectives	10%	10%	0%	100%	200%
D – Individual objectives[3][4]					
Initiatives/Projects	15%	15%–25%	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] Given the COVID-19 context, included only for the second half of the 202/21 financial year.
[4] In exceptional circumstances, up to 35% (e.g. to support key strategic initiatives).

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

As outlined in the introduction to this compensation report, in response to the COVID-19 related uncertainty, target setting for the VCC was governed on a rolling basis to reflect rapidly changing market conditions in the 2020/21 financial year. ESG targets were more formally introduced in the second half of the 2020/21 financial year; while the KPIs generally remained the same, the target weightings reflected the primary focus on liquidity, costs and growth. This included shifting all weightings for individual targets to financial targets for the first two quarters of the financial year. Additionally, the maximum VCC payout during the 2020/21 financial year is capped at 100% for Management Board members.

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 1 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 this metric 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%.

From the option grants in February 2020 onwards and to further foster long-term alignment with shareholder interests, options are now subject to a five-year restriction period from the grant date. During this period, even after the vesting date, options cannot be exercised, sold, pledged, assigned, transferred or otherwise disposed of.

Performance Share Units

The other portion of the EEAP is allocated in the form of PSUs: PSUs vest based on achieving relative Total Shareholder Return (rTSR). This external criterion, measured against a peer group of relevant companies, provides a performance assessment against these companies designed to incentivize members of the Management Board to achieve strong performance.

PSUs granted under the EEAP will cliff vest after three years and four months, depending on the rTSR achievement. Sonova's TSR is measured against those of the SLI®[1)] constituents that remain in the index during a performance period of three years and two months from grant. The slightly shorter performance period provides sufficient time to test for performance and receive approval of the calculation prior to vesting. The SLI® was selected in order to compare Sonova´s performance to companies with a comparable geographic footprint, providing a relevant and challenging benchmark for Sonova's value creation.

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

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

The number of shares allocated for each vested PSU between the 20th and 80th percentile is calculated by linear interpolation. As an additional performance alignment measure, if Sonova's (absolute) TSR is negative over the performance period, the cliff vesting is capped at 100%.

The calculation of rTSR target achievement will be conducted using the average closing price for 3 calendar months 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 with the options, and to further foster long-term alignment with shareholder interests, PSU grants from February 2020 onwards are subject to a five-year restriction 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 2021		
Equity	**Options**	**PSUs**
Grant Date	February 1, 2021	February 1, 2021
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation (Black-Scholes Model for the impact of the restriction period)	Based on Monte Carlo Model valuation
Exercise/Strike Price	**CHF 218.70** (Sonova closing SIX share price on February 1, 2021)	n.a.
Vesting Date	25% vests on June 1, 2022 25% vests on June 1, 2023 25% vests on June 1, 2024 25% vests on June 1, 2025	3 years + 4 months cliff vesting 100% vest on June 1, 2024
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)
Restriction Period	Five years from the grant date (January 31, 2026)	Five years from the grant date (January 31, 2026)
Exercise Period	After the end of the restriction period until expiry	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2031)	No maturity/expiry restriction after vesting

This section and table provide 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 COVID-19, 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 management's interests with shareholders': The benefit for the Management Board members will only arise if the company performance and share price increase and outperform peers. Given the COVID-19 related crisis and its uncertainties, and after thorough consideration, the Board of Directors had anticipated the possible need to suspend, for the time being, the ROCE target for the portion of the EEAP delivered in options. However, given the strong management of profitability, along with the efficiency of employed capital during the COVID-19 crisis, the Board decided to not apply this suspension.

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 restriction 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 restriction 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 restriction 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 restriction 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 1, 2017 whose date of termination occurred between the grant date in 2018 and/or 2019 and May 31, 2021 (transition period), any then unvested PSUs vest on a pro-rata basis. However, the performance assessment is only 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 the acquiring company 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 termination 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 restriction period lapses on an employee's date of termination. Vested options are exercisable for a period of three months 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 ensure transparency by disclosing target achievements and their respective payouts at the end of the relevant period. Accordingly, the first PSU target achievement of rTSR occurring this reporting year is disclosed.

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

However, given the impact of the current COVID-19 related crisis on our business, quarterly VCC targets were set for the first two quarters and half-year targets for the second half of the 2020/21 financial year. Also, to focus on financial business performance in this challenging context, individual targets were not set for the first two quarters and only re-introduced in the second half of the financial year. At the same time and as previously announced, ESG targets were introduced.

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 a 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 restriction 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 2020/21 financial year (9 members from the 2020 AGM) and for the 2019/20 financial year (8 members). The total compensation in the 2020/21 financial year was CHF 2.6 million (2019/20: CHF 2.9 million).

Board of Directors compensation

in CHF						**2020/21**
	Cash retainer (fixed fee) [1]	Expenses [2]	Total cash compensation	Grant value of restricted shares	Total compensation	Employer's social insurance contribution (AHV/ALV) [3]
Robert F. Spoerry [4] [5] Chair of the Board of Directors Chair of the Nomination and Compensation Committee	15,450	1,500	16,950	369,011	385,961	17,858
Beat Hess Vice-Chair of the Board of Directors Member of the Nomination and Compensation Committee	138,162	3,500	141,662	159,519	301,181	16,460
Lynn Dorsey Bleil Member of the Audit Committee	122,529	3,000	125,529	159,519	285,048	18,425
Lukas Braunschweiler	104,219	2,500	106,719	159,519	266,238	245,809
Stacy Enxing Seng Member of the Nomination and Compensation Committee	122,529	3,500	126,029	159,519	285,548	18,460
Michael Jacobi Member of the Audit Committee	126,076	3,500	129,576	159,519	289,095	15,634
Ronald van der Vis Chair of the Audit Committee	139,318	3,000	142,318	159,519	301,837	19,610
Jinlong Wang	104,219	2,500	106,719	159,519	266,238	17,098
Adrian Widmer [6]	77,063	–	77,063	159,519	236,582	14,811
Total	**949,566**	**23,000**	**972,566**	**1,645,164**	**2,617,730**	**384,165**

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

1) As of the 2020 AGM, fee payment is aligned with the term of office (instead of the financial year). For the transition, catch up payments in a total amount of CHF 178,111 had to be made in June 2020.

2) Travel expenses are paid only for attended meetings. No travel expenses paid from 2020 AGM to 2021 AGM due to COVID-19.

3) Employer social security contributions on the cash retainer, the tax value of income derived from outstanding EEAP awards (former CEO) and restricted shares granted during the financial year.

4) Including NCC and AC work and attendance.

5) Amount of CHF 15,450 included under Cash retainer was not paid out, but covers the netting of the social security contributions on the restricted shares.

6) Member of the Board of Directors since June 2020

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

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

1) Expenses are based on the number of meetings attended by each member of the Board of Directors (attendance fees discontinued from the 2019 AGM forward).
2) Employer social security contributions on the cash retainer, the tax value of income derived from outstanding EEAP awards (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 Chair 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

Explanatory comments to the compensation tables

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.

The 2020/21 financial year table reflects the current COVID-19 related compensation measures: The Chair of the Board of Directors waived his entire 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 waived 20 percent of their cash retainer and committee fees for the term of office from the 2020 AGM until the 2021 AGM.

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 2020 AGM to the 2021 AGM is expected to be CHF 2.4 million. The value of the cash retainer waived by the Chair of the Board of Directors for this term of office (from the 2020 AGM to the 2021 AGM) equals CHF 0.5 million, that for the other members of the Board of Directors equals CHF 0.2 million in total. The total compensation is within the limit of CHF 2.6 million approved by the 2020 AGM.

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

in CHF 1,000	Approved for AGM 2019 – AGM 2020	Effective for AGM 2019 – AGM 2020	Approved for AGM 2020 – AGM 2021	Expected for AGM 2020 – AGM 2021
AGM approval year		**2019**		**2020**
Total compensation	**2,900**	**2,735**	**2,600**	**2,426**
Breakdown total compensation:				
Fixed fees including expenses [1]	1,363	1,235	875	780
Market value of restricted shares	1,537	1,500	1,725	1,646
Number of members of the Board of Directors	**8**	**8**	**9**	**9**

[1] Fixed fee amounts for AGM 2020 – AGM 2021 reflect the 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 2020/21 financial year, and no such loans were outstanding as of March 31, 2021. 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.

5.2.1 Compensation awarded for the 2020/21 financial year

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.

In line with the decision of the Board of Directors mentioned earlier in this compensation report, no salary increases were given to any member of the Management Board in the 2020/21 financial year. Additionally, the CEO waived 50% of his base salary, and each of the other Management Board members 20% of their base salary, from April 2020 until September 2020.

Variable Cash Compensation performance outcomes 2020/21

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 ESG and 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.

Given the need to adapt to an uncertain and rapidly changing economic situation, more dynamic rolling VCC targets were set for the 2020/21 financial year, and firmly governed as circumstances continued to change. These actions are described in this compensation report. On an annualized basis, the overall Group sales target was exceeded at 125.6%, driven by growth investments and strong execution of product launches. Given the volatility introduced by the COVID-19 pandemic, the achievement differed between the different assessment periods, with overachievements in the first and second quarters being partly compensated by lower achievements in the second half-year (against significantly increased targets). While the hearing instruments and audiological care business exceeded their growth target, the cochlear implant business was below target.

In the overall annualized assessment, the hearing instruments segment contributed well to the Group's EBITA target achievement. This was driven by the timely launch and strong execution of structural optimizations, as well as by the faster than anticipated rebound of business volumes during the pandemic. EBITA in the cochlear implant segment was below target despite structural cost improvements. This was primarily due to lower than anticipated demand following the voluntary field corrective action at the end of the 2019/20 financial year and the slower rebound of the cochlear implant segment due to COVID-19 related restrictions on hospital capacity.

As a consequence, and mainly driven by the stronger than anticipated hearing instrument performance, Group EBITA and EPS targets were overachieved on an aggregated basis for the full year at 137.1% and 138.4% respectively. The assessment of these targets was undertaken based on the adjusted metrics as disclosed in the financial review of this Annual Report. Driven by the strong business performance for most of the financial year and the strong collection of accounts receivables, realized FCF was a multiple of the target.

ESG targets for the second half of the financial year were defined around seven categories, with energy and climate, as well as employee engagement, set as a target for all Management Board members. Additionally, members each had a selection of targets set depending on their role and responsibilities. These included product quality and customer satisfaction, product reliability, environmentally friendly packaging, business ethics and legal compliance, as well as human rights and responsible supply chain. On average, ESG targets for management were slightly under-achieved at 90.1%.

Individual qualitative targets for management were, on average, slightly overachieved at 110.5%.

As disclosed earlier in this report, the VCC achievement for the 2020/21 financial year is capped at 100.0%. Therefore the overall target achievement for the CEO is 100.0% (2019/20: 105.2%) and between 77.6% and 100.0% (2019/20: 75.7% - 106.9%) for the other members of the Management Board. The average variable cash payout to Management Board members, including the CEO, was 96.8%, whereas the equivalent average overall payout ratio for the previous year was 115.5%.

As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to COVID–19, the VCC payout to members of the Management Board for the 2020/21 financial year is capped at target (100% versus 200% normally).

The highest total compensation for a member of the Management Board in the 2020/21 financial year was paid to Arnd Kaldowski, CEO.

The following tables show the compensation of the CEO and of the other members of the Management Board for the 2020/21 financial year (9 members) and for the 2019/20 financial year (9 members).

Management Board compensation

in CHF									**2020/21**
	Fixed base salary	Variable compensation [1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs [2]	Value of options [3]	Total compensation	Employer's social security contribution
Arnd Kaldowski, CEO	709,615	800,000	69,515	111,231	1,690,361	609,375	1,015,625	3,315,361	125,508
Other members of the MB	2,817,903	1,459,448	291,180	486,524	5,055,056	1,449,500	1,449,500	7,954,056	908,102
Total	**3,527,519**	**2,259,448**	**360,695**	**597,754**	**6,745,417**	**2,058,875**	**2,465,125**	**11,269,417**	**1,033,610**

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 198.67. 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 2024 and the PSUs are blocked after vesting to arrive at the total mandatory restriction 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 restriction period based on a "Black-Scholes Model") of CHF 39.90. The options are blocked after vesting to arrive at the total mandatory restriction period of five years.

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

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

1) The variable compensation will be paid out only when the Group's audited financial statements for the financial year have been publicly disclosed by the Group in its consolidated financial statements.

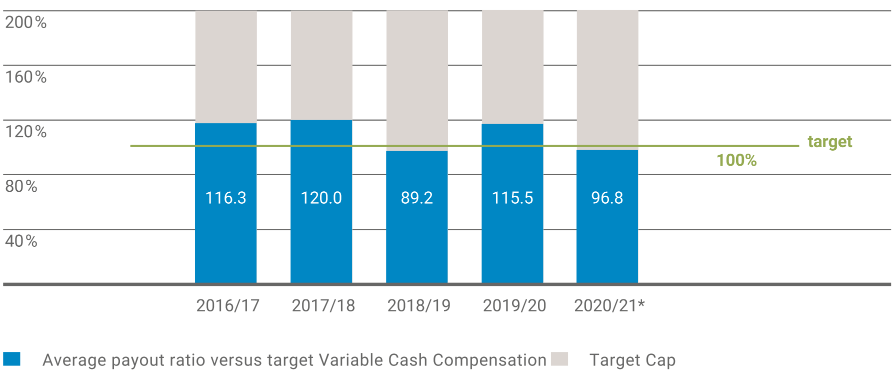
2) Fair value per PSU at grant date CHF 266.80. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior to the vesting in June 2023 and the PSUs are blocked after vesting to arrive at the total mandatory holding period of five years from grant date.

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

Explanatory comments to the compensation tables:

- The total compensation of CHF 11.3 million for the 2020/21 financial year is below the total of CHF 13.0 million for the previous year.
- The fixed compensation is reduced compared to the previous year given the COVID–19 related compensation measures.
- Furthermore, the COVID–19 related capping of the VCC at 100% contributed to the reduction.
- The total EEAP grant value awarded increased as a result of a combination of selective increases.

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



* VCC FY 2020/21 capped at target due to Corona

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%).

5.2.3 Approved versus actual total compensation for the members of the Management Board

The actual total compensation for the Management Board for the 2020/21 financial year was CHF 11.3 million. This figure is below the maximum aggregate compensation amount of CHF 15.3 million approved at the 2019 AGM for the 2020/21 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 upon vesting in each respective financial year.

Additional information to support the shareholder votes on compensation can be found in the invitation to the 2021 AGM.

5.2.4 Executive Equity Award Plan performance outcomes 2020/21

Options

The vesting of the options is subject to a pre-defined ROCE target. As outlined in the introduction to this compensation report describing the compensation related short-term measures taken in response to COVID-19, it was anticipated that the ROCE target would possibly need to be suspended for the time being. However, given the strong management of profitability, along with the efficiency of employed capital during the outbreak of COVID-19, the Board decided to not apply the suspension. In the 2020/21 financial year, the ROCE target 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%.

Performance Share Units

The PSUs vest based on relative TSR measured against a pre-defined basket of peers. The number of shares allocated for each vested PSU between the 20th and 80th percentile is calculated by linear interpolation within a range of 0% to 200%. The PSUs awarded under the EEAP 2018 vest in June 2021 based on the performance period ending on March 31, 2021

The actual TSR was 46.5%, which corresponds to a 77.0% percentile rank relative to the peer group, and results in a 189.9% vesting.

5.2.5 Other components

As reported in the 2017/18 compensation report, upon his hiring, the CEO was awarded a one-time, non-recurring performance option replacement award for forfeited compensation entitlements granted by his former employer, with a fair value at grant of CHF 1,000,000.

The COVID–19 crisis caused the market to shrink significantly, thereby impairing Sonova's growth strategy during an interim period. The Board of Directors therefore reviewed the terms of the option grant as follows: The EPS performance target remains as originally set, namely to grow EPS to CHF 9.34 (8% vesting) and CHF 11.21 (12% vesting) per share.

The performance period will be extended to April 1, 2025. The CEO may elect to have the options vest at the original date of April 1, 2023 or in the interim year on April 1, 2024. The expiry date of the options (September 27, 2027) remains unchanged.

As a result of this potential change of the performance period, the fair value of the options granted (initially CHF 1,000,000) does not increase.

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

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

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 2020/21 financial year, and no such loans were outstanding as of March 31, 2021. 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.

	31.03.2021				31.03.2020			
	Shares	Restricted Shares [1]	RSUs	Options	Shares	Restricted Shares [2]	RSUs	Options
Robert F. Spoerry, Chair	41,227	14,293			37,656	15,818		
Beat Hess, Vice-Chair	6,691	5,353			5,047	6,192		
Lynn Dorsey Bleil, Member	30	5,353				4,622		
Lukas Braunschweiler, Member	25,007	2,488	2,183	96,016	22,686	1,757	4,328	123,189
Stacy Enxing Seng, Member	3,231	5,353			1,609	6,192		
Michael Jacobi, Member		5,353			2,000	6,192		
Ronald van der Vis, Member	3,231	5,353			1,609	6,192		
Jinlong Wang, Member	4,846	5,353			3,214	6,192		
Adrian Widmer, Member [3]		731						
Total	**84,263**	**49,630**	**2,183**	**96,016**	**73,821**	**53,157**	**4,328**	**123,189**

1) These shares are subject to a restriction period which varies from June 1, 2021 to June 1, 2026 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
3) New member of the Board of Directors since June 2020.
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.

				31.03.2021				31.03.2020
	Shares [1]	PSUs	RSUs	Options	Shares [1]	PSUs	RSUs	Options
Arnd Kaldowski	6,792	11,581		173,017	6,749	8,514		147,563
Hartwig Grevener	9,420	1,854	596	20,210	8,324	3,658	1,947	43,201
Ludger Althoff	919	1,659	792	17,448	550	708	1,056	12,712
Claudio Bartesaghi	681	2,865	73	22,401 [2]	539	2,020	211	18,191 [2]
Vicky Carr-Brendel	237	1,617	711	16,413 [3]		674	947	11,714 [3]
Claude Diversi	1,057	4,831	881	27,272	1,000	3,699	1,896	32,141
Christophe Fond	4,236	5,005	933	36,682	4,048	3,823	1,541	36,812
Martin Grieder	1,006	4,765	912	51,812	3,033	3,658	1,947	51,734
Andi Vonlanthen	17,174	4,831	912	65,727	18,276	3,699	1,947	68,775
Total	**41,522**	**39,008**	**5,810**	**430,982**	**42,519**	**30,453**	**11,492**	**422,843**

1) Shares are dividend entitled with full voting rights.
2) includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
3) SARs were granted instead of options (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares). For further details see also Note 7.4 in the consolidated financial statements.

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

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

	Base salary	Share requirements [1]	Actual shares [2]	Fulfillment of share ownership guidelines	Share ownership ratio to base salary
	in CHF	in CHF	in CHF	in %	ratio
Arnd Kaldowski, CEO	900,000	1,000,000	1,700,717	170	1.9
Other members of the MB [3]	381,350	200,000	1,087,049	544	2.9

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, 2021.
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.

31.03.2021	Options EEAP 21 [1]	Options EEAP 20 [2]	Options EEAP 19 [3]	Options EEAP 18 [4]	Options EEAP 17 [5]	Options EEAP 16 [6]	Options EEAP 15 [7]	Total options
Arnd Kaldowski	25,454	28,119	32,901	86,543 [8]				173,017
Hartwig Grevener		1,649	4,211	5,297	6,474	2,579		20,210
Ludger Althoff	4,736	5,668	7,044					17,448
Claudio Bartesaghi	4,210	4,649	4,881	4,984	2,148 [9]	1,529		22,401
Vicky Carr-Brendel	4,699 [10]	5,398 [10]	6,316 [10]					16,413 [10]
Claude Diversi	5,639	6,748	6,461	5,297	3,127			27,272
Christophe Fond	5,889	7,048	8,996	8,127	6,622			36,682
Martin Grieder	5,513	6,598	8,422	10,594	12,948	7,737		51,812
Andi Vonlanthen	5,639	6,748	8,614	10,594	12,948	10,315	10,869	65,727
Total	**61,779**	**72,625**	**87,846**	**131,436**	**44,267**	**22,160**	**10,869**	**430,982**

1) Exercise price CHF 218.70, vesting period 1.2.2021–1.6.2025 whereas one tranche being vested each year, end of restriction period 31.1.2026, exercise period 1.2.2026–31.1.2031.
2) Exercise price CHF 241.80, vesting period 1.2.2020–1.6.2024 whereas one tranche being vested each year, end of restriction period 31.1.2025, exercise period 1.2.2025–31.1.2030.
3) 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.
4) 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.
5) 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.
6) 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.
7) 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.
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) SARs EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).
10) SARs were granted instead of options (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

								31.3.2020
	Options EEAP 20 1)	Options EEAP 19 2)	Options EEAP 18 3)	Options EEAP 17 4)	Options EEAP 16 5)	Options EEAP 15 6)	Options EEAP 14 7)	Total options
Arnd Kaldowski	28,119	32,901	86,543 10)					147,563
Hartwig Grevener	6,598	8,422	10,594	9,711	5,158	2,718		43,201
Ludger Althoff 8)	5,668	7,044						12,712
Claudio Bartesaghi	4,649	4,881	4,984	2,148 11)	1,529			18,191
Vicky Carr-Brendel 9)	5,398 12)	6,316 12)						11,714 12)
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 1.2.2025–31.1.2030.

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

12) SARs were granted instead of options (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
ESG Environmental, Social and Governance
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 to the General Meeting of Sonova Holding AG

Statutory auditor's report on the compensation report

We have audited the compensation report of Sonova Holding AG for the year ended 31 March 2021. 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 section 5.1, 5.2, 6.1 and 6.2 excluding tables: 5.1.1 and 5.2.2.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the 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 compensation 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 compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 March 2021 of Sonova Holding AG complies with Swiss law and articles 14–16 of the Ordinance.

Other matter

The remuneration report of Sonova Holding AG for the year ended 31 March 2020 was audited by another statutory auditor who expressed an unmodified opinion on that remuneration report on 14 May 2020.

Zurich, 17 May 2021

Ernst & Young Ltd

Martin Mattes
Licensed audit expert
(Auditor in charge)

Pascal Solèr
Licensed audit expert

Financial reporting

Financial report

Financial review

In the 2020/21 financial year, Sonova continued to outpace the market, coping well with the challenges posed by the COVID-19 pandemic and significant currency headwinds. Supported by continued strong investment into strategic growth initiatives, sales reached CHF 2,601.9 million, down 6.8% in local currencies and 10.8% in Swiss francs. Reflecting the benefits of our structural optimization initiatives, adjusted EBITA grew by 5.6% in local currencies to CHF 603.0 million with the margin increasing to 23.2%.

Strong sales recovery in the second half-year

In the 2020/21 financial year, Sonova Group sales reached CHF 2,601.9 million. The impact of the COVID-19 pandemic on the hearing care industry – including restrictions on personal movement, consumer activity, and elective surgeries – resulted in a decline in sales of 6.8% in local currencies or 10.8% in Swiss francs. Organic growth was negative at 7.1%, while acquisitions contributed 0.3% to growth. Sales momentum picked up strongly in the second quarter and the Group returned to growth in the second half-year. Exchange rate fluctuations had a significant negative impact, reducing growth by 4.0% due to a strengthening of the Swiss franc against most major currencies.

Sales by regions

in CHF m			**2020/21**		**2019/20**
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,416.6	54%	(6.0%)	1,544.4	53%
USA	732.2	28%	(10.8%)	877.6	30%
Americas (excl. USA)	178.2	7%	(9.7%)	220.9	8%
Asia/Pacific	275.0	11%	3.7%	274.0	9%
Total sales	**2,601.9**	**100%**	**(6.8%)**	**2,916.9**	**100%**

All regions returning to growth in the second half

Business momentum continued to improve throughout the year, with all regions returning to growth in the second half. The recovery was supported by the successful launch of the Phonak Paradise platform in the Hearing Instruments business in August 2020 and good momentum from the Group's commercial excellence initiatives. The successful launch of two new sound processors – the Naída™ CI Marvel for adults and the Sky CI™ Marvel for children – lifted sales at Advanced Bionics towards the end of the financial year. The Asia/Pacific (APAC) region experienced the strongest recovery with sales up 3.7% in local currencies. Several key markets in the region reported double digit sales growth year-over-year with particularly strong sales development in China.

Sales in Europe, Middle East and Africa (EMEA), the Group's largest region, declined by 6.0% in local currencies but several key markets achieved positive year-over-year growth. A solid recovery in the Hearing Instruments business was driven by France, Germany, the Nordics, and Switzerland, which all achieved full- year sales above prior year levels. A similar trend was observed in the Audiological Care business but performance was held back by strict lockdown measures in the UK and a slowdown in Germany in the second half-year. Sales in the Cochlear Implants business were supported by upgrade sales. The EMEA share of Group sales increased from 53% in 2019/20 to 54% in 2020/21.

Sales in the United States declined by 10.8% in local currency. After slow recovery in the first half-year, the market returned to prior year levels in the second half, led by growth in the commercial channel. Growth in the Cochlear Implants business was held back by the reduced number of elective surgeries but momentum significantly improved after the successful market introduction of the Naída™ CI Marvel and Sky CI™ Marvel sound processors. The region accounted for 28% of Group sales in 2020/21 versus 30% in the prior year. Sales in the rest of the Americas (excluding the US) were down 9.7% in local currencies, as the impact of the COVID-19 pandemic has persisted longer than in many of the larger markets.

Sonova Group key figures

in CHF m unless otherwise specified	2020/21	2019/20	Change in Swiss francs	Change in local currencies
Sales	2,601.9	2,916.9	(10.8%)	(6.8%)
Gross profit	1,873.5	2,083.6	(10.1%)	(5.7%)
EBITA [1)]	663.3	554.3	19.7%	30.5%
EBIT [1)]	619.5	510.0	21.5%	33.0%
Basic earnings per share (CHF)	9.23	7.61	21.3%	33.7%
Operating free cash flow [1)]	602.4	638.5	(5.7%)	
ROCE [1)]	22.3%	18.2%		
Gross profit (adjusted) [1)]	1,880.2	2,106.9	(10.8%)	(6.4%)
EBITA (adjusted) [1)]	603.0	620.8	(2.9%)	5.6%
EBITA margin (adjusted)	23.2%	21.2%		
Basic earnings per share (CHF) (adjusted) [1)]	7.71	7.39	4.3%	15.5%

1) For details see table "Reconciliation of non-GAAP financial measures".

Sustainable progress on profitability – One-time gain in Cochlear Implants

The results were significantly impacted both by the COVID-19 pandemic and the strengthening of the Swiss franc, which represented a strong headwind to growth. Despite these challenges, the Group achieved strong results through a swift implementation of cost saving initiatives and sustainable structural improvements.

In line with measures taken in prior years, Sonova accelerated structural optimization initiatives to preserve its ability to invest into growth and to protect profitability. These initiatives resulted in restructuring costs of CHF 38.9 million (2019/20: CHF 18.6 million) and led to cost savings of CHF 55 million during the reporting period. A one-time cost of CHF 25.3 million was incurred from impairment of previously capitalized development costs stemming from a change in our cochlear implants product development roadmap (2019/20: returns for credit and one-time costs totaling CHF 47.8 million related to the voluntary field corrective action). In addition, Advanced Bionics reached a successful conclusion in a long-running patent infringement lawsuit, resulting in a one-time income of CHF 124.4 million. Adjusted figures and growth rates in this financial review exclude these items. For more details, please refer to the table "Reconciliation of non-GAAP financial measures" at the end of the financial review.

Reported gross profit reached CHF 1,873.5 million. Adjusted gross profit reached CHF 1,880.2 million, down 6.4% in local currencies and 10.8% in Swiss francs. The adjusted gross profit margin was 72.3%, up from 72.0% in the prior year. The improvement was driven by structural and continuous improvement initiatives. It was further supported by a higher average sales price (ASP) in the Hearing Instruments business for the financial year as a whole. This reflects the positive market response to the Phonak Paradise platform, as well as the temporary benefit from faster market recovery in higher price channels and markets. A change in reimbursement in France and a normalization of the channel mix led to ASP pressure towards year end. Further progress was held back by lower sales volumes and by higher transportation costs out of Asia resulting from the pandemic. Government support received in connection with the pandemic contributed CHF 4.9 million.

Excluding acquisition-related amortization, reported operating expenses were CHF 1,210.3 million (2019/20: CHF 1,529.3 million). Adjusted operating expenses before acquisition-related amortization decreased by 11.4% in local currencies or by 14.1% in Swiss francs to CHF 1,277.1 million. Government support received worldwide in connection with the pandemic reduced total operating expenses by CHF 42.4 million, mostly in the first half of the fiscal year. Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 177.9 million, an increase of 10.3% in local currencies, outpacing the sales growth. Despite the temporary market impact from COVID-19, the Group increased its level of investment in innovation. This underpins Sonova's commitment to further advance its industry leading portfolio of products and services. As a percentage of sales, adjusted R&D expenses increased to 6.8% (2019/20: 5.6%).

Adjusted sales and marketing costs before acquisition-related amortization were down 13.0% in local currencies to CHF 858.6 million, despite maintaining investments in customer-facing resources. Adjusted general and administrative costs decreased by 16.6% in local currencies to CHF 242.0 million, representing 9.3% of sales, down from 10.2% in the prior year. The decrease in both cost categories reflects strong cost management across all three businesses as well as the above mentioned government support. Marketing investments and discretionary spend were significantly reduced during the lock-downs and benefited from a shift towards virtual customer interactions. The acceleration of structural optimization initiatives also generated sustainable savings, particularly in the audiological care store network. Adjusted other income for the current period was CHF 1.4 million (2019/20: CHF 0.1 million).

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 603.0 million (2019/20: CHF 620.8 million), up 5.6% in local currencies but down 2.9% in Swiss francs. The adjusted EBITA margin was 23.2% (2019/20: 21.2%). This strong margin improvement despite lower sales levels reflects the effective cost management and structural improvement measures to protect profitability. Exchange rate developments negatively affected the adjusted EBITA by CHF 52.7 million and reduced the margin by 0.9 percentage points. Including restructuring costs, the impairment of capitalized development costs, and the award in the patent infringement lawsuit, reported EBITA increased by 30.5% in local currencies and by 19.7% in Swiss francs to CHF 663.3 million. This corresponds to a margin of 25.5%. Acquisition-related amortization amounted to CHF 43.8 million (2019/20: CHF 44.4 million). Reported operating profit (EBIT) reached CHF 619.5 million (2019/20: CHF 510.0 million), up 21.5% in Swiss francs.

Earnings per share – Double digit increase in local currencies

Net financial expenses, including the result from associates, increased from CHF 7.6 million to CHF 19.1 million, driven by increased borrowings and bond issues. Excluding non-recurring benefits, which include a positive impact from the Swiss tax reform of CHF 28.0 million (2019/20: CHF 64.1 million), the tax rate was 12.5% (2019/20: 15.3%). Income after taxes was CHF 585.3 million (2019/20: CHF 489.5 million). Basic earnings per share (EPS) reached CHF 9.23 (2019/20: CHF 7.61), an increase of 21.3% from the prior year. The adjusted EPS increased 15.5% in local currencies or 4.3% in Swiss francs to CHF 7.71.

Headcount

At the end of March 2021, the Group's total workforce was 14,508 full-time equivalents. This represents a reduction of 676 or 4.5%, reflecting benefits from the structural optimization initiatives announced in July 2020. The reduction was mostly realized by staff attrition. At the same time, we continued to invest into R&D and customer-facing staff in both the Audiological Care and the Hearing Instrument business, laying down the foundations for future growth.

Hearing Instruments segment – Market share gains in both businesses

Sales in the Hearing Instruments segment declined by 6.1% in local currencies to CHF 2,417.3 million. This was due to the significant market contraction at the start of the financial year related to the global COVID-19 pandemic. Driven by a market rebound as lock-down restrictions were lifted, the segment returned to growth in the second half. Regional recovery varied, reflecting increased infection rates in certain markets. Momentum was further boosted by the successful launch of the Phonak Paradise platform in August 2020. The segment recorded an organic sales decline of 6.4% while the contribution from acquisitions in the reporting period (including the full-year effect of prior year acquisitions) lifted sales by 0.3%. Exchange rate fluctuations reduced growth by 3.9% in Swiss francs. This resulted in a reported sales decline of 10.0%.

The Hearing Instruments business posted sales of CHF 1,463.9 million, a decline of 4.7% in local currencies. Strong customer response to the new Phonak Paradise platform and the market recovery turned sales development positive in the second half. In March 2021, Sonova's share of business with the US Department of Veterans Affairs (VA) reached its highest level, 56%, in over seven years. ASP temporarily benefitted from a favorable shift in the country and channel mix: higher price markets and channels rebounded faster from the effects of the pandemic.

Momentum in the Audiological Care business picked up over the course of the financial year, reflecting the gradual easing of pandemic related restrictions and increased marketing activities. Sales decreased by 8.1% in local currencies to CHF 953.5 million; the development was driven by negative organic growth of 8.7%. The pandemic temporarily depressed M&A activity, resulting in a contribution from acquisitions of 0.6%. Structural optimization initiatives included streamlining the store network: combining certain store locations to improve efficiency while protecting sales.

Sales by business – Hearing Instruments segment

in CHF m			2020/21		2019/20
	Sales	Share	Growth in local currencies	Sales	Share
Hearing Instruments business	1,463.9	61%	(4.7%)	1,613.0	60%
Audiological Care business	953.5	39%	(8.1%)	1,073.2	40%
Total Hearing Instruments segment	**2,417.3**	**100%**	**(6.1%)**	**2,686.2**	**100%**

Reported EBITA for the Hearing Instruments segment amounted to CHF 580.6 million, up 5.4% in local currencies. The structural optimization initiatives announced in July 2020 progressed according to plan. Restructuring costs related to these initiatives amounted to CHF 36.5 million (2019/20: CHF 18.6 million). Excluding these restructuring costs, the adjusted EBITA increased by 8.3% in local currencies to CHF 617.1 million, corresponding to an EBITA margin of 25.5% (2019/20: 23.1%). The strong year-on-year margin improvement was largely driven by sustainable cost savings from the Group's structural optimization and continuous improvement initiatives. It also benefited from lower marketing costs and travel expenses, and government support during the pandemic.

Cochlear Implants segment – Improvement towards fiscal year-end supported by product launch

The Cochlear Implants business achieved sales of CHF 184.5 million versus CHF 230.7 million in the prior year. This corresponds to a decrease of 15.9% in local currencies and 20.0% in Swiss francs. Sales development was significantly restricted by the necessity for hospitals in many countries to concentrate on dealing with the pandemic and therefore to reduce the number of elective surgeries. There was also a residual impact from our voluntary field corrective action taken in February 2020. The launch of two new sound processors – Naída™ CI Marvel for adults and Sky CI™ Marvel for children – markedly increased sales momentum towards the end of the financial year, attracting interest from both new and existing customers.

Sales by product groups – Cochlear Implants segment

in CHF m			2020/21		2019/20
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	129.3	70%	(17.1%)	163.9	71%
Upgrades and accessories	55.2	30%	(12.8%)	66.8	29%
Total Cochlear Implants segment	**184.5**	**100%**	**(15.9%)**	**230.7**	**100%**

The reported EBITA of CHF 82.4 million includes one-time income of CHF 124.4 million from the award in a patent infringement lawsuit; it also reflects a CHF 25.3 million impairment of capitalized development costs relating to a review of the product development roadmap in the frame of broader improvement efforts, along with restructuring costs of CHF 2.3 million. Excluding these items, the segment posted an adjusted EBITA loss of CHF 14.3 million versus a positive adjusted EBITA of CHF 1.6 million in the prior year. Decisive steps were taken to adapt costs to the lower sales volume and to implement structural improvements.

Strong cash flow

Cash flow from operating activities was CHF 764.4 million, compared to CHF 843.3 million in the prior year. The reduction was largely driven by increased working capital of CHF 185.7 million which more than offset the higher reported profits. The increase stems from higher accounts receivables (as prior year sales in March were depressed due to the pandemic), as well as by increased safety stock levels in inventories.

Net investments in tangible and intangible assets decreased to CHF 86.8 million (2019/20: 127.7 million), mainly due to lower capital expenditure to ensure ample liquidity during the pandemic. Operating free cash flow reached CHF 602.4 million (2019/20: CHF 638.5 million). Cash conversion (Operating Free Cash Flow/adjusted EBITA) remained strong at 100%. Cash consideration for acquisitions net of disposals amounted to CHF 30.5 million, down from CHF 74.8 million in the prior year, as M&A activity was temporarily depressed due to the pandemic. In summary, this resulted in a free cash flow of CHF 571.9 million, largely unchanged from the previous year.

In the first half of 2020/21 Sonova strengthened its financial position by issuing bonds and a US private placement totaling CHF 1 billion and by distributing a stock dividend instead of a cash dividend (2019/20: dividend payments CHF 186.5 million). This resulted in a cash inflow from financing activities of CHF 676.1 million. This compares to a cash outflow of CHF 550.4 million in the prior year. The outflow reflected net share repurchases of CHF 470.1 million, mainly related to the share buyback program, suspended in February 2020.

Robust balance sheet – Higher return on capital

Reported net working capital was CHF 29.6 million, compared to a negative CHF 18.9 million at the end of the prior year. Accounts receivables increased by CHF 56.7 million; the prior year's figure had been depressed as a result of the pandemic related sales decline in March. Inventories rose by CHF 36.9 million. This reflects a targeted stock increase to mitigate supply chain risks during the pandemic, related particularly to shipments out of Asia. Capital employed was CHF 2,855.7 million, a slight increase from CHF 2,692.5 million in the prior year, driven by the higher working capital.

The Group's equity position amounted to CHF 2,772.5 million, up from CHF 2,029.4 million in the previous year. The result was an equity ratio of 46.8%. The net debt position stood at CHF 83.3 million, compared to CHF 663.0 million at the end of the prior year, reflecting the suspension of the share buyback program and the provision of a stock dividend instead of a cash dividend. The return on capital employed (ROCE) improved significantly to 22.3% from 18.2% in the prior year.

Outlook

The attractive fundamentals of the hearing care market remain intact despite the pandemic. There is pent-up demand to be satisfied and new demand emerging. Sonova is confident that the strong recovery will persist, and that consumers will continue to demand even better hearing performance and technological innovation, delivered through an ever wider spectrum of channels. As a global market leader, the Group is in a strong position and we expect to participate fully in a resurgent market. Building on a strong momentum and benefiting from continued growth investments, Sonova expects consolidated sales to increase by 24–28% at constant exchange rates, while further expanding profitability.

Reconciliation of non-GAAP financial measures

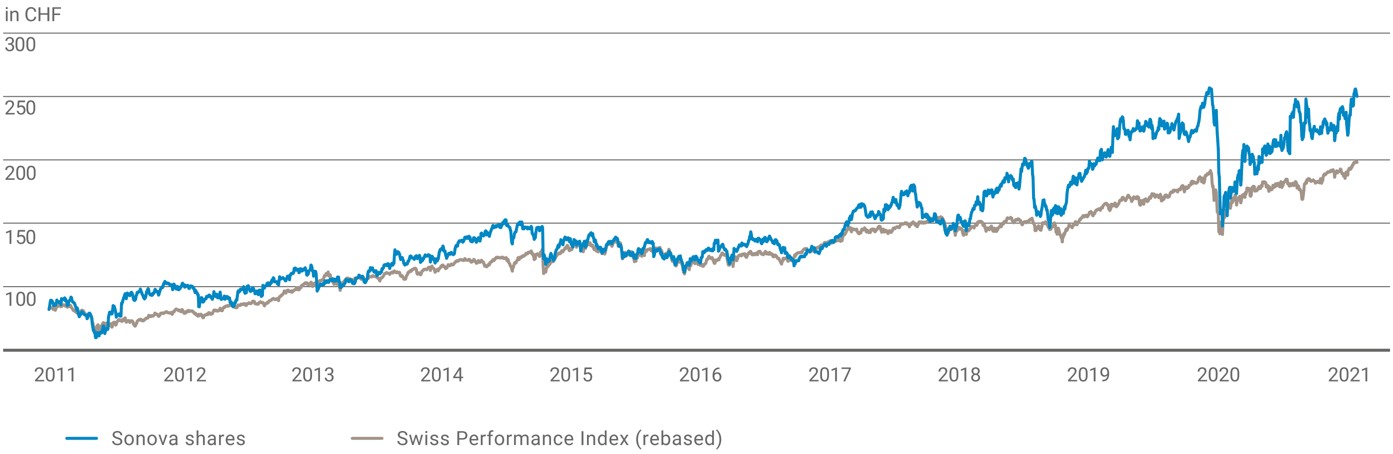
April 1 to March 31, CHF million 2020/21	Income statement as reported	Acquis. related amortization	Income statement EBITA separation	Restructuring costs	Swiss tax reform	Patent infringement lawsuit income	Impairment of capitalized development cost	Income statement adjusted
Sales	**2,601.9**		**2,601.9**					**2,601.9**
Cost of sales	(728.3)		(728.3)	6.6				(721.7)
Gross profit	**1,873.5**		**1,873.5**	**6.6**				**1,880.2**
Research and development	(204.8)	0.9	(203.9)	0.7			25.3	(177.9)
Sales and marketing	(924.1)	42.9	(881.2)	22.6				(858.6)
General and administration	(250.9)		(250.9)	8.9				(242.0)
Other income/(expenses), net	125.8		125.8			(124.4)		1.4
Operating profit before acquisition-related amortization (EBITA) [1]			**663.3**	**38.8**		**(124.4)**	**25.3**	**603.0**
Acquisition-related amortization		(43.8)	(43.8)	0.0				(43.7)
Operating profit (EBIT) [2]	**619.5**		**619.5**	**38.9**		**(124.4)**	**25.3**	**559.3**
Basic earnings per share (CHF)	**9.23**		**9.23**	**0.50**	**(0.45)**	**(1.98)**	**0.40**	**7.71**

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

April 1 to March 31, CHF million 2019/20	Income statement as reported	Acquis. related amortization	Income statement EBITA separation	Restructuring costs	Swiss tax reform	Voluntary field corrective action		Income statement adjusted
Sales	**2,916.9**		**2,916.9**			**11.1**		**2,928.0**
Cost of sales	(833.3)		(833.3)	1.5		10.8		(821.1)
Gross profit	**2,083.6**		**2,083.6**	**1.5**		**21.8**		**2,106.9**
Research and development	(167.0)	0.9	(166.1)	0.9		2.0		(163.2)
Sales and marketing	(1,074.3)	43.5	(1,030.8)	6.9				(1,023.8)
General and administration	(309.0)		(309.0)	9.4		0.4		(299.3)
Other income/(expenses), net	(23.4)		(23.4)			23.6		0.1
Operating profit before acquisition-related amortization (EBITA) [1]			**554.3**	**18.6**		**47.8**		**620.8**
Acquisition-related amortization		(44.4)	(44.4)					(44.4)
Operating profit (EBIT) [2]	**510.0**		**510.0**	**18.6**		**47.8**		**576.4**
Basic earnings per share (CHF)	**7.61**		**7.61**	**0.22**	**(1.01)**	**0.57**		**7.39**

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

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



Share price performance history[1)]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	205.9%	103.9%	65.0%	27.1%	43.6%
Swiss Performance Index (SPI) [2)]	142.0%	68.5%	37.5%	24.7%	23.8%
Sonova shares relative to the SPI	63.9%	35.4%	27.4%	2.4%	19.8%

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2020/21 financial year.

2) The Swiss Performance Index (SPI) is considered Switzerland's overall stock market index. It comprises practically all of the SIX Swiss Exchange-traded equity securities of companies that are domiciled in Switzerland or the Principality of Liechtenstein.

5 year key figures

April 1 to March 31, in CHF million unless otherwise specified	2020/21	2019/20	2018/19	2017/18	2016/17
Sales	**2,601.9**	**2,916.9**	**2,763.2**	**2,645.9**	**2,395.7**
change compared to previous year (%)	(10.8)	5.6	4.4	10.4	15.6
Gross profit	**1,873.5**	**2,083.6**	**1,966.2**	**1,868.2**	**1,651.8**
in % of sales	72.0	71.4	71.2	70.6	68.9
Gross profit (adjusted) [1]	**1,880.2**	**2,106.9**	**1,975.1**	**1,868.2**	**1,651.8**
in % of sales (adjusted)	72.3	72.0	71.5	70.6	68.9
Research & development costs	**203.9**	**166.1**	**148.4**	**142.9**	**137.1**
in % of sales	7.8	5.7	5.4	5.4	5.7
Sales & marketing costs	**881.2**	**1,030.8**	**970.3**	**934.5**	**815.0**
in % of sales	33.9	35.3	35.1	35.3	34.0
Operating profit before acquisition-related amortization (EBITA)	**663.3**	**554.3**	**582.5**	**532.5**	**463.0**
in % of sales	25.5	19.0	21.1	20.1	19.3
Operating profit before acquisition-related amortization (EBITA) (adjusted) [1]	**603.0**	**620.8**	**594.0**	**551.6**	**481.4**
in % of sales (adjusted)	23.2	21.2	21.5	20.8	20.1
Operating profit (EBIT)	**619.5**	**510.0**	**536.2**	**483.0**	**423.7**
in % of sales	23.8	17.5	19.4	18.3	17.7
Income after taxes	**585.3**	**489.5**	**460.2**	**407.4**	**356.2**
in % of sales	22.5	16.8	16.7	15.4	14.9
Income after taxes (adjusted) [1]	**489.6**	**475.5**	**468.5**	**422.7**	**371.5**
in % of sales (adjusted)	18.8	16.2	17.0	16.0	15.5
Basic earnings per share	**9.23**	**7.61**	**6.98**	**6.13**	**5.35**
Basic earnings per share (CHF) (adjusted) [1]	**7.71**	**7.39**	**7.11**	**6.36**	**5.58**
Dividend/distribution per share (CHF)	**3.20** [2]	**Stock Div.**	**2.90**	**2.60**	**2.30**
Net cash/(debt) [3]	**(83.3)**	**(663.0)**	**(253.9)**	**(228.0)**	**(404.6)**
Net working capital [4]	29.6	(18.9)	163.0	190.5	169.7
Capital expenditure (tangible and intangible assets) [5]	89.3	128.8	117.9	96.3	97.1
Capital employed [6]	2,855.7	2,692.5	2,630.0	2,702.9	2,535.9
Total assets	5,925.6	4,486.5	4,292.5	4,302.0	3,935.7
Equity	2,772.5	2,029.4	2,376.1	2,474.9	2,131.3
Equity financing ratio (%) [7]	46.8	45.2	55.4	57.5	54.2
Free cash flow [8]	571.9	563.7	346.9	360.0	(232.6)
Operating free cash flow [9]	**602.4**	**638.5**	**411.8**	**419.2**	**424.8**
Return on capital employed (%) [10]	**22.3**	**18.2**	**20.6**	**18.4**	**20.4**
Number of employees (end of period)	**14,508**	**15,184**	**14,740**	**14,242**	**14,089**

1) Non-GAAP financial measure adjusted for nonrecurring items; for details see the table "Reconciliation of non-GAAP financial measures" in the financial review or refer to the respective annual report.
2) Proposal to the Annual General Shareholders' Meeting of June 15, 2021.
3) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – current lease liabilities – non-current financial liabilities – non-current lease liabilities.
4) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.
5) Excluding goodwill and intangibles relating to acquisitions.
6) Equity – net cash/(debt).
7) Equity in % of total assets.
8) Cash flow from operating activities + cash flow from investing activities + payments for lease liabilities.
9) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested – cash consideration for associates.
10) EBIT in % of capital employed (average).

Consolidated financial statements

Consolidated income statement

April 1 to March 31, in CHF million	Notes	2020/21	2019/20
Sales	2.2,2.3	**2,601.9**	**2,916.9**
Cost of sales		(728.3)	(833.3)
Gross profit		**1,873.5**	**2,083.6**
Research and development [1]		(204.8)	(167.0)
Sales and marketing [1]		(924.1)	(1,074.3)
General and administration		(250.9)	(309.0)
Other income	2.4	135.6	0.8
Other expenses	2.4	(9.8)	(24.1)
Operating profit (EBIT) [2]		**619.5**	**510.0**
Financial income	4.2	5.0	2.9
Financial expenses	4.2	(26.0)	(12.9)
Share of profit/(loss) in associates/joint ventures, net	6.2	1.9	2.4
Income before taxes		**600.4**	**502.4**
Income taxes	5.1	(15.2)	(12.9)
Income after taxes		**585.3**	**489.5**
Attributable to:			
Equity holders of the parent		581.0	483.2
Non-controlling interests		4.3	6.3
Basic earnings per share (CHF)	2.5	9.23	7.61
Diluted earnings per share (CHF)	2.5	9.19	7.57

1) Includes acquisition-related amortization of CHF 0.9 million (previous year: CHF 0.9 million) in “Research and development” and CHF 42.9 million (previous year: CHF 43.5 million) in “Sales and marketing”. EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) amounts to CHF 663.3 million (previous year: CHF 554.3 million). Refer to Note 2.1

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

Consolidated statement of comprehensive income

April 1 to March 31, in CHF million	Notes	2020/21	2019/20
Income after taxes		**585.3**	**489.5**
Other comprehensive income			
Actuarial gain/(loss) from defined benefit plans, net	7.3	55.7	(45.1)
Tax effect on actuarial result from defined benefit plans, net		(6.6)	4.9
Fair value adjustment of financial liabilities at fair value through other comprehensive income (FVOCI)			4.8
Total items not to be reclassified to income statement in subsequent periods		**49.1**	**(35.3)**
Currency translation differences		90.4	(145.4)
Tax effect on currency translation items		(0.2)	3.7
Total items to be reclassified to income statement in subsequent periods		**90.2**	**(141.7)**
Other comprehensive income, net of tax		**139.3**	**(177.0)**
Total comprehensive income		**724.6**	**312.5**
Attributable to:			
Equity holders of the parent		718.3	308.0
Non-controlling interests		6.3	4.5

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

Consolidated balance sheet

Assets CHF million	Notes	31.3.2021	31.3.2020
Cash and cash equivalents	4.1	1,772.2	450.2
Other current financial assets	4.4	6.8	7.7
Trade receivables	3.1	438.8	382.1
Current income tax receivables		4.7	13.6
Inventories	3.2	302.3	265.4
Other current operating assets	3.6	96.6	101.9
Total current assets		**2,621.4**	**1,221.1**
Property, plant and equipment	3.3	335.3	332.8
Right-of-use assets	3.4	261.6	260.6
Intangible assets	3.5	2,421.8	2,420.2
Investments in associates/joint ventures	6.2	19.7	17.4
Other non-current financial assets	4.4	38.9	30.0
Other non-current operating assets	3.6	6.2	6.4
Deferred tax assets	5.1	220.7	198.0
Total non-current assets		**3,304.2**	**3,265.4**
Total assets		**5,925.6**	**4,486.5**

Liabilities and equity CHF million	Notes	31.3.2021	31.3.2020
Current financial liabilities	4.5	375.7	254.9
Current lease liabilities	3.4	58.9	61.2
Trade payables		103.2	104.3
Current income tax liabilities		128.1	154.8
Short-term contract liabilities	2.3	101.5	105.6
Other short-term operating liabilities	3.8	338.2	297.5
Short-term provisions	3.7	148.1	125.2
Total current liabilities		**1,253.8**	**1,103.4**
Non-current financial liabilities	4.5	1,208.9	591.8
Non-current lease liabilities	3.4	212.4	207.8
Long-term provisions	3.7	144.7	143.4
Long-term contract liabilities	2.3	200.5	212.8
Other long-term operating liabilities	3.8	21.3	73.5
Deferred tax liabilities	5.1	111.5	124.5
Total non-current liabilities		**1,899.4**	**1,353.7**
Total liabilities		**3,153.1**	**2,457.1**
Share capital	4.6	3.2	3.2
Treasury shares		(306.9)	(447.5)
Retained earnings and reserves		3,051.6	2,455.5
Equity attributable to equity holders of the parent		**2,748.0**	**2,011.2**
Non-controlling interests		24.5	18.2
Equity		**2,772.5**	**2,029.4**
Total liabilities and equity		**5,925.6**	**4,486.5**

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

Consolidated cash flow statement

April 1 to March 31, in CHF million	Notes		2020/21		2019/20
Income before taxes			**600.4**		**502.4**
Depreciation, amortization and impairment of tangible and intangible assets and right-of-use assets	3.3,3.4,3.5	222.7		200.1	
Loss on sale of tangible and intangible assets, net		3.2		1.3	
Share of (profit)/loss in associates/joint ventures, net	6.2	(1.9)		(2.4)	
(Decrease)/increase in long-term provisions and long-term contract liabilities		(9.2)		22.2	
Financial (income)/expense, net	4.2	21.0		10.0	
Share based payments	7.4	31.3		19.9	
Other non-cash items		14.5		5.4	
Income taxes paid		(76.3)	205.3	(60.1)	196.5
Cash flow before changes in net working capital			**805.7**		**698.9**
(Increase)/decrease in trade receivables		(45.7)		112.4	
Decrease in other receivables and prepaid expenses		8.1		2.9	
(Increase)/decrease in inventories		(36.3)		9.2	
(Decrease)/increase in trade payables		(3.2)		4.8	
Increase in other payables, accruals, short-term provisions and short-term contract liabilities		35.8	(41.3)	15.2	144.4
Cash flow from operating activities			**764.4**		**843.3**
Purchase of tangible and intangible assets	3.3,3.5	(89.2)		(128.8)	
Proceeds from sale of tangible and intangible assets		2.4		1.1	
Cash consideration for acquisitions, net of cash acquired	6.1	(29.3)		(68.6)	
Cash consideration for associates	6.2	(1.2)		(6.2)	
Changes in other financial assets		(6.2)		(10.9)	
Interest received		1.8		2.1	
Cash flow from investing activities			**(121.8)**		**(211.3)**
Proceeds from borrowings	4.5	1,002.5		433.8	
Repayment of borrowings	4.5	(230.0)		(249.8)	
Repayment of lease liabilities	3.4	(66.7)		(64.3)	
Share buyback program	4.6	(25.1)		(402.7)	
Sale of treasury shares	4.6	16.8		31.4	
Purchase of treasury shares	4.6	(9.7)		(98.8)	
Dividends paid by Sonova Holding AG		(0.2)		(186.5)	
Dividends to non-controlling interests				(8.6)	
Interest paid		(11.5)		(5.0)	
Cash flow from financing activities			**676.1**		**(550.4)**
Exchange gains/(losses) on cash and cash equivalents			3.3		(6.1)
Increase in cash and cash equivalents			**1,322.0**		**75.5**
Cash and cash equivalents at the beginning of the financial year			450.2		374.8
Cash and cash equivalents at the end of the financial year			**1,772.2**		**450.2**

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

Consolidated statement of changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**
Income for the period		483.2			6.3	489.5
Actuarial loss from defined benefit plans, net		(45.1)				(45.1)
Tax effect on actuarial result		4.9				4.9
Fair value adjustment of financial liabilities at FVOCI		4.8				4.8
Currency translation differences			(143.7)		(1.8)	(145.4)
Tax effect on currency translation			3.7			3.7
Total comprehensive income		**447.9**	**(139.9)**		**4.5**	**312.5**
Capital decrease – share buyback program	(0.0)	(157.8)		157.9		
Share-based payments		6.4		13.0		19.4
Sale of treasury shares [1]		(32.0)		63.4		31.4
Purchase of treasury shares [2]				(514.9)		(514.9)
Dividend paid		(186.5)			(8.6)	(195.1)
Balance March 31, 2020	**3.2**	**2,862.3**	**(406.8)**	**(447.5)**	**18.2**	**2,029.4**
Balance April 1, 2020	**3.2**	**2,862.3**	**(406.8)**	**(447.5)**	**18.2**	**2,029.4**
Opening adjustment [3]		(13.3)				(13.3)
Balance April 1, 2020 – adjusted	**3.2**	**2,849.0**	**(406.8)**	**(447.5)**	**18.2**	**2,016.2**
Income for the period		581.0			4.3	585.3
Actuarial loss from defined benefit plans, net		55.7				55.7
Tax effect on actuarial result		(6.6)				(6.6)
Currency translation differences			88.4		2.0	90.4
Tax effect on currency translation			(0.2)			(0.2)
Total comprehensive income		**630.1**	**88.2**		**6.3**	**724.6**
Share-based payments		6.1		18.8		24.9
Sale of treasury shares [1]		(14.6)		31.4		16.8
Purchase of treasury shares				(9.7)		(9.7)
Dividend paid		(100.4)		100.2		(0.2)
Balance March 31, 2021	**3.2**	**3,370.2**	**(318.6)**	**(306.9)**	**24.5**	**2,772.5**

1) In relation to long-term equity incentive plans.
2) Further information on the share buyback program are disclosed in Note 4.6.
3) The balance April 1, 2020 for retained earnings was adjusted as disclosed in Note 6.1.
The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2021

1. Basis for preparation

1.1 Corporate information

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

1.2 Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31, which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 12, 2021, and are subject to approval by the Annual General Shareholders' Meeting on June 15, 2021.

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

The consolidated financial statements include Sonova Holding AG as well as the domestic and foreign subsidiaries over which Sonova Holding AG exercises control. A list of the significant consolidated companies is given in Note 7.7.

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

1.3 Significant accounting judgments and estimates

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

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

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

Impact of the Covid-19 pandemic

The global health and economic crisis resulting from the COVID-19 pandemic is affecting the hearing care market and with it the Group's business activities. Audiology stores, the primary consumer channel for hearing care products and services, were partially closed or operating with reduced hours during most of the financial year 2020/21. The Cochlear Implants business was also significantly affected, as healthcare providers have in part deferred non-essential surgeries. In this context, Sonova had implemented strict cost-saving programs, and temporary government-subsidized work time reductions in a number of countries. Refer to Note 7.5 for government support received worldwide in financial year 2020/21.

The uncertainties resulting from the COVID-19 pandemic required management to make estimates and assumptions that significantly affected the financial statements for the financial year 2020/21 and 2019/20. In particular, it affected cash flow projections in the goodwill impairment testing (described in Note 3.5) and allowances on receivables (described in Note 3.1 and Note 4.7). Furthermore, it also led to a suspension of the Group's share buyback program (described in Note 4.6) and additional financing requirements (described in Note 4.5).

1.4 Changes in accounting policies

In 2020/21 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group's result and financial position:

- Amendments to IFRS 3 *Definition of a Business*
- Amendments to IFRS 7, IFRS 9, IAS 39 *Interest Rate Benchmark Reform (Phase 1)*
- Amendments to IAS 1 and IAS 8 *Definition of Material*
- Conceptual Framework for Financial Reporting

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2021 and beyond. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2. Operating result

2.1 Income statement reconciliation

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

April 1 to March 31, CHF million			2020/21
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,601.9**		**2,601.9**
Cost of sales	(728.3)		(728.3)
Gross profit	**1,873.5**		**1,873.5**
Research and development	(204.8)	0.9	(203.9)
Sales and marketing	(924.1)	42.9	(881.2)
General and administration	(250.9)		(250.9)
Other income/(expenses), net	125.8		125.8
Operating profit before acquisition-related amortization (EBITA) [1)]			**663.3**
Acquisition-related amortization		(43.8)	(43.8)
Operating profit (EBIT) [2)]	**619.5**		**619.5**

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

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

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

2.2 Segment information

Information by business segments

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

Hearing instruments:

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

Cochlear implants:

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

CHF million	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
	Hearing Instruments		Cochlear Implants		Corporate/ Eliminations		Total	
Segment sales	2,425.8	2,700.7	186.2	233.5			2,612.0	2,934.1
Intersegment sales	(8.4)	(14.5)	(1.7)	(2.7)			(10.2)	(17.2)
Sales	**2,417.3**	**2,686.2**	**184.5**	**230.7**			**2,601.9**	**2,916.9**
Timing of revenue recognition								
At point in time	2,273.1	2,530.0	179.5	222.3			2,452.6	2,752.4
Over time	144.2	156.2	5.0	8.4			149.2	164.5
Total sales	**2,417.3**	**2,686.2**	**184.5**	**230.7**			**2,601.9**	**2,916.9**
Operating profit before acquisition-related amortization (EBITA)	**580.6**	**601.6**	**82.4**	**(46.2)**	**0.3**	**(1.1)**	**663.3**	**554.3**
Depreciation, amortization and impairment	(173.3)	(171.5)	(49.4)	(28.6)			(222.7)	(200.1)
Segment assets	**4,035.7**	**4,018.3**	**593.3**	**613.0**	**(716.0)**	**(810.5)**	**3,913.0**	**3,820.9**
Unallocated assets [1]							2,012.6	665.6
Total assets							**5,925.6**	**4,486.5**

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

Reconciliation of reportable segment profit CHF million	2020/21	2019/20
EBITA	663.3	554.3
Acquisition-related amortization	(43.8)	(44.4)
Financial costs, net	(21.0)	(10.0)
Share of profit/(loss) in associates/joint ventures, net	1.9	2.4
Income before taxes	**600.4**	**502.4**

Entity-wide disclosures

Sales by business CHF million	2020/21	2019/20
Hearing Instruments business	1,463.9	1,613.0
Audiological Care business	953.5	1,073.2
Total Hearing Instruments segment	**2,417.3**	**2,686.2**
Cochlear Implant systems	129.3	163.9
Upgrades and accessories	55.2	66.8
Total Cochlear Implants segment	**184.5**	**230.7**
Total sales	**2,601.9**	**2,916.9**

Sales and selected non-current assets by regions CHF million	**2020/21**	**2019/20**	**2020/21**	**2019/20**
Country/region	Sales [1]		Selected non-current assets [2]	
Switzerland	30.9	29.5	259.0	283.8
EMEA (excl. Switzerland)	1,385.7	1,514.9	1,759.8	1,755.1
USA	732.2	877.6	696.6	706.7
Americas (excl. USA)	178.2	220.9	193.7	167.0
Asia/Pacific	275.0	274.0	129.2	118.4
Total Group	**2,601.9**	**2,916.9**	**3,038.4**	**3,031.1**

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

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

2.3 Revenue

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

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

Contract balances CHF million	**31.3.2021**	**31.3.2020**
Contract assets	9.3	9.3
Contract liabilities	302.0	318.4

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

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

Movement in contract liabilities CHF million	**2020/21**	**2019/20**
Balance April 1	318.4	332.7
Changes through business combinations	0.4	0.8
Increase due to advance consideration received in the period	132.4	169.5
Decrease due to revenue recognized in the period that,		
– was included in the contract liabilities at the beginning of the period	(137.1)	(132.8)
– relates to consideration received in the period	(21.0)	(33.2)
Exchange differences	8.9	(18.4)
Balance March 31	**302.0**	**318.4**
Expectation on timing of revenue recognition:		
Within 1 year	101.5	105.6
Within 2 years	104.2	95.7
Within 3 years	50.9	56.9
Within 4 years	16.4	26.5
More than 4 years	29.1	33.6

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

Accounting policies

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

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

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

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

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

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

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

2.4 Other income/expenses

In the 2020/21 financial year, the net result of other income and expense amounts to CHF 125.8 million (previous year: CHF –23.4 million). The income primarily relates to Advanced Bionics which was awarded damages in a patent infringement lawsuit of CHF 124.4 million (for further Information refer to Note 3.9 “Contingent assets and liabilities”). The remaining other income and expenses primarily relate to the regular and systematic assessment of the provision for product liabilities in the cochlear implants segment (reversal of CHF 10.8 million recorded in “Other income” and increase of CHF 9.8 million recorded in “Other expenses”). In prior year the net cost amounted to CHF 23.4 million (reversal of CHF 0.8 million recorded in “other income” and increase of CHF 24.1 million related to potential product liability claims towards Advanced Bionics LLC (AB) in connection with a voluntary field corrective action recorded in “Other expenses”). For further information refer to Note 3.7 “Provisions”.

2.5 Earnings per share

Basic earnings per share	**2020/21**	**2019/20**
Income after taxes (CHF million)	581.0	483.2
Weighted average number of outstanding shares	62,967,588	63,511,720
Basic earnings per share (CHF)	**9.23**	**7.61**

Diluted earnings per share	**2020/21**	**2019/20**
Income after taxes (CHF million)	581.0	483.2
Weighted average number of outstanding shares	62,967,588	63,511,720
Adjustment for dilutive share options	255,916	356,738
Adjusted weighted average number of outstanding shares	63,223,504	63,868,458
Diluted earnings per share (CHF)	**9.19**	**7.57**

Accounting policies

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

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2014 through to 2021 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

3. Operating assets and liabilities

3.1 Trade receivables

CHF million	31.3.2021	31.3.2020
Trade receivables	473.3	434.0
Loss allowance for doubtful receivables	(34.5)	(51.9)
Total	**438.8**	**382.1**

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk.

Following the heavy impacts from the COVID-19 pandemic at the end of the last financial year 2019/20, business recovered well over the course of the current financial year 2020/21, which improved the situation on the recoverability of the trade receivables. As a result, the allowance for doubtful receivables was significantly decreased. For further information on the process of the re-assessment of the allowance and for information about the aging of the trade receivables and related allowances, please refer to Note 4.7.

During 2020/21, the Group utilized CHF 7.8 million (previous year CHF 6.4 million) of the loss allowance for doubtful receivables to write-off receivables.

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

CHF million	31.3.2021	31.3.2020
BRL	11.1	10.9
CAD	19.4	15.8
CHF	11.2	12.5
EUR	166.3	155.5
GBP	11.2	11.1
USD	147.9	122.4
Other	71.7	53.9
Total trade receivables, net	**438.8**	**382.1**

Accounting policies

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

3.2 Inventories

CHF million	31.3.2021	31.3.2020
Raw materials and components	36.2	34.6
Work-in-process	134.8	110.9
Finished products	185.1	167.1
Allowances	(53.8)	(47.1)
Total	**302.3**	**265.4**

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2020/21 to CHF 582.8 million (previous year CHF 700.0 million). The Group recognized write-downs of CHF 28.3 million (previous year CHF 45.7 million) on inventories in cost of sales.

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

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

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

3.3 Property, plant and equipment

CHF million					2020/21
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	205.7	300.4	383.2	15.9	905.3
Changes through business combinations		0.1	0.6		0.7
Additions	7.6	15.5	27.0	13.6	63.8
Disposals	(0.7)	(35.2)	(73.7)	(1.0)	(110.6)
Transfers	3.9	5.7	4.9	(14.5)	
Exchange differences	2.4	4.4	13.2	0.3	20.2
Balance March 31	**218.9**	**290.9**	**355.1**	**14.4**	**879.4**
Accumulated depreciation					
Balance April 1	(83.3)	(225.4)	(263.7)		(572.4)
Additions	(6.3)	(25.2)	(32.8)		(64.3)
Disposals	0.4	34.9	70.1		105.3
Exchange differences	(1.1)	(3.1)	(8.4)		(12.6)
Balance March 31	**(90.4)**	**(218.9)**	**(234.8)**		**(544.1)**
Net book value					
Balance April 1	122.4	75.0	119.6	15.9	332.8
Balance March 31	**128.5**	**72.0**	**120.3**	**14.4**	**335.3**

CHF million					2019/20
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	199.0	306.0	357.2	9.8	872.1
Changes through business combinations	0.0	0.6	0.6		1.2
Additions	8.6	27.0	36.9	16.3	88.7
Disposals	(0.1)	(14.2)	(9.7)		(24.0)
Transfers	1.7	(8.5)	16.3	(9.6)	
Exchange differences	(3.5)	(10.5)	(18.2)	(0.6)	(32.7)
Balance March 31	**205.7**	**300.4**	**383.2**	**15.9**	**905.3**
Accumulated depreciation					
Balance April 1	(79.2)	(226.1)	(242.0)		(547.2)
Additions	(5.8)	(26.3)	(34.1)		(66.2)
Disposals	0.1	13.5	8.5		22.1
Transfers	0.1	6.2	(6.3)		
Exchange differences	1.5	7.3	10.2		18.9
Balance March 31	**(83.3)**	**(225.4)**	**(263.7)**		**(572.4)**
Net book value					
Balance April 1	119.8	79.9	115.3	9.8	324.9
Balance March 31	**122.4**	**75.0**	**119.6**	**15.9**	**332.8**

Accounting policies

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

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

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

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

3.4 Leases

Right-of-use assets CHF million				**2020/21**
	Properties	Vehicles	Other assets	Total
Cost				
Balance April 1	313.1	8.7	1.5	323.3
Changes through business combinations	0.2			0.2
Additions	60.5	2.0	0.6	63.1
Disposals	(17.7)	(0.6)	(0.2)	(18.4)
Exchange differences	9.4	0.3	0.1	9.8
Balance March 31	**365.5**	**10.4**	**2.0**	**377.9**
Accumulated depreciation				
Balance April 1	(60.7)	(1.7)	(0.3)	(62.7)
Additions	(63.7)	(2.9)	(1.3)	(67.9)
Disposals	17.7	0.6	0.2	18.4
Exchange differences	(4.0)	(0.1)	(0.0)	(4.1)
Balance March 31	**(110.7)**	**(4.1)**	**(1.5)**	**(116.3)**
Net book value				
Balance April 1	252.4	7.0	1.2	260.6
Balance March 31	**254.8**	**6.3**	**0.5**	**261.6**

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

Lease liabilities CHF million	**2020/21**	**2019/20**
Balance April 1	269.0	285.0
Changes through business combinations	0.2	0.7
Additions	62.2	84.1
Interest expense	4.0	4.0
Payments	(70.6)	(68.3)
Exchange differences	6.5	(36.5)
Balance March 31	**271.3**	**269.0**
thereof short-term	58.9	61.2
thereof long-term	212.4	207.8

The maturity analysis of lease liabilities are disclosed in Note 4.7

Lease disclosures CHF million	**2020/21**	**2019/20**
Expenses relating to short-term leases	5.1	13.4
Expenses relating to leases of low-value assets (excluding short-term leases of low-value assets)	0.4	0.6
Expenses relating to variable lease payments	5.8	0.3

The total cash outflow for leases in the financial year 2020/21 amounted to CHF 81.9 million (prior year CHF 82.6 million).

The Group has various lease contracts that as of March 31, 2021, have not yet commenced. The future lease payments for these non-cancellable lease contracts amount to CHF 0.1 million (prior year CHF 17.2 million). The future lease payments relating to variable lease payments amount to CHF 5.8 million (prior year CHF 0.3 million).

Accounting policies

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

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

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

Accounting judgements and estimates

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

3.5 Intangible assets

CHF million	Goodwill	Intangibles relating to acquisitions [1]	Capitalized development costs	Software and other intangibles	Total 2020/21
Cost					
Balance April 1 [2]	2,064.5	615.5	223.9	100.5	3,004.3
Changes through business combinations	20.0	8.3		0.0	28.3
Additions			15.9	9.6	25.5
Disposals		(6.7)	(25.3)	(8.8)	(40.9)
Exchange differences	58.8	25.8	(0.3)	1.1	85.3
Balance March 31	**2,143.3**	**642.8**	**214.1**	**102.4**	**3,102.6**
Accumulated amortization and impairments					
Balance April 1	(148.8)	(322.7)	(75.3)	(73.0)	(619.8)
Additions		(42.5) [3]	(12.9)	(8.5)	(63.9)
Disposals		6.7	25.3	8.6	40.7
Impairment		(1.3)	(25.3)		(26.6)
Exchange differences	3.6	(13.4)		(1.3)	(11.1)
Balance March 31	**(145.2)**	**(373.2)**	**(88.3)**	**(74.1)**	**(680.8)**
Net book value					
Balance April 1 [2]	1,915.6	292.7	148.5	27.5	2,384.4
Balance March 31	**1,998.0**	**269.7**	**125.9**	**28.2**	**2,421.8**

1) Intangibles relating to acquisitions consists of customer relationships (CHF 153.6 million), trademarks (CHF 108.8 million) and R&D in process (CHF 7.3 million).
2) The balance April 1 for Goodwill was adjusted by CHF 35.8 million as disclosed in Note 6.1.
3) Relates to research and development (CHF 0.9 million) and sales and marketing (CHF 41.6 million).

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

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

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2020/21 and 2019/20 financial years.

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

Hearing instruments

As of March 31, 2021, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,694.1 million (prior year CHF 1,639.9 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.0% (prior year 2.1%) which represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.0% (prior year 8.3%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2021, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 303.9 million (prior year CHF 311.5 million).

Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.2% (prior year 2.3%) which represents the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 9.3% (prior year 9.0%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. Due to a revision of the Cochlear implants product roadmap in the 2020/21 financial year, Sonova has identified the need of valuation adjustments on certain R&D projects. As a result, an impairment of previously capitalized development costs was recorded, resulting in a write-off amounting to CHF 25.3 million. The amount is included in the income statement in the function "Research and development". The capitalized development costs are included in the reportable segment "cochlear implants" disclosed in Note 2.2.

Accounting policies

Goodwill

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

Intangibles, excluding goodwill

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

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

Accounting judgements and estimates

Goodwill

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

Capitalized development costs

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

3.6 Other operating assets

Other current operating assets CHF million	**31.3.2021**	**31.3.2020**
Other receivables	54.4	57.6
Prepaid expenses	28.5	31.5
Contract assets	3.1	2.9
Right to recover products	10.6	9.9
Total	**96.6**	**101.9**

Other non-current operating assets CHF million	**31.3.2021**	**31.3.2020**
Contract assets	6.2	6.4
Total	**6.2**	**6.4**

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

3.7 Provisions

CHF million					**2020/21**
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	111.6	5.0	120.4	31.5	268.6
Changes through business combinations				0.4	0.4
Amounts used	(72.8)	(4.1)	(4.8)	(19.3)	(101.0)
Reversals	(10.0)	(2.5)	(11.0)	(3.4)	(26.9)
Increases	94.4	4.4	9.8	42.1	150.6
Present value adjustments			0.5		0.5
Exchange differences	2.7		(3.0)	0.9	0.5
Balance March 31	**125.9**	**2.8**	**111.9**	**52.3**	**292.8**
thereof short-term	92.2	2.8	15.3	37.8	148.1
thereof long-term	33.7		96.6	14.5	144.7

CHF million					**2019/20**
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	111.3	7.7	100.9	25.3	245.2
Changes through business combinations		0.0		1.2	1.2
Amounts used	(71.6)	(5.3)	(1.2)	(10.8)	(89.0)
Reversals	(3.3)	(1.2)	(0.9)	(1.9)	(7.4)
Increases	82.4	4.2	24.6	19.2	130.5
Present value adjustments	0.0		0.6		0.6
Exchange differences	(7.2)	(0.3)	(3.5)	(1.5)	(12.5)
Balance March 31	**111.6**	**5.0**	**120.4**	**31.5**	**268.6**
thereof short-term	85.6	5.0	11.1	23.5	125.2
thereof long-term	26.0		109.3	8.0	143.4

Warranty and returns

The provision for warranty and returns considers any costs arising from the warranty given on products sold. In general, the Group grants a 12 to 24 months warranty period for hearing instruments and related products and up to 10 years on cochlear implants. The calculation is based on turnover, past experience and projected number and cost of warranty claims and returns.

Reimbursement to customers

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

Product liabilities

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

The provision is reassessed on a regular and systematic basis and follows for both cases a similar financial model which is applied consistently. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. While further improvements in the expected number of cost of current and future claims led to a reduction of CHF 10.8 million (previous year CHF 0.8 million) in regards to the assessment of potential claims for the voluntary recall of AB products in 2006, the reassessment of potential claims regarding the voluntary field corrective action in February 2020 led to an increase of CHF 9.8 million (prior year CHF 24.1 million). The impact of the reassessment of the legal provisions is considered in the income statement in the lines "Other income" or "Other expenses". As per March 31, 2021 the provision for product liabilities amounts to CHF 111.9 million. The timing of the cash outflows is uncertain since it will largely depend on the outcome of administrative and legal proceedings. In the case of the voluntary recall of AB products in 2006, considering periods of limitation, claims will have to be filed until 2026 in most jurisdictions. However, depending on the length of proceedings and negotiations, further years may pass until all claims are settled. We expect the main cash outflow relating to this provision to occur within the next 6 years. In the case of potential claims in regards to the voluntary field corrective action in 2020, we expect the main cash outflow relating to this provision to occur within the next 10–15 years.

Other provisions

Other provisions include provisions for specific business risks such as litigation (CHF 21.6 million) and restructuring costs (CHF 15.3 million) which arise during the normal course of business, respectively relate to intensified restructuring activity in financial year 2020/21. While the timing of the cash outflow from the restructuring provisions is expected to take place within the next 12 months, the cash outflows for the remainder of the other provisions is expected to take place within the next two years.

Accounting policies

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

Accounting judgements and estimates

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

3.8 Other operating liabilities

Other short-term operating liabilities CHF million	**31.3.2021**	**31.3.2020**
Other payables	54.8	72.9
Accrued expenses	282.4	224.2
Deferred income	1.0	0.4
Total	**338.2**	**297.5**

Other long-term operating liabilities CHF million	**31.3.2021**	**31.3.2020**
Retirement benefit obligations	21.3	73.5
Total	**21.3**	**73.5**

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

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

3.9 Contingent assets and liabilities

Guarantees

At March 31, 2021 and 2020, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 1.7 million (previous year CHF 1.8 million) have been pledged in relation to bank guarantees. Open purchase orders as of March 31, 2021 and 2020, were related to recurring business activities.

Lawsuits and disputes

The patent infringement lawsuit by the Alfred E. Mann Foundation for Scientific Research (AMF) and Advanced Bionics LLC (AB) v. Cochlear was concluded in 2020. As a co-plaintiff, AB was ultimately entitled to a share of the damages awarded, after deduction of certain costs for the proceedings. The verdict resulted in a total amount of CHF 124.4 million in cash for damages, pre-trial interest and attorney fees. This one-time income is reported in “other income” in the financial year 2020/21.

On October 4, 2018 MED-EL Elektronische Geräte GmbH and MED-EL Corporation, US, filed a complaint against Advanced Bionics LLC in the US federal court for the district of Delaware for alleged patent infringement of two MED-EL patents related to products launched in 2018. While the ultimate outcome of the dispute remains open, Advanced Bionics continues to believe the complaint has no merit and is vigorously defending its position and intellectual property.

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

4. Capital structure and financial management

4.1 Cash and cash equivalents

CHF million	31.3.2021	31.3.2020
Cash on hand	1.3	0.9
Current bank accounts	419.8	448.5
Term deposits	1,351.1	0.8
Total	**1,772.2**	**450.2**

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

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

4.2 Financial income/expenses, net

CHF million	2020/21	2019/20
Interest income	1.8	2.5
Other financial income	3.2	0.4
Total financial income	**5.0**	**2.9**
Interest expenses	(13.1)	(2.1)
Interest expenses on lease liabilities	(4.0)	(4.0)
Unwinding of the discount on provisions	(0.5)	(0.6)
Foreign exchange hedge costs	(1.5)	(3.4)
Other financial expenses	(6.9)	(2.7)
Total financial expenses	**(26.0)**	**(12.9)**
Total financial income/expenses, net	**(21.0)**	**(10.0)**

Other financial income and financial expenses in 2020/21 include, amongst other items, primarily the fair value adjustments of financial instruments.

4.3 Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 15, 2021, that a dividend of CHF 3.20 shall be distributed. In the financial year 2019/20 a stock dividend was distributed. Each shareholder was entitled to receive one Sonova share for 150 existing Sonova shares with fractions paid out in cash.

4.4 Other financial assets

Other current financial assets

CHF million			31.3.2021			31.3.2020
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Marketable securities		0.2	0.2		0.2	0.2
Positive replacement value of forward foreign exchange contracts		0.3	0.3		2.3	2.3
Loans to third parties	6.3		6.3	5.3		5.3
Total	**6.3**	**0.5**	**6.8**	**5.3**	**2.5**	**7.7**

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

Other non-current financial assets

CHF million			31.3.2021			31.3.2020
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total
Loans to associates	3.3		3.3	4.5		4.5
Loans to third parties	22.8		22.8	20.0		20.0
Rent deposits	3.6		3.6	3.8		3.8
Other non-current financial assets		9.2	9.2		1.7	1.7
Total	**29.7**	**9.2**	**38.9**	**28.3**	**1.7**	**30.0**

The loans are primarily denominated in CAD, CHF, EUR, GBP, JPY and USD. Loans to third parties consist mainly of loans to customers. As of March 31, 2021, the respective repayment periods vary between one and nine years and the interest rates vary generally between 1% and 5%.

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

Accounting policies

Financial assets are classified into the following categories:

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

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

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

Financial assets at amortized cost

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

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

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

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

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

4.5 Financial liabilities

As of March 31, 2021, the Group has the following bonds/US Private Placement outstanding:

Financial liabilities	Currency	Nominal value	Interest rate	Maturity
Fixed-rate bond	CHF	360	0.01%	October 11, 2021
Fixed-rate bond	CHF	330	0.55%	April 6, 2022
US Private Placement	USD	180	2.84%	July 14, 2025
Fixed-rate bond	CHF	200	0.50%	October 6, 2025
Fixed-rate bond	CHF	300	0.75%	October 6, 2028
Fixed-rate bond	CHF	100	0.00%	October 11, 2029
Fixed-rate bond	CHF	100	0.40%	October 11, 2034

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

On May 26, 2020, the Group issued a CHF 200 million fixed-rate bond with an interest rate of 0.50% and a maturity date of October 6, 2025 and a CHF 300 million fixed-rate bond with an interest rate of 0.75% and a maturity date of October 6, 2028. The bonds were issued at 100.402% and 100.084%, respectively. This bond issuance terminated/replaced the CHF 300 million revolving bridge facility (unused) with three of its relationship banks which the Group entered on May 15, 2021.

On July 14, 2020, the Group entered into a USD 180 million five year fixed-rate US Private Placement with an interest rate of 2.84% and a maturity on July 14, 2025.

The Group maintains further uncommitted credit facilities from various lenders. The credit facilities are denominated in CHF and can be cancelled at short notice. As of March 31, 2021 the Group did not make use of credit facilities. During the financial year 2020/21, the Group repaid credit facilities in the amount of CHF 230 million.

Current financial liabilities

CHF million			31.3.2021				31.3.2020
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total
Bank debt	0.1		0.1	230.2			230.2
Bond	364.6		364.6				
Deferred payments	7.0		7.0	8.0			8.0
Contingent considerations		2.9	2.9		4.1	10.0	14.1
Other current financial liabilities		1.1	1.1		2.6		2.6
Total	**371.7**	**4.0**	**375.7**	**238.2**	**6.7**	**10.0**	**254.9**
Unused borrowing facilities			366.2				111.0

Non-current financial liabilities

CHF million			31.3.2021				31.3.2020
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Financial liabilities at FVOCI	Total
Bonds/US Private Placement	1,197.8		1,197.8	559.1			559.1
Deferred payments	3.0		3.0	9.9			9.9
Contingent considerations		1.3	1.3		1.2	19.1	20.3
Other non-current financial liabilities	0.0	6.8	6.8	0.1	2.5		2.6
Total	**1,200.8**	**8.1**	**1,208.9**	**569.1**	**3.7**	**19.1**	**591.8**

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

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

Analysis of non-current financial liabilities by currency

Analysis by currency CHF million				31.3.2021				31.3.2020
	Bonds/US Private Placement	Deferred payments and contingent considerations	Other non-current financial liabilities	Total	Bonds	Deferred payments and contingent considerations	Other non-current financial liabilities	Total
CHF	1,028.7		6.3	1,035.0	559.1	11.8	2.1	573.0
USD	169.1		0.0	169.1		0.7	0.0	0.7
EUR		2.9		2.9		15.9		15.9
BRL		0.3		0.3		0.3		0.3
Other		1.1	0.5	1.6		1.5	0.4	1.9
Total	**1,197.8**	**4.3**	**6.8**	**1,208.9**	**559.1**	**30.2**	**2.6**	**591.8**

Reconciliation of liabilities arising from financing activities

Liabilities from financing activities CHF million						**2020/21**
	Bank debt	Bonds/US Private Placement	Deferred payments and contingent considerations	Lease liabilities	Other financial liabilities	Total
Balance April 1 [1]	**230.2**	**559.1**	**22.0**	**269.0**	**5.2**	**1,085.5**
Changes through business combinations			(3.7)	0.2		(3.5)
Additions to lease liabilities				62.2		62.2
Proceeds from borrowings		999.7			2.8	1,002.5
Repayment of borrowings	(230.0)					(230.0)
Repayment of lease liabilities – principal portion				(66.7)		(66.7)
Repayment of lease liabilities – interest portion				(4.0)		(4.0)
Exchange differences		(1.8)		6.5		4.7
Other	(0.1)	5.4	(4.1)	4.2	(0.1)	5.2
Balance March 31	**0.1**	**1,562.4**	**14.2**	**271.3**	**7.9**	**1,856.0**
thereof short-term	0.1	364.6	9.9	58.9	1.1	434.6
thereof long-term		1,197.8	4.3	212.4	6.8	1,421.3

[1] The balance April 1 for deferred payments and contingent considerations was adjusted by CHF 30.3 million as disclosed in Note 6.1.

Liabilities from financing activities CHF million						**2019/20**
	Bank debt	Bonds	Deferred payments and contingent considerations	Lease liabilities	Other financial liabilities	Total
Balance April 1	**0.3**	**609.5**	**14.8**	**285.0**	**4.3**	**913.9**
Changes through business combinations			40.6	0.7		41.3
Additions to lease liabilities				84.1		84.1
Proceeds from borrowings	230.0	198.1			5.7	433.8
Repayment of borrowings		(249.8)				(249.8)
Repayment of lease liabilities – principal portion				(64.3)		(64.3)
Repayment of lease liabilities – interest portion				(4.0)		(4.0)
Exchange differences			(0.9)	(36.5)		(37.4)
Other	(0.1)	1.3	(2.1)	4.0	(4.8)	(1.8)
Balance March 31	**230.2**	**559.1**	**52.3**	**269.0**	**5.2**	**1,115.8**
thereof short-term	230.2		22.1	61.2	2.6	316.1
thereof long-term		559.1	30.2	207.8	2.6	799.7

Accounting policies

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

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

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

Accounting policies for lease liabilities are included in Note 3.4.

4.6 Movement in share capital

Issued registered shares	Issued registered shares	Treasury shares [1]	Outstanding shares
Balance April 1, 2019	65,330,887	(966,324)	64,364,563
Purchase of treasury shares		(437,421)	(437,421)
Sale/transfer of treasury shares		343,537	343,537
Cancellation of treasury shares [2]	(932,750)	932,750	
Purchase of treasury shares from share buyback		(1,843,090)	(1,843,090)
Balance March 31, 2020	**64,398,137**	**(1,970,548)**	**62,427,589**
Purchase of treasury shares		(40,100)	(40,100)
Sale/transfer of treasury shares		238,074	238,074
Stock dividend [3]		417,110	417,110
Balance March 31, 2021	**64,398,137**	**(1,355,464)**	**63,042,673**

Nominal value of share capital CHF million	Share Capital	Treasury shares [1]	Outstanding share capital
Balance March 31, 2021	**3.2**	**(0.1)**	**3.2**

Each share has a nominal value of CHF 0.05.

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

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

3) The Annual General Shareholder's Meeting of June 11, 2020, approved the proposed distribution of a stock dividend, resulting in a reduction of retained earnings and other reserves of CHF 100.4 million and changes in treasury shares of CHF 100.2 million.

Share buyback program

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The program started in October 2018 for a period of up to 36 months. The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. Effective March 16, 2020, Sonova Holding AG suspended the Group's share buyback program. This precautionary measure reflected the uncertainties from the COVID-19 pandemic. On May 19, 2020, the Board of Directors decided to amend the purpose of the share buyback, allowing the re-use of these treasury shares. The stock dividend (417,110 shares) distributed in financial year 2020/21 was sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018 – 2021. A further 200,000 shares bought under the share buyback program were used for the transfer and sale of treasury shares in connection with the Executive Equity Award Plan (EEAP) programs. The remaining 1,225,980 treasury shares as of March 31, 2021, initially bought under the share buyback program, are intended to be cancelled (proposal to the Annual Shareholders' Meeting June 15, 2021).

In the financial year 2019/20, transaction costs related to the share buyback program in the amount of CHF 4.7 million were deducted from equity.

Authorized capital

The 2020 Annual General Shareholders' Meeting authorized the Board of Directors to increase the share capital at any time until June 11, 2022 by a maximum amount of CHF 321,990.65 by issuing a maximum of 6,439,813 registered shares that are to be fully paid up, each with a nominal value of CHF 0.05. Increases in partial amounts shall be permissible. The Board of Directors did not make use of this authorized capital in financial year 2020/21.

Conditional capital

At the Annual General Shareholders' Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2021. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

Accounting policies

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

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

4.7 Risk management

Group risk management

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

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

Financial risk management

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

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

Market risk

Exchange rate risk

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

To minimize foreign currency exchange risks, forward currency contracts are entered into. The Group hedges its net foreign currency exposure based on future expected cash in- and outflows. The hedges have a duration of between 1 and 6 months.

Positive replacement values from forward contract hedges are recorded as financial assets at fair value through profit or loss whereas negative replacement values are recorded as financial liabilities at fair value through profit or loss.

As of March 31, 2021, the Group engaged in forward currency contracts amounting to CHF 280.0 million (previous year CHF 337.3 million). The open contracts on March 31, 2021 as well as on March 31, 2020 were all due within one year.

Notional amount of forward contracts CHF million		**31.3.2021**		**31.3.2020**
	Total	Fair value	Total	Fair value
Positive replacement values	96.7	0.3	119.3	2.3
Negative replacement values	183.3	(0.6)	218.0	(2.3)
Total	**280.0**	**(0.3)**	**337.3**	**0.0**

Exchange rate risk CHF million	**2020/21**	**2019/20**	**2020/21**	**2019/20**
	Impact on income after taxes [1]		Impact on equity	
Change in USD/CHF +5%	2.7	2.8	9.6	13.2
Change in USD/CHF –5%	(2.7)	(2.8)	(9.6)	(13.2)
Change in EUR/CHF +5%	3.1	3.0	16.9	21.3
Change in EUR/CHF –5%	(3.1)	(3.0)	(16.9)	(21.3)

[1] Excluding the impact of forward currency contracts.

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2020/21 financial year of CHF 1,364.6 million (previous year CHF 574 million). If interest rates during the 2020/21 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 6.8 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 12.1 million. The Group's long-term financial liabilities are fixed rate instruments not subject to interest rate risk.

Other market risks

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

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

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

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

Credit risk

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

Core banking relations are maintained with at least “BBB+” rated (S & P) financial institutions. As of March 31, 2021, the largest balance with a single counterparty amounted to 29% (previous year 51%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity, there is no single credit limit for all customers, however, the Group assesses its customers based on their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related parties. As part of the normal process, management held the regular Expected Credit Loss (ECL) Committee meeting to review the expected credit loss rates on an annual basis in February 2021.

Impairment of financial assets

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

Accounting policies

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

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

CHF million				31.3.2021				31.3.2020
State customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Not overdue	0.3%	85.0	(0.3)	84.7	0.5%	63.2	(0.3)	62.9
Overdue 1–90 days	0.9%	14.4	(0.1)	14.3	1.2%	24.5	(0.3)	24.2
Overdue 91–180 days	3.7%	2.7	(0.1)	2.6	6.5%	3.1	(0.2)	2.9
Overdue 181–360 days	19.0%	2.9	(0.5)	2.3	23.3%	3.0	(0.7)	2.3
Overdue more than 360 days	98.5%	3.2	(3.2)	0.0	97.3%	3.7	(3.6)	0.1
Total	**3.9%**	**108.2**	**(4.2)**	**103.9**	**5.2%**	**97.5**	**(5.1)**	**92.4**

CHF million				31.3.2021				31.3.2020
Non-state customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
Not overdue	1.2%	279.9	(3.5)	276.5	6.1%	218.6	(13.4)	205.2
Overdue 1–90 days	4.7%	43.4	(2.0)	41.3	10.9%	72.6	(7.9)	64.7
Overdue 91–180 days	21.1%	11.2	(2.4)	8.8	33.6%	13.1	(4.4)	8.7
Overdue 181–360 days	53.1%	10.2	(5.4)	4.8	48.5%	13.0	(6.3)	6.7
Overdue more than 360 days	83.2%	20.4	(17.0)	3.4	76.7%	19.3	(14.8)	4.5
Total	**8.3%**	**365.1**	**(30.3)**	**334.9**	**13.9%**	**336.6**	**(46.8)**	**289.8**

The closing loss allowances for trade receivables as at March 31, 2020 reconcile to the closing loss allowance as at March 31, 2021 as follows:

CHF million	2020/21	2019/20
Loss allowance for doubtful receivables, April 1	**(51.9)**	**(39.0)**
Utilization	7.8	6.4
Reversal	16.5	2.6
Additions	(6.0)	(24.7)
Exchange differences	(1.0)	2.9
Loss allowance for doubtful receivables, March 31	**(34.5)**	**(51.9)**

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

The additions to the loss allowance in financial year 2019/20 related to an increase in the expected credit loss (ECL) rates due to the increased credit risk caused by COVID-19. During the financial year 2020/21 credit risk ratings significantly improved resulting in a reversal of loss allowances.

Liquidity risk

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

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

In the context of the COVID-19 impacts, the Group has obtained additional financing and new credit lines (refer to Note 4.5). The following table summarizes the Group's financial liabilities as of March 31, 2021 and 2020 based on contractual undiscounted payments. Bonds include the notional amount as well as interest payments.

CHF million				**31.3.2021**
	Due less than 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bank debt	0.1			0.1
Trade payables	103.2			103.2
Lease liabilities	58.9	159.8	52.5	271.2
Bonds/US Private Placement	370.3	731.1	509.1	1,610.5
Other financial liabilities	11.0	11.1		22.1
Total financial liabilities	**543.6**	**902.1**	**561.5**	**2,007.2**

CHF million				**31.3.2020**
	Due less than 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bank debt	230.2			230.2
Trade payables	104.3			104.3
Lease liabilities	61.2	146.9	60.9	269.0
Bonds	0.4	361.6	203.8	565.9
Other financial liabilities	24.7	32.8		57.5
Total financial liabilities [1]	**420.8**	**541.3**	**264.7**	**1,226.8**

1) Excludes "Other short-term liabilities", which were disclosed in this table in the last annual report, and considers interests on bonds.

Capital management

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

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

4.8 Financial instruments

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

Accounting policies

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

Level 1:

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

Level 2:

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

Level 3:

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

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

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

CHF million						31.3.2021
	Notes	Carrying amount	Fair value [1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	1,772.2				
Other financial assets	4.4	36.1				
Trade receivables	3.1	438.8				
Total		**2,247.1**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	9.7	9.7	7.4		2.3
Total		**9.7**	**9.7**	**7.4**		**2.3**
Financial liabilities at amortized cost						
Bank debt	4.5	0.1				
Bonds/US Private Placement	4.5	1,562.4	1,590.0	1,590.0		
Deferred payments	4.5	10.0				
Other financial liabilities	4.5	0.0				
Trade payables		103.2				
Total		**1,675.7**	**1,590.0**	**1,590.0**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	4.2	4.2			4.2
Negative replacement value of forward foreign exchange contracts	4.7	0.6	0.6			0.6
Other financial liabilities	4.5	7.3	7.3			7.3
Total		**12.1**	**12.1**			**12.1**

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

CHF million						31.3.2020
	Notes	Carrying amount	Fair value [1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	450.2				
Other financial assets	4.4	33.6				
Trade receivables	3.1	382.1				
Total [2]		**865.9**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	4.2	4.2			4.2
Total		**4.2**	**4.2**			**4.2**
Financial liabilities at amortized cost						
Bank debt	4.5	230.2				
Bonds	4.5	559.1	538.9	538.9		
Deferred payments	4.5	17.9				
Other financial liabilities	4.5	0.1				
Trade payables		104.3				
Total [2]		**911.6**	**538.9**	**538.9**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	5.3	5.3			5.3
Negative replacement value of forward foreign exchange contracts	4.7	2.3	2.3			2.3
Other financial liabilities	4.5	2.8	2.8			2.8
Total		**10.4**	**10.4**			**10.4**
Financial liabilities at fair value through other comprehensive income						
Contingent considerations	4.5	29.1	29.1	29.1		
Total		**29.1**	**29.1**	**29.1**		

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

2) Excludes "Other receivables" and "Other short-term operating liabilities", which were disclosed in this table in the last annual report.

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2021 and 2020:

Financial assets at fair value through profit or loss CHF million	**2020/21**	**2019/20**
Balance April 1	4.2	2.1
Additions/(disposals), net	(2.0)	2.2
Gain/(losses) recognized in profit or loss	0.1	(0.1)
Balance March 31	**2.3**	**4.2**

Financial liabilities at fair value through profit or loss CHF million	**2020/21**	**2019/20**
Balance April 1	(10.4)	(11.2)
(Additions)/disposals, net	3.2	0.8
(Losses)/gains recognized in profit or loss	(4.9)	0.0
Balance March 31	**(12.1)**	**(10.4)**

Financial liabilities at fair value through profit or loss mainly consist of contingent consideration arrangements arising from business combinations (refer to Note 6.1). The fair values are determined by considering the possible scenarios of the future performance of the acquired companies, contractual obligations and milestone achievements, the amount to be paid under each scenario, and the probability of each scenario. The significant unobservable inputs are the forecast sales and other performance criteria. As at March 31, 2021 and 2020 the maximum potential payments under contingent considerations do not differ significantly from the amounts provided.

4.9 Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2021	**31.3.2020**	**2020/21**	**2019/20**
	Year-end rates		Average rates for the year	
AUD 1	0.72	0.59	0.66	0.67
BRL 1	0.16	0.19	0.17	0.24
CAD 1	0.75	0.68	0.70	0.74
CNY 1	0.14	0.14	0.14	0.14
EUR 1	1.11	1.06	1.08	1.10
GBP 1	1.30	1.20	1.21	1.25
JPY 100	0.85	0.89	0.87	0.91
USD 1	0.94	0.97	0.92	0.99

Accounting policies

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

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

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

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

5. Taxes

5.1 Taxes

CHF million	2020/21	2019/20
Current taxes	61.7	79.0
Deferred taxes	(46.6)	(66.1)
Total income taxes	**15.2**	**12.9**
Reconciliation of tax expense		
Income before taxes	600.4	502.4
Group's expected average tax rate	15.9%	13.3%
Tax at expected average rate	**95.7**	**66.8**
+/– Effects of		
Non-taxable income/non-tax-deductible expenses	(2.8)	1.6
Changes of unrecognized loss carryforwards/deferred tax assets [1]	(21.6)	8.2
Local actual tax rate different to Group's expected average tax rate	(27.3)	(15.0)
Change in tax rates on deferred tax balances	(1.8)	(1.8)
Transitional effect of Swiss tax reform	(28.0)	(64.1)
Prior year adjustments and other items, net [2]	0.9	17.3
Total income taxes	**15.2**	**12.9**
Weighted average effective tax rate	2.5%	2.6%

1) Mainly relates to the use of tax loss carryforwards as a result of damages awarded in patent infringement lawsuit to Advanced Bionics as described below.
2) Other items include changes in uncertain tax positions.

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

Deferred tax assets and (liabilities) CHF million			**31.3.2021**			**31.3.2020**
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	22.7	(3.3)	19.4	28.0	(3.9)	24.1
Property, plant & equipment	2.5	(7.4)	(4.9)	1.4	(8.0)	(6.6)
Intangible assets		(96.9)	(96.9)		(88.4)	(88.4)
Right-of-use assets and lease liabilities	68.0	(67.2)	0.8	67.3	(67.1)	0.2
Other assets and liabilities [1]	204.3	(40.4)	163.8	158.4	(49.4)	109.0
Tax loss carryforwards	26.9		26.9	35.2		35.2
Total tax assets (liabilities)	**324.4**	**(215.2)**	**109.2**	**290.3**	**(216.8)**	**73.5**
Offset of assets and liabilities	(103.7)	103.7		(92.3)	92.3	
Amounts in the balance sheet						
Deferred tax assets	220.7		220.7	198.0		198.0
Deferred tax liabilities		(111.5)	(111.5)		(124.5)	(124.5)
Total deferred taxes, net			**109.2**			**73.5**

1) Deferred tax assets mainly relate to provisions and contract liabilities, deferred tax liabilities mainly relate to provisions, contract assets and trade and other receivables. Including deferred tax assets in the amount of CHF 88.5 million (2019/20: CHF 60.5 million) related to the Swiss tax reform as described below.

Movement of deferred tax assets and (liabilities) CHF million							**2020/21**
	Inventories	Property, plant & equipment	Intangible assets	Right-of-use assets and lease liabilities	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	24.1	(6.6)	(88.4)	0.2	109.0	35.2	73.5
Changes through business combinations			(1.8)				(1.8)
Deferred taxes recognized in the income statement [1]	(1.0)	1.8	(5.1)	0.4	58.2	(7.7)	46.6
Deferred taxes recognized in OCI [2]					(6.6)		(6.6)
Exchange differences	(3.7)	(0.1)	(1.6)	0.2	3.2	(0.6)	(2.5)
Balance March 31	**19.4**	**(4.9)**	**(96.9)**	**0.8**	**163.8**	**26.9**	**109.2**

1) Deferred taxes recognized in the income statement include the impact from the Swiss tax reform as described below.
2) Other comprehensive income.

Movement of deferred tax assets and (liabilities) CHF million							**2019/20**
	Inventories	Property, plant & equipment	Intangible assets	Right-of-use assets and lease liabilities	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	32.0	(7.2)	(104.9)	(0.3)	43.6	42.1	5.3
Changes through business combinations			(3.6)				(3.6)
Deferred taxes recognized in the income statement [1]	2.2	0.6	0.6	0.8	72.9	(11.1)	66.1
Deferred taxes recognized in OCI [2]					4.9		4.9
Exchange differences	(10.1)	0.1	19.4	(0.4)	(12.5)	4.2	0.8
Balance March 31	**24.1**	**(6.6)**	**(88.4)**	**0.2**	**109.0**	**35.2**	**73.5**

1) Deferred taxes recognized in the income statement include the impact from the Swiss tax reform as described below.
2) Other comprehensive income.

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

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

CHF million	**31.3.2021**	**31.3.2020**
Within 1 year	2.2	41.5
Within 2–5 years	70.7	69.9
More than 5 years or without expiration	442.6	770.9
Total	**515.6**	**882.3**

The decrease in unused tax loss carryforwards in financial year 2020/21 mainly relates to damages awarded in patent infringement lawsuit to Advanced Bionics (refer to Note 3.9 "Contingent assets and liabilities") for which unrecognized tax loss carryforwards were available and on impacts on tax loss carryforwards due to Group reorganizations.

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

Swiss tax reform

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

The TRAF and tax practice also foresees measures to ease the transition between the old and new tax regime. After a substantial change in the Swiss tax administration interpretation of such practices early December 2019, the Group has revalued its Swiss deferred tax positions which resulted in one time deferred tax liabilities and assets for a total positive net effect of CHF 64.1 million on income after taxes in the financial year 2019/20. During the 2020/21 financial year, after further discussion with the Swiss tax authorities, the Group increased the deferred tax assets by CHF 28.0 million with a corresponding effect on income after taxes.

Accounting policies

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

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

Accounting judgements and estimates

The consolidated balance sheet includes deferred tax assets of CHF 132.2 million (previous year CHF 137.5 million) related to deductible differences and, in certain cases, tax loss carry forwards, provided that their utilization is considered probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

Deferred tax assets further include CHF 88.5 million (previous year: CHF 60.5 million) related to the Swiss tax reform as described above. The calculation of the deferred tax assets required management to make significant estimates and assumptions. Some of these estimates are based on interpretations of existing tax laws or regulations. Whenever circumstances have changed or there is new information that affects these judgements, the estimates will be reassessed.

6. Changes in Group structure

6.1 Acquisitions/disposals of subsidiaries

In the financial year 2020/21, the Group acquired several small companies in EMEA, Americas and Asia/Pacific. All of these companies acquired are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. During the financial year 2019/20, the Group acquired several small companies in EMEA and North America which are in the business of producing and/or distributing and servicing hearing instruments. Further the Group made an acquisition in that year in the EMEA region, which is active in technology development.

Assets and liabilities resulting from the acquisitions are as follows:

CHF million	2020/21	2019/20
	Total	Total
Trade receivables	0.5	1.1
Other current assets	2.6	4.0
Property, plant & equipment	0.7	1.2
Rights of use the assets		0.7
Intangible assets	8.3	17.2
Other non-current assets	0.5	0.4
Current liabilities	(2.2)	(4.3)
Non-current liabilities	(2.9)	(4.5)
Net assets	**7.5**	**15.8**
Goodwill	20.0	97.4
Purchase consideration	**27.5**	**113.3**
Fair value of previously held stake before the business combination		(1.3)
Liabilities for contingent considerations and deferred payments [1]	(3.2)	(45.9)
Cash and cash equivalents acquired	(1.9)	(3.2)
Cash outflow for contingent considerations and deferred payments [2]	6.9	5.7
Cash consideration for acquisitions, net of cash acquired	**29.3**	**68.6**

1) Contingent considerations (earn-out payments) and deferred payments are dependent on the future performance of the acquired companies as well as contractual conditions. The liability for contingent considerations and deferred payments is based on the latest estimate of the future performance.
2) Excludes cash outflow in relation to associates, disclosed in this line in the last annual report.

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

Liabilities for contingent considerations amount to CHF 1.7 million and deferred payments amount to CHF 1.5 million. Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations and milestone achievements. Goodwill is attributed mainly to economies of scale and expected synergies such as favorable sales growth potential, increase in share of Sonova products within acquired distribution companies and cost reduction in administrative and corporate functions as well as to the labor force. Recognized goodwill is not expected to be deductible for income tax purposes.

Acquisition-related intangible assets in the amount of CHF 8.3 million (previous year CHF 17.2 million) for the acquisitions in the current financial year fully relates to customer relationships (previous year: customer relationships CHF 10.2 million, in-process research & development CHF 7.0 million). The assigned lifetime range is between 10 and 15 years for customer relationships (previous year: 5 years for in-process research & development). On these intangibles deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.3 million (previous year CHF 1.0 million) have been expensed and are included in the line “General and administration”.

April 1 to March 31, CHF million	2020/21	2019/20
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	2.6	7.8
Net income	0.6	0.3
Contribution, if the acquisitions occurred on April 1		
Sales	12.4	15.2
Net income	3.6	1.4

In 2019/20, the Group acquired a 51% majority stake in a company active in technology development with put and call options over the 49% remaining shares not legally acquired. The Group has concluded it has obtained present access to the returns of all shares and therefore considers the 49% ownership stake acquired for accounting purposes.

In the second half of 2020/21 the Group became aware of a misinterpretation of an accounting standard in determining the purchase consideration for the acquisition. Some of the deferred and the contingent payments related to milestones are also conditional on the selling shareholders remaining employed at the time of payment. These future payments therefore need to be recognized as personnel expenses over the period of required service rather than as purchase consideration. Goodwill, purchase consideration and liabilities for deferred and contingent payments 2019/20 have therefore been reduced by CHF 35.8 million as of acquisition date. Of the CHF 35.8 million decrease in goodwill CHF 13.3 million is offset against equity while CHF 22.5 million are expensed over the respective service period (in the financial year 2020/21 and subsequent years). The net assets acquired and the cash flows 2019/20 are not affected.

The Group has evaluated the impact on the reported results and comparative figures included in the consolidated income statement 2019/20 and balance sheet as at March 31, 2020 and has concluded that the overall impact is qualitatively and quantitatively not material. Therefore, the net effect of the correction was recognized in the affected balance sheet line items and opening equity as at April 1, 2020, rather than by restating the comparative period as follows:

	CHF million
Impact on change of acquisition accounting on opening Balance Sheet April 1, 2020	
Decrease in goodwill	(35.8)
Decrease of liabilities for contingent considerations	30.3
Increase in other short-term operating liabilities	(7.8)
Decrease in retained earnings	13.3

A portion of the deferred payments can be settled in Sonova shares or in cash at the discretion of the counterparties and represent share-based payments, refer to Note 7.4 for further information. These liabilities for share-based payments and other employee benefits have been recognized in other short-term operating liabilities.

Changes have been made to note disclosures where necessary.

Accounting policies

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

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

Accounting judgements and estimates

Business combinations

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

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

Liabilities for contingent considerations

Contingent considerations are dependent on the future performance of the acquired companies as well as contractual obligations. If the future performance is not achieved or the estimate needs to be revised, the liability is adjusted accordingly, with a resulting change in the income statement. At the end of the 2020/21 financial year, such liabilities contingent on future events amount to CHF 4.2 million (previous year CHF 34.4 million) and are disclosed under other financial liabilities (Note 4.5).

6.2 Investments in associates/joint ventures

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

CHF million	2020/21	2019/20
Current assets	2.9	2.6
Non-current assets	3.6	2.5
Total assets	**6.5**	**5.1**
Current liabilities	(0.8)	(0.7)
Non-current liabilities	(0.6)	(0.6)
Total liabilities	**(1.4)**	**(1.3)**
Net assets	**5.1**	**3.8**
Income for the year	5.1	5.9
Expenses for the year	(3.2)	(3.4)
Profit for the year	**1.9**	**2.4**
Net book value at year-end	19.7	17.4
Share of profit/(loss) recognized by the Group	1.9	2.4

In the financial year 2020/21, no associates were acquired/divested. In the case of one associate, an additional contribution of CHF 1.2 million was made, without increasing the participation rights.

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

Sales to associates in the 2020/21 financial year amounted to CHF 7.8 million (previous year CHF 8.7 million). At March 31, 2021, trade receivables towards associates amounted to CHF 2.5 million (previous year CHF 1.9 million).

At the end of the 2020/21 and 2019/20 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 19.7 million (previous year CHF 17.4 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2020.

Accounting policies

Investments in associates and joint ventures are accounted for using the equity method of accounting. Investments in associates are entities in which Sonova has a significant influence but no control (usually 20%–50% of voting rights). Joint ventures are joint arrangements whereby two or more parties have rights to the net assets of the arrangement.

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

7. Other disclosures

7.1 Number of employees

On March 31, 2021, the Sonova Group employed the full time equivalent of 14,508 people (previous year 15,184). They were engaged in the following regions and activities:

By region	31.3.2021	31.3.2020
Switzerland	1,321	1,290
EMEA (excl. Switzerland)	6,443	6,866
Americas	3,415	3,550
Asia/Pacific	3,329	3,478
Total	**14,508**	**15,184**
By activity		
Research and development	879	842
Operations	4,398	4,618
Sales and marketing, general and administration	9,231	9,724
Total	**14,508**	**15,184**

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,436 (previous year 15,002). Total personnel expenses for the 2020/21 financial year amounted to CHF 940.2 million (previous year CHF 1,037.6 million).

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

CHF million	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
	Management Board		Board of Directors		Total	
Short-term employee benefits	7.2	8.6	1.4	1.9	8.5	10.5
Post-employment benefits	0.6	0.6			0.6	0.6
Share based payments	4.5	4.8	1.6	1.5	6.2	6.3
Total	**12.3**	**14.0**	**3.0**	**3.4**	**15.3**	**17.4**

The total compensation to the Management Board for the 2020/21 reporting period, as shown above, relates to nine members of the Management Board (2019/20: nine members).

The total compensation to the Board of Directors for the 2020/21 reporting period, as shown above, relates to nine active members (2019/20: eight members and one former member).

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

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

7.3 Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Belgium, Canada, Germany and Israel. These plans are both funded and unfunded and governed by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland, which in total accounts for CHF 483.9 million or 98.7% (previous year CHF 442.9 million or 99.6%) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions as defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. Above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. An annuity rate of 5.4% to the individual accumulated retirement savings capital was applied for the financial years 2020/21 and 2019/20.

As of March 31, 2021, 1,363 employees (previous year 1,328 employees) and 143 beneficiaries (previous year 133 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 14.0 years (previous year 13.9 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF million	**31.3.2021**	**31.3.2020**
Present value of funded obligations	(490.1)	(444.5)
Fair value of plan assets	474.1	375.4
Net present value of funded plans	**(16.0)**	**(69.1)**
Present value of unfunded obligations	(5.3)	(4.4)
Total liabilities, net	**(21.3)**	**(73.5)**
Amounts in the balance sheet:		
Retirement benefit obligation	(21.3)	(73.5)

Remeasurements recognized in equity CHF million	**2020/21**	**2019/20**
Balance April 1	77.1	32.0
Actuarial losses/(gains) from		
– changes in financial assumptions	10.1	6.0
– changes in experience adjustments	10.8	15.2
Return on plan assets excluding interest income	(76.7)	23.9
Balance March 31	**21.4**	**77.1**

Amounts recognized in the income statement CHF million	**2020/21**	**2019/20**
Current service cost [1)]	19.3	15.9
Net interest cost	0.3	0.2
Total employee benefit expenses [2)]	**19.6**	**16.0**

1) Excluding Participants' contributions.
2) The amount recognized in the consolidated income statement 2020/21 has been charged to:
– cost of sales CHF 3.3 million (previous year CHF 2.8 million);
– research and development CHF 6.3 million (previous year 5.3 million);
– sales and marketing CHF 3.9 million (previous year 3.4 million);
– general and administration CHF 5.8 million (previous year CHF 4.3 million);
– financial expenses CHF 0.3 million (previous year CHF 0.2 million).

Movement in the present value of the defined benefit obligations CHF million	**2020/21**	**2019/20**
Beginning of the year	448.9	409.2
Interest cost	2.0	2.3
Current service cost	19.3	15.9
Participants' contributions	12.4	11.8
Benefits paid, net	(8.0)	(11.4)
Actuarial loss on obligations	20.9	21.2
Exchange differences	(0.1)	(0.2)
Present value of obligations at end of period	**495.5**	**448.9**

Movement in the fair value of the plan assets CHF million	**2020/21**	**2019/20**
Beginning of the year	375.4	383.2
Interest income on plan asset	1.7	2.1
Employer's contributions paid	15.3	13.5
Participants' contributions	12.4	11.8
Benefits paid, net	(7.6)	(11.3)
Return on plan assets excluding interest income	76.7	(23.9)
Exchange differences	0.2	(0.0)
Fair value of plan assets at end of period	**474.1**	**375.4**

The plan assets consist of:	**31.3.2021**	**31.3.2020**
Cash	2.6%	2.4%
Domestic bonds	16.2%	17.0%
Foreign bonds	7.5%	8.7%
Domestic equities	12.8%	12.5%
Foreign equities	31.5%	28.7%
Real estates	14.8%	16.3%
Alternative investments	14.6%	14.4%

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF 78.4 million (previous year CHF –21.8 million). The expected employer's contributions to be paid in the 2021/22 financial year amount to CHF 14.2 million.

Principal actuarial assumptions (weighted average)	**2020/21**	**2019/20**
Discount rate	0.30%	0.45%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2015GT

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

Sensitivity analysis – impact on defined benefit obligation CHF million	**31.3.2021**	**31.3.2020**
Discount rate		
Discount rate +0.25%	(15.6)	(14.2)
Discount rate –0.25%	17.7	16.1
Salary growth		
Salary growth +0.25%	0.8	0.8
Salary growth –0.25%	(0.8)	(0.8)
Pension growth		
Pension growth +0.5%	18.4	16.5
Pension growth –0.5%	(18.4)	(16.5)
Fluctuation rate		
Fluctuation rate +5%	(19.2)	(16.7)
Fluctuation rate –5%	32.8	28.6

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 19.6 million in the year ended March 31, 2021 (previous year CHF 23.5 million) and are recognized directly in the income statement.

Accounting policies

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

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

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

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

Accounting judgements and estimates

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2020/21 financial year amounts to CHF 495.5 million (previous year CHF 448.9 million). This includes CHF 483.9 million (previous year CHF 442.9 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term, such deviations could have an impact on the equity.

7.4 Equity plans

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

In the 2020/21 and 2019/20 financial years, as part of the Executive Equity Award Plan (EEAP) Sonova granted restricted shares, restricted share units (RSUs), performance share units (PSUs), options, and for US employees, share appreciation rights (SARs). Options as well as PSUs granted to the Management Board in 2020/21 and 2019/20 include a performance criterion.

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

CHF million	**2020/21**	**2019/20**
Equity-settled share-based payment costs	20.4	19.3
Cash-settled share-based payment costs	10.9	0.6
Total share-based payment costs	**31.3**	**19.9**

The increase in cash-settled share-based payment costs in the current financial year was primarily driven by the change in accounting treatment for an acquisition in 2019/20. For further information please refer to Note 6.1 and to section “restricted shares” in this note.

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2015 to 2021. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO (now CEO) in 2017/18) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the CEO vest earliest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2021:

Financial year granted	Instruments granted	First vesting date/ expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2014/15	Options/SARs [1]	1.6.2016 31.1.2022	308,459	121.10	21,689	0.8	21,689
2015/16	Options/SARs [2]	1.6.2017 31.1.2023	298,520	124.20	77,550	1.8	77,550
2016/17	Options/SARs [3]	1.6.2018 31.1.2024	378,652	130.00	167,426	2.8	102,584
2017/18	Options [4]	1.4.2023 30.9.2027	47,415	147.85	47,415	6.5	
2017/18	Options/SARs [5]	1.6.2019 31.1.2028	341,943	147.85	226,349	6.8	91,881
2018/19	Options/SARs [6]	1.6.2020 31.1.2029	249,760	182.40	212,867	7.8	47,404
2019/20	Options/SARs [7]	1.6.2021 31.1.2030	208,245	241.80	195,478	8.8	
2020/21	Options/SARs [8]	1.6.2022 31.1.2031	170,694	218.70	170,694	9.8	
Total			**2,003,688**		**1'119'468** [9]	**6.8**	**341'108** [10]
Thereof:							
Equity-settled			1,774,782		1,005,440		310,167
Cash-settled			228,906		114,028		30,941

1) Including 135,223 performance options, granted to the CEO and MB members.
2) Including 126,206 performance options, granted to the CEO and MB members.
3) Including 147,948 performance options, granted to the CEO and MB members.
4) Non-recurring performance options, granted to the COO (now CEO). Terms have been amended in the financial year 2020/21 – for further details refer to section "Options" in this note.
5) Including 150,114 performance options, granted to the CEO and MB members.
6) Including 80,850 performance options, granted to the CEO and MB members.
7) Including 77,574 performance options/SAR, granted to the CEO and MB members.
8) Including 61,779 performance options/SAR, granted to the CEO and MB members.
9) Weighted average exercise price of outstanding options/SARs amounts to CHF 176.80
10) Weighted average exercise price for exercisable options/SARs amounts to CHF 140.21

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

Assumptions for valuation at grant date	EEAP 2021 – Management Board Options/SARs	EEAP 2021 Options/SARs	EEAP 2020 – Management Board Options/SARs	EEAP 2020 Options/SARs
Valuation date	1.2.2021	1.2.2021	1.2.2020	1.2.2020
Expiry date	31.01.2031	31.01.2031	31.01.2030	31.01.2030
Restriction period	5 years		5 years	
Share price on grant date	CHF 218.70	CHF 218.70	CHF 241.80	CHF 241.80
Exercise price	CHF 218.70	CHF 218.70	CHF 241.80	CHF 241.80
Volatility	25.0%	25.0%	20.3%	20.3%
Expected dividend yield	1.5%	1.5%	1.6%	1.6%
Weighted risk free interest rate	(0.4%)	(0.5%)	(0.5%)	(0.6%)
Weighted average fair value of options/SARs issued	**39.90**	**37.31**	**33.34**	**31.98**

Options

The exercise price of options is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. The fair value of the options granted is estimated at grant date and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options granted to the CEO and the other members of the MB) to ensure that only a charge for vested amounts occur. Options may be exercised after the vesting date, until their expiry date. If options are exercised, one share per option from the conditional share capital is issued, or treasury shares are used for fulfillment. In the financial year 2020/21 and 2019/20 the options granted to the CEO and the members of the MB include a restriction period of 5 years, which was considered in the fair value of the options at grant date.

Given the COVID-19 crisis in the current financial year and the impacts on the business, the Board of Directors reviewed the terms of the one-time, non-recurring performance option award granted to the CEO in the financial year 2017/18 and decided on the following amendments: While the EPS performance target remains as originally set, the performance period will be extended to April 1, 2025. The CEO may elect to have the options vest at the original date of April 1, 2023 or in the interim year on April 1, 2024. The expiry date of the options (September 27, 2027) remains unchanged. The amendment of the performance period did not lead in an increase of the fair value of the options granted (initially CHF 1.0 million).

Changes in outstanding options:		**2020/21**		**2019/20**
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,010,087	165.54	1,147,865	142.76
Granted [1)]	149,592	218.70	182,407	241.80
Exercised [2)]	(126,260)	133.16	(248,711)	125.49
Forfeited	(27,979)	194.12	(71,474)	145.40
Outstanding options at March 31	**1,005,440**	**175.89**	**1,010,087**	**165.54**
Exercisable at March 31	**310,167**	**139.99**	**216,608**	**129.56**

1) 2020/21 includes 57,080 performance options (previous year 72,176 performance options), granted to the CEO and MB members.

2) The total consideration from options exercised amounted to CHF 29.9 million (previous year CHF 27.9 million). The weighted average share price of the options exercised during the year 2020/21 was CHF 204.63 (previous year CHF 223.68).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs, multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely ROCE targets achievements for performance options/SARs granted to the members of the MB) to ensure that only a charge for vested amounts occur. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until they expire, except for the SARs granted to members of the MB in the financial year 2020/21, which include a restriction period of 5 years.

Changes in outstanding SARs:		**2020/21**		**2019/20**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	107,966	173.87	113,024	148.27
Granted [1]	21,102	218.70	25,838	241.80
Exercised	(10,903)	136.57	(22,168)	128.22
Forfeited	(4,137)	198.35	(8,728)	159.37
Outstanding SARs at March 31 [2]	**114,028**	**184.84**	**107,966**	**173.87**
Exercisable at March 31 [3]	**30,941**	**142.38**	**19,861**	**128.61**

1) 2020/21 includes 4,699 performance SARs granted to an MB member.
2) The carrying amount of the liability relating to the SARs at March 31, 2021 is CHF 6.8 million (previous year CHF 3.6 million).
3) The intrinsic value of the SARs exercisable at March 31, 2021 amounts to CHF 3.3 million (previous year CHF 0.9 million).

Performance share units (PSUs)

In 2021, as well as in the previous year, grants made to the members of the Management Board under the EEAP consist of PSUs. The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a “Monte-Carlo valuation”. PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion. PSUs granted in 2021 are subject to a restriction period, which was considered in the fair value of the PSU at grant date. Upon vesting of the PSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the PSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period, to ensure that only vested amounts are expensed.

Assumptions for valuation at grant date	PSU 2021	PSU 2020
Valuation date	1.2.2021	1.2.2020
Date of grant	1.2.2021	1.2.2020
Share price on grant date	CHF 218.70	CHF 241.80
Fair value	CHF 198.67	CHF 266.80
End of restriction period	31.1.2026	31.1.2025
Performance conditions	Total shareholder return (TSR)	Total shareholder return (TSR)
TSR performance period	1.2.2021 – 31.3.2024	1.2.2020 – 31.3.2023
TSR comparator group	Swiss Leader Index (SLI)	Swiss Leader Index (SLI)

Restricted share units (RSUs)

Under the EEAP grants 2015 to 2021, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. Upon vesting of the RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used. The cost of the RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period to ensure that only vested amounts are expensed.

Restricted shares

In addition to the PSUs granted in respect to the EEAP 2021 and 2020, restricted shares have been granted to the Chairman of the Board of Directors as well as to the other members of the Board of Directors in the financial year 2020/21 and 2019/20. These shares are entitled to dividends and are restricted for a period of 64 months (Chairman), respectively 52 months (other members of the Board of Directors).

The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2020/21 financial year as these shares have no vesting period.

Changes in outstanding PSUs/RSUs/Restricted shares:				2020/21				2019/20
	Number of PSUs	Number of RSUs	Number of restricted shares	Total	Number of PSUs	Number of RSUs	Number of restricted shares	Total
Balance April 1	31,689	259,065	60,258	351,012	25,877	305,436	68,574	399,887
Granted	10,359	68,605	7,539	86,503	8,284	63,075	6,157	77,516
Settled		(78,670)	(14,206)	(92,876)		(87,669)	(14,473)	(102,142)
Forfeited	(1,804)	(15,843)		(17,647)	(2,472)	(21,777)		(24,249)
Balance March 31	**40,244**	**233,157**	**53,591**	**326,992**	**31,689**	**259,065**	**60,258**	**351,012**

In the current financial year 2020/21, a change in accounting treatment relating to an acquisition in 2019/20, led to a correction of previously recognized purchase considerations (refer Note 6.1). A portion of the deferred payments can be settled in Sonova shares (number of shares granted 102,421) or in cash at the discretion of the counterparties and represent share-based payments as the payment is linked to employment conditions. The fair value of the shares granted of CHF 21.3 million was calculated at grant date (July 8, 2019) representing the share price on that date and considering that the shares are not entitled to dividends. The associated cost is expensed over the vesting period (four equal tranches vesting equally over four years). Until the liability is settled, it is revalued at each reporting date recognizing changes in the fair value in the income statement. Due to the discretion of the counterparties to request cash payments, the equity plan is classified as a “cash-settled share based payment plan”. For this cash-settled share based payment plan, the corresponding liability is recorded under "Other short-term operating liabilities" in the balance sheet (CHF 11.8 million as per March 31, 2021). The first tranche vested in the financial year 2020/21 and a liability of CHF 5.1 million has been transferred to equity as the beneficiaries opted for settlement in Sonova shares.

Accounting policies

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

7.5 Government grants

The Group’s result for the financial year 2020/21 includes government support received worldwide in connection with the COVID-19 pandemic in the amount of CHF 47.4 million (prior year: none). Most of the government grants relate to compensation of salary costs (furlough) and is recognized as a deduction from the costs in the following functional line items of the consolidated income statement:

April 1 to March 31, CHF million	**2020/21**
Cost of sales	4.9
Research and development	2.1
Sales and marketing	33.7
General and administration	6.7
Total	**47.4**

Accounting policies

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the *related costs, for which it is intended to compensate, are expensed. Government grants are presented as a deduction from the relevant functional cost line item in the income statement.*

7.6 Events after the balance sheet date

On May 7, 2021 the Group announced that it signed an agreement to acquire the Consumer Division from Sennheiser electronic GmbH & Co. KG (Sennheiser). The product offering of the Consumer Division includes premium headphones – especially in the True Wireless segment – as well as audiophile headphones, enhanced hearing solutions and soundbars. They are sold through a well-established distribution network by Sennheiser's own subsidiaries and long-established trading partners in more than 50 countries, both online and in-store, further expanding Sonova's channel presence and customer base. The Sennheiser Consumer Division, with currently around 600 employees contributing to this business area worldwide, generates sales of around EUR 250 million annually. The purchase price for the Sennheiser Consumer Division amounts to EUR 200 million, which will be financed through the existing cash balance. A licensing agreement on customary terms for the Sennheiser brand will be in place in perpetuity. Closing is foreseen in the second half of calendar year 2021 after obtaining the relevant regulatory approvals.

Besides the above mentioned transaction there have been no material events after the balance sheet date.

7.7 List of significant companies

Company name	Activity	Domicile (country)	Share/paid-in capital [1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,220	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	100%
Advanced Bionics AG	A, B	Stäfa	CHF	4,350	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Retail Belgium NV	B	Groot-Bijgaarden (BE)	EUR	3,686	100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR	1,000	100%
Sonova Retail Denmark ApS	B	Klampenborg (DK)	DKK	1,621	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	58,800	100%
SOD Invest SAS	B	Cahors (FR)	EUR	58,600	100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR	1,000	100%
Sonova Italia Srl	B	Milan (IT)	EUR	1,040	100%
AudioNova Italia	B	Milan (IT)	EUR	1,166	100%
Sonova Audiological Care Nederland B.V.	B	Dortrecht (NL)	EUR	19	100%
Sonova Audiological Care Polska Sp.z.o.o.	B	Lodz (PL)	PLN	678	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100%
Sonova Nordic AB	B	Solna (SE)	SEK	200	100%
Sonova Finland Oy	B	Tampere (FI)	EUR	25	100%
Sonova Norway AS	B	Oslo (NO)	NOK	1,854	100%
Sonova Israel Ltd.	B	Haifa (IL)	ILS	5,150	100%

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

Company name	Activity	Domicile (country)	Share/paid-in capital [1] Local currency 1,000			Shares held
Americas						
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	120,379		100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	2)	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0	2)	100%
Connect Hearing Inc.	B	Naperville (US)	USD	0	3)	100%
Sonova USA, Inc.	B	Plymouth (US)	USD	46,608		100%
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	2)	100%
Sonova United States Hearing Instruments, LLC	A	Aurora (US)	USD	0	2)	100%
Development Finance Inc.	A	Wilmington (US)	USD	0	4)	100%
Asia/Pacific						
Sonova Audiological Care Australia Pty. Ltd	B	McMahons Point (AU)	AUD	58,000		100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	10,475		100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100%
Triton Hearing Ltd.	B	Auckland (NZ)	NZD	20,450		100%
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100%

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

7.8 Other accounting policies

Investments in subsidiaries

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

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

Related parties

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

Building a better working world

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

Statutory auditor’s report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 March 2021 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the ***Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements*** section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the ***International Code of Ethics for Professional Accountants (including International Independence Standards) of the International Ethics Standards Board for Accountants (IESBA Code)*** and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the ***Auditor's responsibilities for the audit of the consolidated financial statements*** section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the consolidated financial statements.

Goodwill

Area of focus	Our audit response
As of 31 March 2021, the Group has goodwill of CHF 1,998 million representing 34% of the Group's total assets. Per note 3.5, goodwill is tested for impairment at least annually. In performing the impairment analysis management applies considerable judgment in respect of future market and economic conditions, such as economic growth, expected inflation rates, demographic developments, expected market share, revenue and margin development of the cash generating units (CGUs) to which goodwill has been allocated. Changes in these assumptions might lead to a change in the carrying value of goodwill. We focused on this area given the significant judgment applied in the assessment process.	We assessed and tested the assumptions, including weighted average cost of capital (WACC), methodologies and technical input parameters for the valuation model applied by the Group. We involved our internal valuation specialists to assist us with these audit procedures. In addition, we evaluated the cash flow projections for the CGUs by performing a retrospective assessment of the accuracy of management's past projections and analyzing management's business forecasts considering the current Covid-19 environment. In particular, we focused on the sensitivity in the available headroom of the CGUs and whether reasonably possible changes in assumptions could cause the carrying amount of the CGUs to exceed its recoverable amount. Our audit procedures did not lead to any reservations regarding the carrying value of goodwill.

Provisions for product liabilities

Area of focus	Our audit response
As of 31 March 2021, the Group has provisions for product liabilities of CHF 111.9 million. Per note 3.7, provisions for product liabilities consider the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics in 2006 and Advanced Bionics voluntary field corrective action regarding cochlear implant products in 2020. Cost include replacement products, medical expenses, compensation for actual damages as well as legal fees. We focused on this area given the uncertainty in the assumptions and estimates of the provision, as it largely depends on the outcome of administrative and legal proceedings.	We assessed management's process of the identification and evaluation of claims and analyzed the calculation models to determine the amount of the provisions for product liabilities. We tested the mathematical accuracy of the model, assessed key input factors such as number of devices in the market, failure rates, claim rates and costs per case. We enquired with the Group's legal counsel about disputes in relation to product liabilities and analyzed responses from legal letters obtained from third party legal representatives. We also reviewed the Group's disclosures made in the consolidated financial statements. Our audit procedures did not lead to any reservations regarding the provision for product liabilities.

Capitalized development costs

Area of focus	Our audit response
As of March 31, 2021, the Group's consolidated balance sheet includes capitalized development costs of CHF 125.9 million. As described in note 3.5 (Intangible assets), the Group capitalizes development costs when certain criteria, such as technical feasibility, are met, and it is probable that future economic benefits attributable to the developments will flow to the Group. The criteria for capitalization and impairment assessments are subject to judgment and estimates based on management's assumptions, including consideration of anticipated technological developments within the hearing industry. We focused on this area given the judgment and complexity involved in the assessment process.	We analyzed management's processes implemented for the initial capitalization of development costs, for the identification of projects that are potentially impaired and for the determination of estimates used for impairment testing of development assets. Our procedures in relation to the recognition and measurement of capitalized development costs included the assessment of the Group's accounting policies for compliance with IFRS and on a sample basis testing available documentation whether the criteria for capitalization were met. We further reconciled, on a sample basis, the costs capitalized as of 31 March 2021 with the underlying supporting documentation. We reviewed for indications of impairment by assessing key assumptions applied by management by means of comparison with business plans, historic performance and management's assumptions regarding strategy, product life cycle, anticipated technological developments, market expectations and discount rates for selected development projects. We further tested the arithmetical accuracy of management's computations. Our audit procedures did not lead to any reservations regarding the capitalization of development costs.

Other matter

The consolidated financial statements of Sonova Holding AG for the year ended 31 March 2020 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 14 May 2020.

Other information in the annual report

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

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

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

Responsibility of the Board of Directors for the consolidated financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

Zurich, 17 May 2021

Ernst & Young Ltd

Martin Mattes	Pascal Solèr
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Financial statements of Sonova Holding AG

Income statement

CHF million	Notes	2020/21	2019/20
Income			
Investment income		211.8	274.3
Financial income	2.1	26.0	8.3
Total income		**237.7**	**282.7**
Expenses			
Administration expenses		(10.0)	(11.5)
Other expenses		(1.4)	(0.8)
Depreciation and amortization		(6.7)	
Financial expenses	2.1	(21.2)	(47.1)
Direct taxes		(0.2)	(0.3)
Total expenses		**(39.5)**	**(59.6)**
Net profit for the year		**198.3**	**223.1**

Balance sheet

Assets CHF million	Notes	31.3.2021	31.3.2020
Cash and cash equivalents		935.9	0.4
Financial assets		80.0	
Other receivables			
– Third parties		0.1	0.0
– Group companies		5.6	9.7
Prepaid expenses		1.6	0.6
Total current assets		**1,023.3**	**10.8**
Financial assets	2.2		
– Third parties		2.1	0.9
– Group companies		1,893.0	1,846.9
Investments	2.3	314.4	321.5
Total non-current assets		**2,209.5**	**2,169.3**
Total assets		**3,232.8**	**2,180.1**

Liabilities and shareholders' equity CHF million	Notes	31.3.2021	31.3.2020
Bank loans			150.0
Trade account payables			
– Third parties		0.1	0.1
Short-term interest-bearing liabilities			
– Third parties		4.7	0.2
Bond	2.4	360.0	
Other short-term liabilities to third parties		0.1	20.8
Accrued liabilities		4.0	6.4
Total short-term liabilities		**368.9**	**177.5**
Bonds	2.4	1,199.7	560.0
Other long-term liabilities to third parties		0.2	
Total long-term liabilities		**1,200.0**	**560.0**
Total liabilities		**1,568.9**	**737.5**
Share capital		3.2	3.2
Legal reserves			
– Reserves from capital contribution		18.5	18.5
– General reserves		1.8	1.8
– Legal reserves for treasury shares held by subsidiaries		17.0	22.7
Voluntary retained earnings			
– Balance carried forward		1,714.9	1,597.9
– Net profit for the year		198.3	223.1
Treasury shares			
– Treasury shares to offset with reserves from capital contribution		(18.5)	(18.5)
– Treasury shares	2.5	(271.3)	(406.2)
Total shareholders' equity		**1,663.9**	**1,442.5**
Total liabilities and shareholders' equity		**3,232.8**	**2,180.1**

Notes to the financial statements of Sonova Holding AG as of March 31, 2021

1. General information

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

2. Accounting principles

2.1 Financial income/expenses

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

2.2 Financial assets

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

2.3 Investments

Investments consist mainly of participations in fully consolidated Group companies. They are subject to individual valuation.

2.4 Bonds

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

2.5 Treasury shares

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

3. Information on income statement and balance sheet items

3.1 Bonds

As of March 31, 2021, the Group has the following bonds/US Private Placement outstanding:

Financial liabilities	Currency	Nominal value	Interest rate	Maturity
Fixed-rate bond	CHF	360	0.01%	October 11, 2021
Fixed-rate bond	CHF	330	0.55%	April 6, 2022
US Private Placement	USD	180	2.84%	July 14, 2025
Fixed-rate bond	CHF	200	0.50%	October 6, 2025
Fixed-rate bond	CHF	300	0.75%	October 6, 2028
Fixed-rate bond	CHF	100	0.00%	October 11, 2029
Fixed-rate bond	CHF	100	0.40%	October 11, 2034

3.2 Treasury shares

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The program started in October 2018 for a period of up to 36 months. The shares were planned to be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. Effective March 16, 2020, Sonova Holding AG suspended the Group's share buyback program. This precautionary measure reflected the short-term uncertainties regarding the financial impact of the global spread of the novel coronavirus (COVID-19). On May 19, 2020 the Board of Directors decided to amend the purpose of the treasury shares from the share buyback, allowing the re-use of these treasury shares. The stock dividend (417,110 shares) distributed in financial year 2020/21 was sourced from Sonova shares which were repurchased by Sonova under the share buyback program 2018 – 2021. A further 200,000 shares bought under the share buyback program were used for the transfer and sale of treasury shares in connection with the EEAP programs. The remaining 1,225,980 treasury shares as of March 31, 2021, initially bought under the share buyback program, are intended to be cancelled (proposal to the Annual Shareholders' Meeting June 15, 2021).

Treasury shares held by Sonova Holding AG Number/CHF million

	Number	Treasury shares at cost
Balance April 1, 2020	1,868,127	424.8
Purchase of treasury shares	40,100	9.7
Sale/Transfer of treasury shares	(212,469)	(29.9)
Stock dividend	(417,110)	(100.2)
Loss from sale of treasury shares		(14.6)
Balance March 31, 2021	**1,278,648**	**289.8**

Treasury shares held by subsidiaries Number/CHF million

	Number	Legal reserves for treasury shares held by subsidiaries
Balance April 1, 2020	102,421	22.7
Sale/Transfer of treasury shares	(25,605)	(5.7)
Balance March 31, 2021	**76,816**	**17.0**

3.3 Contingent liabilities

CHF million	**31.3.2021**	**31.3.2020**
Letters of comfort given on behalf of Group companies	4.0	3.9

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

3.4 List of investments

Company name	Activity	Domicile	Share/paid-in capital [1] Local currency 1,000		Shares held by Sonova Holding
Switzerland					
Sonova AG	A,B,C,D	Stäfa	CHF	2,500	100%
Phonak AG	A	Stäfa	CHF	100	100%
Phonak Communications AG	B, C, D	Murten	CHF	500	100%
Verve Hearing Systems AG	A	Stäfa	CHF	100	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Belgium NV	A, B	Asse Zellik (BE)	EUR	15,311	100%
Sonova Holding GmbH	A	Fellbach-Oeffingen (DE)	EUR	153	85% [2]
Sonova Denmark A/S	B	Middelfart (DK)	DKK	14,182	78% [2]
Sonova Ibérica S.A.U.	B	San Vincente del Raspeig (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	58,800	1% [2]
Sonova France SAS	B	Bron-Lyon (FR)	EUR	1,000	30% [2]
SCI Du Triangle De Bron	A	Bron-Lyon (FR)	EUR	46	100%
Sonova Hungary KFT	B	Budapest (HU)	HUF	5,000	100%
Sonova Italia S.R.L.	B	Milan (IT)	EUR	1,040	100%
Sonova Nederland B.V.	B	Vianen (NL)	EUR	227	100%
Sonova Norway AS	B	Oslo (NO)	NOK	1,854	49% [2]
Sonova Polska Sp. Z o.o.	B	Warsaw (PL)	PLN	100	100%
Sonova Warsaw Service Center Sp.Z.o.o.	A	Warsaw (PL)	PLN	100	100%
Sonova RUS LLC	B	Moscow (RU)	RUB	4,000	100%
Sonova Nordic AB	B	Solna (SE)	SEK	200	100%
Sonova Sweden AB	B	Solna (SE)	SEK	100	100%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Boots Hearing Care Ltd.	B	Llandudno (UK)	GBP	0 [3]	51%

For significant indirect investments refer to Note 7.7 of the consolidated financial statements of Sonova Holding AG.
Description:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
D Research: This entity performs research and development activities for the group.
1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) GBP 133

Company name	Activity	Domicile	Share/paid-in capital 1) Local currency 1,000		Shares held by Sonova Holding
Americas					
CAS Argosy Participações Ltda.	B	São Paulo (BR)	BRL	22,014	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0 3)	85% 2)
Sonova Mexico Soluciones S.A. de C.V.	B	Ciudad de Mexico (MX)	MXN	94,050	85% 2)
AudioNova Mexico S.A. de C.V.	B	Ciudad de Mexico (MX)	MXN	66,050	99% 2)
Sonova United States Hearing Instruments, LLC	B	Aurora (US)	USD	0 3)	73% 2)
Sound Pharmaceuticals, Inc.	A	Seattle (US)	USD	13,105	31%
Asia/Pacific					
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249	100%
Sonova (Shanghai) Co., Ltd	B	Shanghai (CN)	CNY	20,041	80% 2)
Sonova India Private Limited	B	Mumbai (IN)	INR	459	56% 2)
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000	100%
Sonova Korea Ltd.	B	Seoul (KR)	KRW	50,000	100%
Sonova New Zealand (Wholesale) Ltd.	B	Auckland (NZ)	NZD	250	100%
Sonova Singapore Pte. Ltd.	B	Singapore (SG)	SGD	250	100%
Sonova Taiwan Pte. Ltd.	B	Zhonge City (TW)	TWD	3,100	100%
Sonova Operation Center Vietnam Co., Ltd.	C	Thuan An (VN)	VND	36,156,000	100%
Sonova Vietnam Company Limited	B	Ho Chi Minh City (VN)	VND	2,088,000	70% 2)

For significant indirect investments refer to Note 7.7 of the consolidated financial statements of Sonova Holding AG.
Description:
A Holding/Finance: The entity is a holding or finance company.
B Sales: The entity performs sales and marketing activities for the group.
C Production: This entity performs manufacturing for the group.
1) Share/paid in capital may not reflect the taxable share/paid-in capital amount and does not include any paid-in surplus.
2) The remaining shares are held by a subsidiary of Sonova Holding AG.
3) Shares without par value

3.5 Significant shareholders

The following overview shows the significant shareholders as of March 31, 2021 based on shareholdings recorded in the share register and notifications on the SIX Swiss Exchange online reporting platform. Significant shareholders may also hold non-registered shares.

	2021 [1]	2021 [1]	2020 [1]	2020 [1]
	No. of shares	In %	No. of shares	In %
Beda Diethelm [2]	6,710,440	10.42	6,667,002	10.35
Family of Hans-Ueli Rihs [2] [3]	3,692,049	5.73	3,679,600	5.71
BlackRock, Inc.	3,334,392	5.10	3,334,392	5.10
UBS Fund Management (Switzerland) AG	1,948,684	3.03	n/a	< 3
Harding Loevner LP [4]	n/a	< 3	1,972,763	3.02
FIL Limited [4]	n/a	< 3	1,969,770	3.01

1) Or at last reported date if shareholdings are not registered in the share register.
2) 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.
3) Hans-Ulrich Rihs, Gabriela Rihs and Stefan Rihs as a group jointly control 3,692,049 registered shares (corresponding to 5.73% of total Sonova share capital) pursuant to the last disclosure notice. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.
4) In 2020, Sonova reported according to Art. 20 of the Federal Act on Stock Exchanges and Securities Trading (Stock Exchange Act, SESTA) the sales of shares by FIL Limited and Harding Loevner LP reducing their holdings to less than 3%.

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

				31.03.2021				31.03.2020
	Shares	Restricted Shares [1] [3]	PSUs/RSUs [3]	Options (incl. SARs) [3]	Shares	Restricted Shares [2] [3]	PSUs/RSUs [3]	Options (incl. SARs) [3]
Board of Directors	84,263	49,630	2,183	96,016	73,821	53,157	4,328	123,189
Management Board	41,522		44,818	430,982	42,519		41,945	442,843
Total	**125,785**	**49,630**	**47,001**	**526,998**	**116,340**	**53,157**	**46,273**	**566,032**

1) These shares are subject to a restriction period which varies from June 1, 2021 to June 1, 2026 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
3) For further details see also Note 7.4 in the consolidated financial statements.

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

3.7 Events after the balance sheet date

On May 7, 2021 the Group announced that it signed an agreement to acquire the Consumer Division from Sennheiser electronic GmbH & Co. KG (Sennheiser). The product offering of the Consumer Division includes premium headphones – especially in the True Wireless segment – as well as audiophile headphones, enhanced hearing solutions and soundbars. They are sold through a well-established distribution network by Sennheiser's own subsidiaries and long-established trading partners in more than 50 countries, both online and in-store, further expanding Sonova's channel presence and customer base. The Sennheiser Consumer Division, with currently around 600 employees contributing to this business area worldwide, generates sales of around EUR 250 million annually. The purchase price for the Sennheiser Consumer Division amounts to EUR 200 million, which will be financed through the existing cash balance. A licensing agreement on customary terms for the Sennheiser brand will be in place in perpetuity. Closing is foreseen in the second half of calendar year 2021 after obtaining the relevant regulatory approvals.

Besides the above mentioned transaction there have been no material events after the balance sheet date.

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 15, 2021:

CHF million	**31.3.2021**
Balance carried forward from previous year	1,714.9
Net profit for the year	198.3
Voluntary retained earnings	**1,913.2**
Cancellation of treasury shares [1]	(258.9)
Dividend distribution [2]	(201.7)
Balance to be carried forward	**1,452.5**

1) Subject to approval at the Annual General Shareholders' Meeting of Agenda Item 6 (Capital Reduction Through Cancellation of Shares).
2) If the Annual General Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 3.20 per registered share of CHF 0.05 will be paid out (previous year: stock dividend).

Building a better
working world

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

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of Sonova Holding AG, which comprise the balance sheets, income statements and notes, for the year ended 31 March 2021.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 March 2021 comply with Swiss law and the company's articles of incorporation.

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

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibility section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of investments in subsidiaries

Area of focus	Our audit response
As of 31 March 2021, investments in subsidiaries of the Company amounted to CHF 314.4 million and represent 9.7% of total assets. Investments in subsidiaries are valued at historical cost less any impairment of value. The Company values investments in subsidiaries individually (single-asset-valuation principle). Refer to note 2.3 (Investments) in the financial statements for further details.	Our audit procedures included understanding the Company's investment in subsidiaries impairment testing process and the determination of key assumptions. We evaluated the Company's impairment testing model and key assumptions. We further corroborated the Company's key assumptions applied based on internally and externally available evidence and underlying data. Our audit procedures did not lead to any reservations relating to the valuation of investments in subsidiaries.

Other matter

The financial statements of Sonova Holding AG for the year ended 31 March 2020 were audited by another statutory auditor who expressed an unmodified opinion on those financial statements on 14 May 2020.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Zurich, 17 May 2021

Ernst & Young Ltd

Martin Mattes Licensed audit expert (Auditor in charge)	Pascal Solèr Licensed audit expert

Investor information

Financial calendar

June 15, 2021
General Shareholders' Meeting of Sonova Holding AG

November 15, 2021
Publication of Semi-Annual Report as of September 30, 2020

May 17, 2022
Publication of Annual Report as of March 31, 2022

June 15, 2022
General Shareholders' Meeting of Sonova Holding AG

Financial information

Corporate & ad hoc news
Annual Reports
Semi-Annual Reports
IR presentations
www.sonova.com/en/investors

Information on the General Shareholders' Meeting

Invitation and agenda
General Shareholders' Meeting presentations
General Shareholders' Meeting minutes
www.sonova.com/en/AGM

IR online news service

IR News Service
www.sonova.com/en/services-and-contacts

Capital structure and shareholder rights

Share data
www.sonova.com/en/investors/share-data

Shareholder structure
www.sonova.com/en/investors/shareholder-structure

Shareholder participation rights
www.sonova.com/en/investors/shareholder-participation-rights

Regulations and principles
Articles of Association
Organizational Regulations
Rules on Board Operations and Procedures
Committee Charters
Code of Conduct
Supplier Principles
www.sonova.com/en/regulations-principles

Contact form
www.sonova.com/en/services-and-contacts

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Internet: www.sonova.com

Director Investor Relations
Thomas Bernhardsgrütter

Investor Relations Associates
Nicole Jenni
Corinne Hofmann

Share register
ShareCommService AG
Europastrasse 29
CH-8152 Glattbrugg
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Phone: +41 44 809 58 53
Fax:+41 44 809 58 59

Corporate Responsibility Report

Sonova CR Report 2020/21

Message from the CEO

Dear readers,

In times of crisis, the true essence of an organization and the way it embraces its responsibilities become apparent. Challenged by the global COVID-19 pandemic throughout the last year, businesses had to reveal that sustainability is truly rooted in their organization – and not just a superficial promise.

At Sonova, it has always been our mission to have a positive effect on our consumers' lives. We aspire just as much to have a positive effect on society as a whole. The pandemic has simply confirmed the importance of making environmental, social, and governance (ESG) principles integral to the way we do business.

We are proud to share highlights of our progress in 2020/21 toward achieving our ESG goals: We have further reduced our carbon footprint this year by 17% and driving innovation to address climate change, including opening of one of the first zero-energy commercial buildings in Switzerland. Action on diversity and inclusion is yielding results: at year-end, 34% of all upper and senior management positions were held by women, while across all people leaders the ratio is 49%. Employee engagement remains high despite all challenges to social interaction, with a 83% positive engagement score in our annual survey. And by adding ESG targets to the objectives for the variable cash compensation of the members of our Management Board, we maintain alignment between the interests of the business, the environment, and society.

We are further embedding our ESG commitments across all dimensions of the business and aim to track and optimize our ESG performance with the same intensity as our key financial indicators. As part of this effort, we have launched ***IntACT***, an upgrade to our ESG strategy that builds on four key areas: serving society, advancing our people, acting with integrity, and protecting the planet. This Corporate Responsibility Report describes our approach and performance in each of these strategic areas.

We have also introduced an additional range of measurable ESG targets with firm dates for achievement. We aim to achieve carbon-neutral operations by the end of 2021. Through energy savings and the transition to renewable energy, we will align our long-term carbon reduction targets with the Science Based Targets initiative (SBTi) aim to keep global warming below 1.5°C. Social goals include having women hold 40% of upper and senior management positions by 2025. In governance, we are extending and intensifying our long-established system of supplier ESG risk assessment and audits, and establishing a strong digital ethics and cybersecurity function.

We are further embedding our ESG commitments across all dimensions of the business and aim to track and optimize our ESG performance with the same intensity as our key financial indicators.

We are pleased that our progress in ESG matters has again been validated by indices such as the Dow Jones Sustainability Index and FTSE4Good Indices, and that relevant ratings agencies have described our ESG performance as industry-leading for several years.

As Sonova we are a signatory of the UN Global Compact since 2016 and fully endorse its ten principles governing human rights, labor, environment, and anti-corruption. We also support the Sustainable Development Goals of the United Nations, which define the global sustainable development agenda through to 2030.

In the spirit of continuous improvement and high ambition levels, we will keep advancing on our ESG journey – driving tangible, measurable action and contribute towards a healthy planet and fair society. We look forward to telling you about our progress.

Sincerely,

Arnd Kaldowski
Chief Executive Officer

Corporate Responsibility at Sonova

IntACT – Sonova's ESG Strategy

At Sonova, it has always been our mission to have a positive effect on our consumers' lives. We aspire just as much to have a positive effect on society as a whole. The pandemic has simply confirmed the importance of making environmental, social, and governance (ESG) principles integral to the way we do business.

GRI 102-16

Vision, values, and culture

Sonova's vision is straightforward and motivates all our activities: We envision a world where everyone enjoys the delight of hearing and therefore lives a life without limitations. Our shared core values drive our daily actions and reflect the corporate culture that defines and unites us as a company across all brands and regions.

- **We care:** We care for our employees, customers, and consumers, as well as our shareholders and society.
- **We drive innovation:** We courageously pioneer new ideas and approaches to come up with impactful innovations, to delight customers and consumers.
- **We strive for excellence:** We act with agility. We aim to excel. We are continuously working on improving products, services, processes, and skills, to realize growth.
- **We take accountability:** We deliver on our commitments. We take accountability to provide outcomes in agreed quality and time, always acting with integrity.
- **We build the best team:** We team up. We grow talent. We collaborate with people of diverse backgrounds to win with the best team in the marketplace.

Our commitment to act responsibly and create long-term value for all our stakeholders is embodied in the Sonova Group Code of Conduct and deeply rooted in our corporate vision, values, and culture. These are a fundamental and integrated element of our ESG strategy, which is our guiding framework for ESG management and reporting at Sonova.

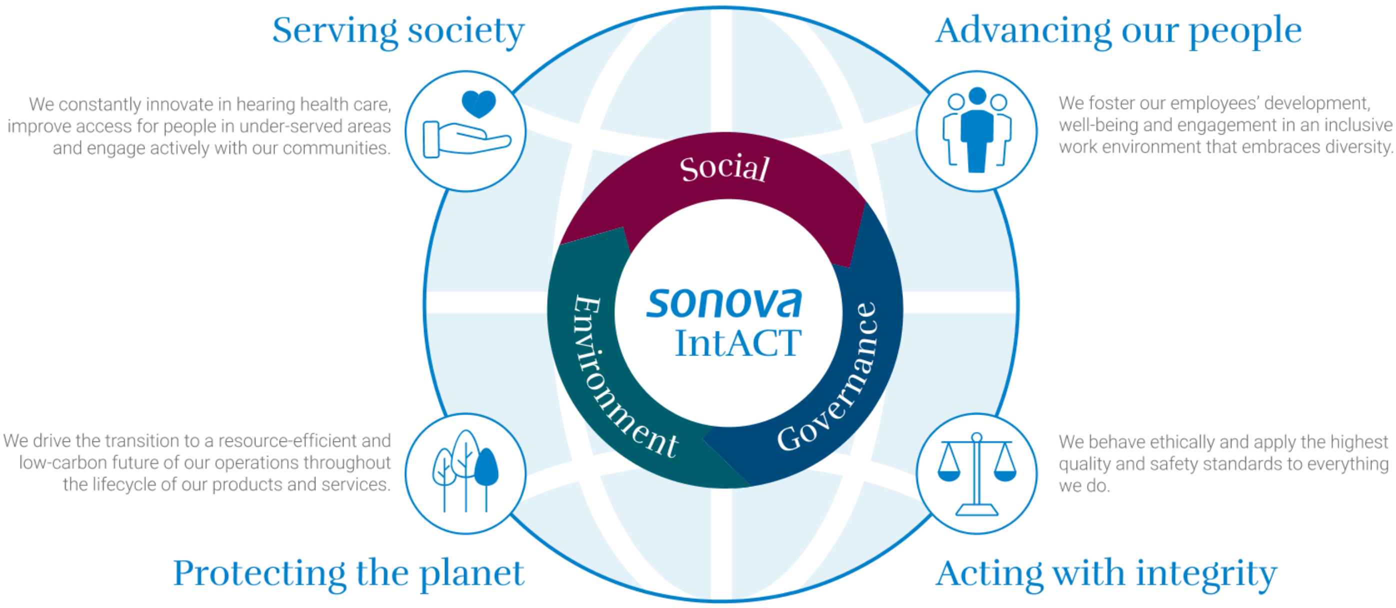
PDF
Sonova Code of Conduct

GRI 102-46, GRI-102-47, GRI 103-1

IntACT – Sonova's ESG Strategy

Sonova has long been committed to continuous improvement in its environmental, social, and governance responsibilities. We are further embedding our ESG commitments across all dimensions of the business and aim to track and optimize our ESG performance with the same intensity as we do our key financial indicators. As part of this effort, we have launched *IntACT*, an upgrade to our ESG strategy that builds on four key areas: serving society, advancing our people, acting with integrity, and protecting the planet.

- **Serving society:** We constantly innovate in hearing health care, improve access for people in under-served areas, and engage actively with our communities.
- **Advancing our people:** We foster our employees' development, well-being and engagement in an inclusive work environment that embraces diversity.
- **Acting with integrity:** We behave ethically and apply the highest quality and safety standards to everything we do.
- **Protecting the planet:** We drive the transition to a resource-efficient and low-carbon future of our operations throughout the lifecycle of our products and services.



In 2020/21, we have also introduced an additional range of measurable ESG targets with firm dates for achievement. These targets are shown in the table below, together with existing commitments in key ESG topics that we made in previous years, such as increasing employee engagement, improving product reliability rate, and increasing units of hearing aids sold in low- and middle-income countries.

Sonova IntACT elevated ESG commitments

ESG topics	ESG commitments	New/existing	Related SDGs
Serving society			
Access to hearing care	We increase unit sales of hearing instruments in low- and middle-income countries by 50% vs. 2018/19 by 2023/24. [1]	adjusted	3, 4
Access to hearing care	We train and certify 250 hearing care professionals (HCPs) in low- and middle-income countries through the Swiss International Hearing Academy (SIHA) 12-month HCP program by 2022.	new	3, 4
Access to hearing care	We increase lives impacted by the Hear the World Foundation (HTWF) by 10% year-over-year – focusing on children with hearing loss in low- and middle-income countries.	new	3, 4
Advancing our people			
Talent & employee engagement	We achieve the employee engagement rate level of high performing companies by 2022.	existing	5, 8
Talent & employee engagement	We aim for >95% of employees to have a development plan by 2022. [2]	new	8
Diversity & inclusion	We strive for 40% women in key positions by 2025.	new	5
Diversity & inclusion	We train >95% of employees on D&I by mid 2021.	new	5
Acting with integrity			
Product quality, safety and reliability	We improve the product reliability rate >20% year-over-year for hearing instruments (HI) and cochlear implants (CI). [3]	existing	3, 9
Human rights & labor practices	We implement human rights due diligence (HRDD) aligned with international frameworks and train all relevant employees by 2022.	new	8, 16
Business ethics & legal compliance	We achieve annual on-time mandatory employee Global Compliance training completion rate of >98%. [4]	adjusted	8, 16
Data privacy & digital ethics	We establish a digital ethics committee by 2021.	new	8, 9, 16
Protecting the planet			
Energy & climate	We reduce greenhouse gas emissions relative to revenue by 50% compared to 2017 by 2022. [5]	existing	7, 9, 12, 13
Energy & climate	We achieve carbon-neutral operations by 2021.	new	7, 9, 12, 13
Energy & climate	We assess the potential effects of climate change on Sonova and define actions to improve our climate resilience by 2021.	new	13
Eco-friendly products	We reduce packaging waste by 20% vs. 2020 by 2023.	new	12, 13

1 In 2020/21, the target date for achieving the 50% increase was adjusted by one year from 2022/23 to 2023/24 due to COVID-19 impact on the hearing care market.
2 Excluding job roles in production/assembly.
3 The HI product reliability rate includes Receiver-In-Canal (RIC), Custom In-The-Ear (ITE) and Behind-The-Ear (BTE) hearing instruments. The CI product reliability includes Naída pediatric sound processors.
4 The target was adjusted in 2020/21 from >95% to >98%.
5 Scope 1&2 + air-travel related Scope 3 emissions.

ESG Governance

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

Sonova has established an ESG Council to oversee and further develop the Group's ESG strategy, including its commitments and targets. The Council also monitors progress on key performance indicators and initiatives. It meets at least quarterly and consists of the Group CEO, selected members of the Management Board, the Group General Counsel & Compliance Officer, and the Corporate Responsibility team. Progress on ESG targets is also regularly reviewed by the full Management Board and are an element of each member's variable compensation. The Board of Directors approves the ESG strategy, initiatives, and targets and receives progress updates on at least a yearly basis.

Good governance is supported by a regular dialogue on ESG topics with proxy advisors, investors, and rating agencies, and by Sonova's continuous and active risk management and compliance functions.

Sonova's Corporate Responsibility team provides expertise and advice to the Management Board on relevant ESG topics and drives the implementation of the ESG strategy and group-wide initiatives in close collaboration with internal experts. These are functional experts linked to Group-wide business functions as well as country or regional experts, representing Sonova Group companies within a given territory and driving ESG initiatives locally.

Material ESG topics

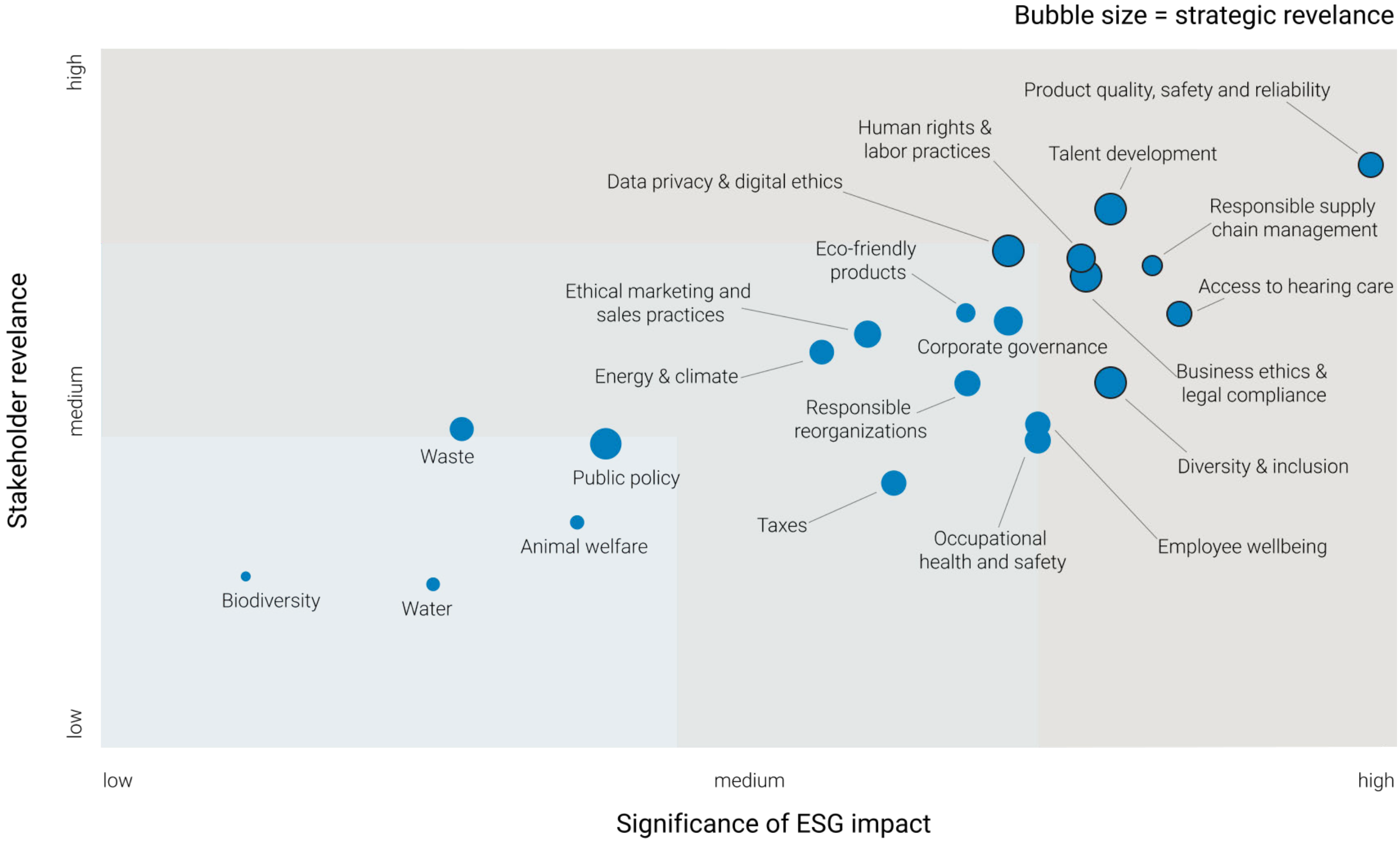
Materiality assessment

Sonova regularly assesses expectations of its key stakeholders, as well as the environmental, social, and governance (ESG) topics that present the greatest risks and opportunities. The last materiality assessment and update of the Sonova materiality matrix was conducted in 2019/20. For this, Sonova drew on a number of sources to compile a broad initial list of ESG topics that could be considered relevant to the organization's impact, or could be influential in its stakeholders' views and decisions. Our sources included global frameworks and standards, such as the Global Reporting Initiative (GRI) Standards, the Sustainability Accounting Standards Board (SASB) industry standards or the UN Sustainable Development Goals (SDGs), peer reviews, public media, investor and ESG analyst feedback, customer and employee surveys, industry reports, stakeholder interviews, as well as existing and upcoming international, governmental, and industry regulations, standards, and agreements. We reviewed the results and consolidated the most important topics into a list of 21.

These 21 topics were ranked by key internal and external stakeholders on the basis of personal interviews and online surveys in three dimensions: relevance of the topic to the stakeholder, significance of Sonova's impact on the topic, and strategic relevance to Sonova. To determine the stakeholder relevance and influence of each topic on stakeholder expectations and decisions, we identified internal and external representatives of our key stakeholder groups who then assessed the relevance of each topic. When selecting the representatives, we took into account a balanced representation of the different geographical regions and Sonova businesses. The significance of Sonova's impact for each topic was assessed by external experts with relevant experience in the respective fields. The strategic relevance of each topic was assessed in individual internal interviews including the Group CEO, the Vice President Corporate Strategy, and the Head of Internal Audit & Risk.

The result of the materiality assessment is visualized in the materiality matrix. Our analysis identified eight focus topics, which we prioritize when evaluating our activities and identifying measures to further improve our performance. We will use the insights of the materiality assessment to prompt further discussions identifying risks and opportunities with key internal and external stakeholders, and to align our activities ever more closely with our business strategy and expectations of key stakeholders.

We acknowledge that the COVID-19 pandemic put more emphasis on selected ESG topics, such as occupational health and safety, access to hearing care, human rights and labor practices, and responsible supply chain management. Since the overall prioritization of the ESG topics in Sonova's materiality matrix remains valid, we decided not to modify it in 2020/21. The next adjustments are planned as part of the next regular major review of our materiality assessment.



Consolidation

We further consolidated the ESG topics identified in the materiality assessment into four strategic areas of Sonova *IntACT*, our enhanced ESG strategy. This Corporate Responsibility Report is therefore organized according to these four strategic areas. The connections between the detailed topics from the materiality matrix and the consolidated strategic areas are outlined below:

- **Serving society:** Access to hearing care.
- **Advancing our people:** Talent development, diversity and inclusion, occupational health and safety, employee wellbeing, responsible reorganizations.
- **Acting with integrity:** Product quality, safety and reliability, responsible supply chain, human rights and labor practices, business ethics and legal compliance, data privacy and digital ethics, corporate governance, ethical marketing and sales practices, taxes, public policy, animal welfare.
- **Protecting the planet:** Energy and climate, eco-friendly products, waste, water, biodiversity.

Topic boundaries

The Sonova ESG Strategy is defined by its relevance to the whole Sonova Group. All defined topics are therefore assumed to be material to all or nearly all of the entities covered by this report. Sonova assigns the impacts of each material ESG topic to its appropriate stage or stages of the value-creation process, from raw material supply to after-sales refurbishing or recycling. Impacts which occur partly or primarily outside the organization relate either to upstream activities (topics: responsible supply chain, human rights and labor practices, energy and climate) or to downstream activities, such as the utilization of our products and services (e.g. access to hearing care, product quality, safety and reliability, data privacy and digital ethics, ethical marketing and sales practices, eco-friendly products).

Validation

The ESG strategy aligns closely with our long-term business strategy as well as the United Nations Sustainable Development Goals (SDGs) and is reviewed regularly both at the highest management level and at meetings of the Board of Directors. Both the Management Board and the Board of Directors assess the ESG strategy's completeness and effectiveness, based both on annual reporting and on ad-hoc updates about specific initiatives.

GRI 103-2, GRI 103-3

Management approach and performance

Below is an overview of selected key 2022/23 ESG targets defined in previous years and the progress we have made towards achieving our targets.

Priority goals/KPIs	Related SDGs	Strategic areas	Targets (target year)	2020/21 performance	2019/20 performance
Increase unit sales of hearing instruments in low- and middle-income countries by 50% vs. 2018/19 by 2023/24. [1]	3, 4	Serving society	50% vs. base year 2018/19 (target year 2023/24)	0.4% vs. base year 2018/19	1.1% vs. base year 2018/19
Achieve the employee engagement rate level of high performing companies by 2022/23.	5, 8	Advancing our people	level of high performing companies (target year 2022/23)	4% gap to high performing companies (Sonova 83% engagement)	4% gap to high performing companies (Sonova 83% engagement)
Improve product reliability rate >20% year-over-year for hearing instruments (HI) and cochlear implants (CI). [2]	3, 9	Acting with integrity	HI: >20% (each year) CI: >20% (each year)	HI: 21% CI: 32% vs. previous year 2019/20	HI: 4% CI: 27% vs. previous year 2018/19
Achieve annual on-time mandatory employee Global Compliance training completion rate of >98%. [3]	8, 16	Acting with integrity	>98% (each year)	95.9%	95.3%
Reduce greenhouse gas emissions relative to revenue by 50% compared to 2017 by 2022. [4]	7, 9, 12, 13	Protecting our planet	-50% vs. base year 2017 (target year 2022)	-39% vs. base year 2017	-21% vs. base year 2017

1 In 2020/21, the target date for achieving the 50% increase was adjusted by one year from 2022/23 to 2023/24 due to COVID-19 impact on the hearing care market.
2 The HI product reliability rate includes Receiver-In-Canal (RIC), Custom In-The-Ear (ITE) and Behind-The-Ear (BTE) hearing instruments. The CI product reliability includes Naída pediatric sound processors.
3 The target was adjusted in 2020/21 from >95% to >98%.
4 Scope 1&2 + air-travel related Scope 3 emissions.

More information on all Sonova's material ESG topics is available in the corresponding sections of this CR Report:

- Serving society
- Advancing our people
- Acting with integrity
- Protecting the planet

Each describes the relevant management approach and its components (e.g. processes, policies, resources, commitments, goals and targets, specific actions, programs or initiatives), along with the evaluation of the effectiveness of the management approach (e.g. internal/external audits, key performance indicators, progress in implementation of specific actions), as well as its contributions to the contributions to the SDGs.

Corporate Responsibility at Sonova

Stakeholder engagement

Sonova strives to engage in an open and transparent dialog with its stakeholders. We actively initiate dialog through a broad range of channels as a way to promote participative and integrated decision-making.

GRI 102-40, 102-42

Stakeholder groups

Sonova understands how the involvement of stakeholders supports our long-term success by enhancing transparency, broadening knowledge, and generating innovative solutions. Sonova identifies and selects relevant stakeholders for further dialog and engagement based on our existing stakeholder-facing activities and on information gathered from internal staff interviews and management workshops. We regularly interact with our current stakeholders to define their specific interests in our business activities, products and services and their influence over our decisions. Sonova has defined five key stakeholder groups:

- Customers and consumers
- Employees
- Shareholders
- Suppliers
- Academia and opinion leaders

Further stakeholder groups important to Sonova are:

- Financial community
- Media
- Regulators
- Insurers
- Competitors and industry

Approach to stakeholder engagement

GRI 102-43

Sonova's first and foremost priority in the response to COVID-19 has been to protect the health and safety of our employees and their families, as well as our customers, consumers and partners. We have taken accountability as a global company, helping to limit – to the best of our abilities – further spread of this virus, while ensuring that people in need have continued access to hearing care. We have sustained engagement with key stakeholders throughout these challenging times, while also taking proactive steps to safeguard Sonova's financial health, maintain employment, and continue sustainable operations.

Below you find information and examples of Sonova's regular engagement activities with our different stakeholder groups. The latest engagement with our key stakeholders related to the ESG materiality assessment was in 2019/20.

Customers and consumers

Our customers and consumers stand at the center of our business. Our business model is built on business-to-business (hearing care professionals, clinics, retailers) and business-to-consumer (end users, patients) relationships. Sonova establishes specific channels of engagement appropriate to the differing needs of each of these groups.

We ensure continuous dialog with our business-to-business customers through our sales representatives, brand tracker surveys, customer satisfaction surveys, advisory network, knowledge management and sharing, customer hotline and support, audiology conferences, online customer communities, and complaint management channels. We provide a broad range of professional training and courses that address the various specializations in the hearing care industry. We also organize e-learning seminars, road shows, face-to-face in-clinic training, and technical marketing material to help transfer our knowledge and train hearing care specialists. We conduct an annual worldwide customer survey to ensure satisfaction and loyalty of our customers. Based on this data, the Customer Satisfaction Index (CSI) is calculated and expressed on a scale between 0 and 100, the latter being the best. In 2019/20, the CSI was 79 (2018/19: 80). Due to COVID-19, only a reduced version of the annual customer survey was carried out. The next full global customer survey will be conducted in 2021/22.

We engage with end users and patients through satisfaction surveys and different communities such as the Phonak Pediatric Advisory Board, HearingLikeMe.com, or Advanced Bionics' Bionic Ear Association (BEA™). The Phonak Pediatric Advisory Board was founded in 1998 to help steer Phonak's pediatric product development and establish and recommend industry-best practices to support the needs of children with hearing loss and ensure optimal outcomes for them. Members of the Pediatric Advisory Board include parents of children with hearing loss, researchers and professors in pediatric audiology, as well as master pediatric clinicians. HearingLikeMe.com is an online community for people whose lives are affected by hearing loss. The website contains stories written by people with hearing loss, their family members, or hearing care professionals. BEA™ is a community of hearing health professionals and cochlear implant recipients that aims to improve the quality of life of individuals with severe-to-profound hearing loss by providing valuable information, education, and awareness on cochlear implants.

Employees

GRI 102-41

Sonova's employees are key to its success. Sonova actively engages with its employees e.g. through its annual employee engagement survey called "HearMe" and through its annual appraisal and development process. The employee appraisal and development meeting is an essential process to assess satisfaction, provide feedback, and define expectations for behavior and performance. It supports each employee's personal and professional development and helps to build trusting relationships by providing a format for open dialog. We estimate that around 30% of Sonova's global workforce is represented by an independent trade union or covered by collective bargaining agreements.

Shareholders

Sonova has 19,102 registered shareholders, who together own 66.37% of the total shares. Shareholders' interests are represented by the Board of Directors, which sets and oversees the general direction of the company. We publish an Annual Report for shareholders and other stakeholders, and hold an Annual General Shareholders' Meeting, which provides a forum for discussion and debate as well as an opportunity to vote on compensation for management and the Board of Directors. Each share entered in the share register with a voting right entitles the holder to one vote at the Annual General Shareholders' Meeting.

Suppliers

Suppliers are an integral part of Sonova's value chain. Our relationship with our suppliers is governed by Sonova's Group Supplier Principles (SGSP), which are based on a range of international standards, customer requirements, and industry characteristics. We assess all new suppliers on their management systems. We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections.

PDF
Sonova Group Supplier Principles (SGSP)

Academia and opinion leaders

Sonova's know-how and history of innovation is reflected in its strong partnerships with leading academic institutions and opinion leaders around the world. We collaborate intensively with universities such as the University of Zurich, the University of Hannover (Germany), the University of Oldenburg (Germany), Vanderbilt University in Nashville (US), the University of Melbourne (Australia), the University of Queensland (Australia), the University of Western Ontario in Waterloo (Canada), the Swiss Federal Institutes of Technology (ETH) in Zurich and Lausanne, and the University of Manchester (UK). We foster a close collaboration with these partners by offering support toward diploma theses for Master's degree or PhD students. We do not just support studies financially, but, when appropriate, participate in the actual work by closely collaborating on research projects. Sonova experts also actively engage in the scientific community by participating in seminars and conferences as well as by co-authoring scientific studies in journals.

Financial community

As a publicly listed company, Sonova pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. We actively interact with the financial community at roadshows, conferences as well at investor meetings and conference calls. Sonova holds an Investor and Analyst Day every year at its headquarters in Stäfa. Because of restrictions related to the COVID-19 pandemic, last year's event took place in a virtual format with a record number of around 200 attendees signing up to join the live webcast. We also hold regular exchanges with environmental, social and governance (ESG) investors and rating agencies.

Media

Sonova drives and maintains strong relationships with a variety of media representatives to ensure transparency, dialog, and accountability for all its activities. The media relations team works globally with top-tier public interest media, trade and special interest media, financial and economic media, and the major wire services to ensure fair disclosure of information to all stakeholders, creating – among other topics – awareness of hearing loss and its implications as well as informing on key aspects of Sonova's business and sustainability performance. We proactively distribute and publish press releases, e.g. on our corporate website, organize press conferences, media trips, events or respond to requests when journalists are developing stories.

Regulators

Most of Sonova's products are regulated medical devices, which means that the company must meet statutory patient safety standards and functional performance claims with clinical evidence. We recognize our responsibility to share our specialist knowledge in external working groups to help define, on behalf of our customers, the regulatory principles that will ensure the highest quality standards for hearing instruments and cochlear implants.

Insurers

Governments and social institutions such as the Veterans Administration in the United States and the National Health Service in the United Kingdom, as well as public and private insurance providers, all contribute to improve access to hearing care. Sonova regularly participates in tender processes and offers its products and services to help insurers receive the best hearing value for their money.

Competitors and industry

GRI 102-44

Sonova's competitors aim to gain market share. This competition generates improved service for customers and drives Sonova to push yet further the limits of technology. We are committed to fair competition, defined in detail in Sonova's Global Competition Law Policy. Sonova interacts with representatives from competitors e.g. through membership in industry associations such as the European Hearing Instrument Manufacturers Association (EHIMA), which represents the major European hearing instrument manufacturers.

Key topics and concerns raised

Key topics and concerns raised through stakeholder engagement are included in our materiality analysis, ESG strategy and respective reporting activities. The 2019 materiality assessment identified eight ESG topics with the highest relevance for Sonova, which are listed below. The stakeholder groups which assigned a comparatively high relevance to the specific topic are indicated in brackets.

- Product quality, safety and reliability (customers and consumers, regulators and governments, industry and competitors, investors, public)
- Business ethics and legal compliance (regulators and governments, industry and competitors, investors)
- Responsible supply chain (suppliers, industry and competitors, regulators and governments)
- Human rights and labor practices (regulators and governments, industry and competitors, public)
- Access to hearing care (customers and consumers, regulators and government, employees)
- Talent development (employees, industry and competitors, investors)
- Diversity and inclusion (employees, regulators and governments, public)
- Data privacy and digital ethics (customers and consumers, public, investors)

Further information on how Sonova has responded to those key topics and concerns are provided in the section "IntACT – Sonova's ESG Strategy" of this CR Report and the respective chapters on the four strategic areas.

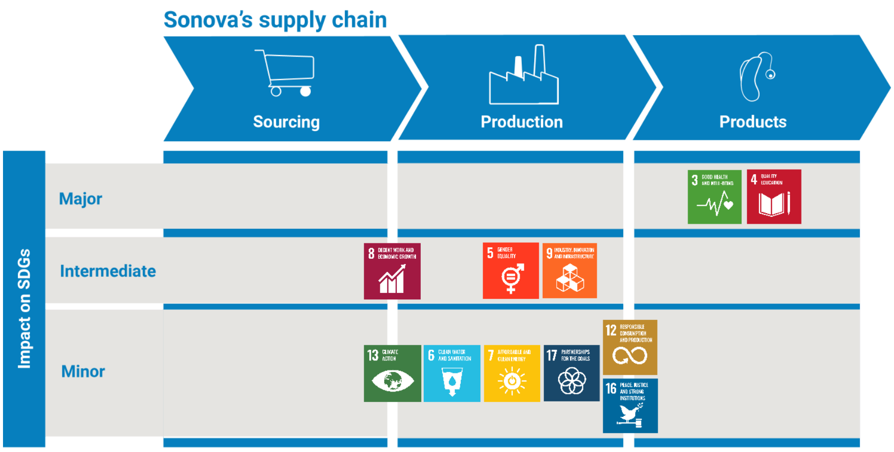
Corporate Responsibility at Sonova

Sustainable Development Goals

Seventeen sustainable development goals (SDGs) comprise the UN's global sustainable development agenda for the years until 2030. Sonova has been a signatory of the UN Global Compact since 2016 and actively supports the achievement of the SDGs.

Sonova's contribution to the United Nations Sustainable Development Goals (SDGs)

Our analysis of Sonova's direct or indirect impact on the SDGs, with their 169 targets and indicators, has revealed that through Sonova's solutions, we make the largest contributions to SDGs 3 (good health and wellbeing) and 4 (quality education). We conduct business in a responsible way and thereby also positively influence SDGs 5, 8, and 9. We have limited and less direct impact on goals 6, 7, 12, 13, 16, and 17.



Priority SDGs

Good health and well-being (SDG 3)

The third development goal focuses on ensuring healthy lives and promoting well-being for people of all ages. The importance of good hearing and the consequences of hearing loss are still underestimated, although people with untreated hearing loss often face serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. As well as its impact on the individual, untreated hearing loss puts a heavy cost burden on society.

SDG 3 is well aligned with our vision: a world where everyone enjoys the delight of hearing and lives a life without limitations. Sonova contributes to the achievement of the following SDG 3 targets:

- 3.8: "Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all."
- 3.C: "Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States."
- 3.D: "Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks."

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Serving society and Acting with integrity.

Quality education (SDG 4)

The fourth development goal is about ensuring an inclusive and quality education for all and promoting lifelong learning. To be able to follow a lifelong educational path, it is essential for children to have a good start. Children with untreated hearing loss, however, face severe difficulties, since development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss among children can greatly limit speech, cognitive development, and school performance. Children with hearing loss often grow up unable to find work and become trapped in a cycle of poverty and isolation.

Sonova offers innovative and easy-to-use products especially designed for children. Our philanthropic engagement at Group level has a strong focus on increasing access to hearing care in low- and middle-income countries especially for children, mainly through donations supporting the charitable Sonova Foundation – initiated by Sonova in 2006 – with funding, expertise, and hearing solutions, which contributes to the achievement of the following target of SDG 4:

- 4.5: "By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations."

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Serving society.

Medium impact on SDGs

Gender equality (SDG 5)

The fifth SDG aims at achieving gender equality and empowering all women and girls. Sonova is committed to gender equality among its employees, does not tolerate harassment and discrimination, and supports the compatibility of pursuing a career and raising a family by promoting flexible working models. Thereby Sonova contributes to the following SDG 5 targets:

- 5.1: “End all forms of discrimination against all women and girls everywhere.”
- 5.4: “Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate.”
- 5.5: “Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.”

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Advancing our people.

Decent work and economic growth (SDG 8)

Goal number eight is to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Through our innovative products, we support people with hearing loss to actively participate in working life. Sonova also provides reasonable accommodation in its job application procedures for young people and qualified individuals with disabilities. We respect and support human rights, a responsibility reflected in our Code of Conduct and Group Supplier Principles and embedded in the company’s culture. Sonova contributes to the following SDG 8 targets:

- 8.2: “Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors.”
- 8.5: “By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.”
- 8.6: “By 2020, substantially reduce the proportion of youth not in employment, education or training.”
- 8.7: “Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms.”
- 8.8: “Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.”

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Advancing our people and Acting with integrity.

Industry, innovation and infrastructure (SDG 9)

SDG 9 has the aim to build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation. As a medical technology company with ambitious growth targets, we are committed to consumer-centered innovation and contribute to inclusive and sustainable industrialization by investing significantly in research and development and reducing our global environmental impact. We contribute to the following SDG targets:

- 9.2: “Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.”
- 9.4: “By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.”

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Acting with integrity and Protecting the planet.

- 9.5: "Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending."

Limited impact on SDGs

Environmental topics (SDGs 6, 7, 12, and 13)

The common thread in these SDGs is the safeguarding of our shared environment by reduction of environmental pollution, waste, and water use; efficiency and renewable sourcing in energy use; and abatement of climate change-related emissions. Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the entire lifecycle of its products and across all its business activities. The SDG targets that have some relevance to our own environmental policies include:

- 6.3: "By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally."
- 6.4: "By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity."
- 7.2: "By 2030, increase substantially the share of renewable energy in the global energy mix."
- 7.3: "By 2030, double the global rate of improvement in energy efficiency."
- 12.2: "By 2030, achieve the sustainable management and efficient use of natural resources."
- 12.4: "By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment."
- 12.5: "By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse."
- 12.6: "Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle."
- 12.7: "Promote public procurement practices that are sustainable, in accordance with national policies and priorities."
- 12.8: "By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature."
- 13.2: "Integrate climate change measures into national policies, strategies and planning."
- 13.3: "Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning."

6 CLEAN WATER AND SANITATION

7 AFFORDABLE AND CLEAN ENERGY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

You can read more about our targets and performance related to these SDGs in the corresponding section of this CR Report: Protecting the planet.

Peace, justice and strong institutions (SDG 16)

The goal of SDG 16 is to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels. Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws. Sonova has identified one SDG 16 target as relevant to its business:

- 16.5: "Substantially reduce corruption and bribery in all their forms."

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

You can read more about our targets and performance related to this SDG in the corresponding section of this CR Report: Acting with integrity.

Partnerships for the goals (SDG 17)

SDG 17 aims at strengthening the means of implementation and revitalizing the global partnership for Sustainable Development. We support multi-stakeholder partnerships through our membership in the UN Global Compact and our ongoing dialog with stakeholders to enhance transparency, broaden knowledge, and generate innovative solutions. Sonova contributes to the following SDG 17 targets:

- 17.16: "Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries."
- 17.17: "Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships."

17 PARTNERSHIPS FOR THE GOALS

You can read more about our targets and performance related to this SDG in the corresponding sections of this CR Report: Stakeholder engagement and Serving society.

Strategic areas

Serving society

We constantly innovate in hearing health care, improve access for people in under-served areas and engage actively with our communities.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this strategic area, Sonova contributes to SDGs 3 and 4. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Hearing – an underestimated topic

Global prevalence of hearing loss and consequences

The importance of good hearing and the consequences of hearing loss continue to be underestimated. Unaddressed hearing loss is among the three largest causes of years lived with disability (YLD) around the globe, and yet it remains an “invisible disability” with approximately 1.5 billion people – 20% of the global population – experiencing some degree of hearing loss, according to the World Health Organization (WHO) statistics.[1]

20%

of the world’s population experience some degree of hearing loss[1]

Over 5% of the world’s population – 430 million people – experience moderate or higher grades of hearing loss[2]; nearly 30 million have profound or complete hearing loss in both ears. The number of people with hearing loss continues to rise, due both to the aging of populations and to growing noise pollution in our environment. WHO estimates that by 2050, 2.5 billion people (1 in every 4) will experience hearing loss, and over 700 million people will require hearing care due to a moderate or higher grade of hearing loss[1].

People with untreated hearing loss are often faced with serious consequences. These range from adverse effects on personal relationships to disadvantages at work and social isolation, which may even lead to depression. Especially severe are the consequences for children with untreated hearing loss, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss also is often associated with academic underachievement, which can lead to lower job performance and fewer employment opportunities later in life.

In addition to the impact of hearing loss at an individual level, untreated hearing loss puts a heavy cost burden on society. Direct and indirect costs related to unaddressed hearing loss are estimated at USD 980 billion annually, of which more than 50% are borne by low- and middle-income countries in direct health costs, loss of productivity, and societal costs[1]. Today’s hearing solutions offer the opportunity to reduce this burden significantly.

Need for hearing solutions

The fundamental need for hearing solutions is driven by long-term socioeconomic factors. The number of people on our planet will continue to increase. Although populations in low- and middle-income countries are expected to grow the most, even high-income countries with stable populations will face a growing proportion of elderly citizens, who are likely to experience hearing loss. These developments increase demand for hearing care: a large unmet need remains.

According to WHO statistics, approximately 80% of people with moderate or higher grades of hearing loss live in low- and middle-income countries, with the most affected regions being the Western Pacific, South-East Asia, and the Americas[1]. People in such countries often have little or no access to audiological services, and the hearing care market is still relatively underserved. WHO estimates that total current hearing aid production worldwide would meet only around 3% of the need in low- and middle-income countries[3]. This situation presents substantial opportunities to increase access to hearing care.

1) WHO, "World Report on Hearing" (2021)
2) In 2021, the WHO has adapted its grading system on the severity of hearing loss. The threshold for moderate hearing loss is 35dB in the better hearing ear.
3) WHO, "Factsheet: deafness and hearing loss" (March, 2020)

Innovative hearing solutions

Broad product portfolio

The hearing care market is highly diverse, requiring a broad range of technologically advanced solutions and versatile customer service channels. Our declared goal is to offer the most innovative hearing solutions and services available to consumers worldwide, continuously improving speech intelligibility, sound resolution and quality, and ease of use. The comprehensive, interdisciplinary knowledge that we acquire in the process is factored into each of our products. It also enables us to offer a broad spectrum of service and pricing levels for individual needs and different markets in countries of all income levels.

In 2020/21, 61 new patent applications were filed across the Sonova Group. By the end of March 2021, Sonova owned in total over 1,800 active granted patent and design rights.

Digital solutions

In addition to improving audiological quality and ease of operation, Sonova continuously expands digital solutions that bring together the healthcare provider and the consumer in real time through all stages of the hearing journey. From online-based histories and customer support to remote adjustment and optimization under real-life conditions, digitally networked solutions offer consumers a higher degree of control and autonomy. Wherever users might be, their audiologist can be by their side online, directly capturing data on the specific audiological situation and providing immediate assistance. Continuous data monitoring and statistical analysis of listening situations allow user-specific fine tuning, as well as more targeted advice.

A key example is the myPhonak app, which gives wearers an enhanced and personalized hearing experience, including remote support, fitting, and control, as well as advanced customization options such as noise reduction and speech focus.

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 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.

Partnerships and collaborations

At Sonova, we consider interdisciplinary collaboration as the guarantor of progress – and essential for such a complex subject as hearing. A key area of our innovation strategy is therefore establishing and promoting international networks, which pool the expert knowledge of leading research bodies, hospitals, companies, and institutions, and bring it to fruition in new hearing solutions.

Long-term partnership and open exchange are the hallmarks of our collaboration with over fifty top-class universities and centers of excellence and technology. The focus of this interdisciplinary work is to leverage all potential for innovation: broadening understanding of auditory perception and cognitive processing, driving forward digital signal processing and miniaturization of electronics, improving material and implantation technologies, and researching the potential of bionics. We work especially closely with the international groups of experts from the Pediatric Advisory Board to develop hearing solutions that counteract hearing loss in early childhood and at the same time include and support the entire family.

>50

number of scientific collaborations

Accessibility and affordability

Distribution network

Innovation is not limited to products – it also drives the way we approach the market, both through our wholesale companies and our audiological care network. Operating through many channels multiplies the potential paths to hearing in all markets, even in parts of the world where hearing care has been in short supply. Our Audiological Care business represents the second-largest store network in the industry, with a clear path to further growth. We operate a global network of about 3,300 stores and clinics in 20 key markets.

The severe COVID-19 related restrictions in many markets, aimed at slowing the spread of the virus, had an impact on the entire hearing care industry, including Sonova as a market leader. Audiology stores – the primary distribution channel for hearing care products and services to consumers – had their operating hours reduced or were temporarily closed. Senior citizens, who account for a large proportion of hearing care consumers, are part of the high-risk group for COVID-19 and were asked to stay at home to protect their health. Elective surgeries, including cochlear implants, were deferred in many countries.

Our utmost priority is to protect our employees, their families, our customers, consumers, and partners. At the same time, hearing remains a fundamental human need. Sonova has been working hard to ensure continued access to necessary hearing care and solutions in compliance with regulations. We are aware of our responsibilities, especially towards elderly consumers, and have therefore taken strict precautions. Employees supporting people who need hearing care all work compliantly while giving top priority to safety, health, and hygiene.

Access in remote areas

One example of Sonova’s efforts to increase access to hearing care for people living in rural areas is the TeleAudiology model, pioneered by Triton Hearing, a Sonova Group company in New Zealand. Despite Triton’s nationwide network of 70 clinics across the country, many New Zealanders still find seeing an audiologist difficult, especially in communities of indigenous people living in remote areas. Triton fitted out two buses with state-of-the-art diagnostic hearing equipment and turned them into mobile, full-service hearing clinics.

A hearing care professional provides the in-room support, including performing video otoscopy, positioning transducers, and handling hearing aids. Through TeleAudiology, clients are connected with audiologists over a high-definition teleconferencing system. It is possible to provide a full diagnostic assessment, hearing and communication needs assessment, impression taking, hearing aid fitting and verification, purchase, and follow-up services through a synchronous, live connection. Although the COVID-19 pandemic restricted the activities of the mobile hearing clinic buses during the past year, digital solutions, such as remote support, were strongly enhanced to maintain service to people in remote areas.

Customized solutions

We develop dedicated products and services for underserved markets. For example, around 1.3 billion people around the world speak a Sinitic language such as Mandarin or Cantonese[1]. These are tonal languages, where the basic frequencies communicate the information content of words. To better understand the specific needs of Chinese people with hearing loss, we are working with China's largest hospital, the Tongren Hospital in Beijing. The result is a specific prescription formula for the amplification/frequency curve shapes of tonal languages – or, to put it more simply, hearing aids offering significantly better speech clarity for millions of people in Asia.

1) Ethnologue: Languages of the World, 22nd edition (2019)

Underserved markets

Affordable hearing care is still a challenge for many people in low- and middle-income countries and for underprivileged social groups in high-income regions. Sonova is committed to increase accessibility and affordability of hearing care by expanding its presence in underserved markets.

We aim to increase the number of hearing aids sold in low- and middle-income countries by 50%. The global health and economic crisis resulting from the COVID-19 pandemic severely affected the hearing care market and with it our business activities. We therefore adjusted the target date for achieving the 50% increase by one year from 2022/23 to 2023/24. Progress is presented in the table below.

Sales growth in low- and middle-income countries
vs. 2018/19

	2020/21	2019/20
Increase in number of HI sold in low-and middle-income countries vs. 2018/19	+0.4%	+1.1%

Training and education

Many countries lack trained health personnel, educational facilities, and necessary data to address the needs of those living with hearing problems. These factors, and the lack of hearing care professionals and infrastructure in many markets, can impede efforts to raise the proportion of people receiving hearing care. Building local capacity worldwide and training hearing care professionals to the highest standards is very important to Sonova.

As an example, China faces the challenge of a rapidly growing number of people with hearing loss due to an aging population, which will put more strain on an already under resourced hearing care system. Sonova decided to tackle the significant lack of comprehensive, practical training for hearing care professionals and build a training center – the Global Hearing Institute in Suzhou. The center offers advanced audiology courses and practical training for hearing care professionals from the entire Asia-Pacific region; it features a soundproof room for hearing tests and workstations for fitting ear-molds. The uptake of training courses by hearing care practitioners from across China has been very strong since the center opened in May 2017. After the courses, participants keep in touch with their trainers via chat and can contact them if they need advice on issues back in the workplace. In 2020/21, the Global Hearing Institute provided around 40,000 online training sessions.

40,000

online training sessions provided by the Sonova Global Hearing Institute in China in 2020/21

Sonova's commitment to provide high-quality training for hearing care professionals applies to both developing and developed markets. The Swiss International Hearing Academy (SIHA), a Sonova Group initiative, runs a pioneering blended learning program in audiology for aspiring hearing care professionals (HCPs). The study program makes training courses viable in emerging economies where opportunities for vocational education are thin on the ground or non-existent. In 2020/21 we set a new target: to train and certify 250 HCPs in low- and middle-income countries through the SIHA 12-month HCP program by 2022/23. In 2020/21, already 150 HCPs have been enrolled in the 12-month program and are expected to graduate and become certified throughout the coming year.

In addition to the SIHA, we opened our first training center in Germany in 2019. Located in Dortmund, the Sonova Academy offers comprehensive training and development opportunities at the cutting edge of science and technology in ultra-modern training facilities. The program of in-person and eLearning modules complements Germany's existing training offerings in hearing acoustics: The Sonova Academy cooperates closely with the German Academy for Hearing Acoustics and the German Vocational School for Hearing Acoustics.

Philanthropy

Hear the World Foundation

Sonova's philanthropic engagement at Group level has a strong focus on increasing access to hearing care in low- and middle-income countries, especially for children. We achieve this primarily by supporting the charitable Hear the World Foundation – initiated by Sonova in 2006 – with funding, expertise, and hearing solutions. In 2020/21, Sonova has committed to the following new target: We aim to increase the number of lives affected by the Hear the World Foundation by 10% year-over-year.

The mission of the foundation is to improve the quality of life of people in need with hearing loss worldwide and create equal opportunities by giving them access to hearing healthcare. The foundation makes essential contributions to the UN Sustainable Development Goal (SDG) 3 (good health and wellbeing) and SDG 4 (quality education) by investing in projects benefitting children in need with hearing loss, providing training, and building local capacity in countries that lack qualified hearing care professionals, and supporting prevention of hearing loss.

>640

professionals trained in programs supported by the Hear the World Foundation in 2020/21

In 2020/21, the foundation supported 18 programs globally, in which over 640 professionals were trained, over 8,000 hearing screenings conducted, and around 900 parents of children with hearing loss were supported. Sonova employees conducted around 600 hours of volunteer work for the foundation. You can find more data in the foundation's Activity Report, which is published annually and available on the foundation's website and provides detailed information on the foundation's strategy, activities, goals and impact.

Philanthropic contributions

In the 2020/21 financial year, the total monetary value of Sonova's contribution to corporate citizenship and philanthropic activities amounted to around 3.6 million CHF. Broken down by type of activity (see first table below), the vast majority (98%) of the monetary value of all contributions was in the form of community investments: long-term strategic involvement with community partner organizations by the Hear the World Foundation with the aim to improve quality of life and create equal opportunities. A total of 1% of the cost of all activities was in the form of charitable donations, and 1% was for commercial initiatives, e.g. research projects, sponsoring of community organizations, and other initiatives related to the topic of hearing supported by Sonova. Broken down by type of contribution (see second table below), the total of around 3.6 million CHF comprises 67% in-kind contributions (mostly hearing instruments and cochlear implants), 16% direct cash contributions, 16% management costs (e.g. staff salaries and overheads), and 1% time (e.g. employee volunteering).

Monetary value of philanthropic contributions by type of activities

CHF [1]

	2020/21	%	2019/20	%	2018/19	%
Total	**3,615,086**	**100%**	**4,383,826**	**100%**	**3,267,062**	**100%**
Community investments	3,550,680	98%	4,024,921	92%	2,950,573	90%
Charitable donations	30,990	1%	132,884	3%	50,920	2%
Commercial initiatives	33,416	1%	226,021	5%	265,569	8%

1 Only contributions at Sonova Group level included, does not include contributions at brand level.

Monetary value of philanthropic contributions by type of contribution

CHF [1]

	2020/21	%	2019/20	%	2018/19	%
Total	**3,615,086**	**100%**	**4,383,826**	**100%**	**3,267,062**	**100%**
Cash contributions	583,416	16%	676,021	15%	715,569	22%
Time	36,239	1%	200,840	5%	291,435	9%
In-kind contributions	2,406,431	67%	2,993,965	68%	1,751,058	54%
Management costs	589,000	16%	513,000	12%	509,000	16%

1 Only contributions at Sonova Group level included, does not include contributions at brand level.

Serving society

Audiological training via blended learning

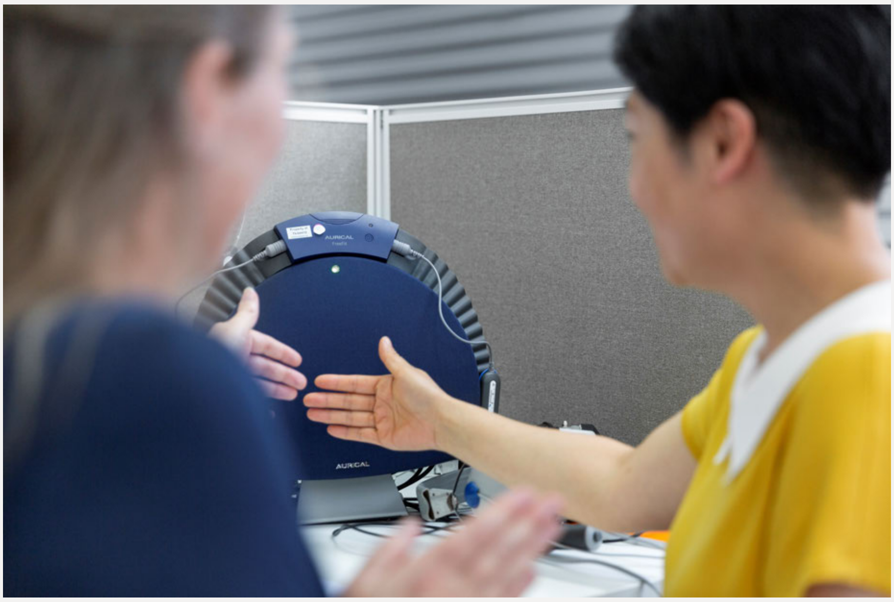
The Swiss International Hearing Academy (SIHA), a Sonova Group initiative, runs a pioneering blended learning program in audiology for aspiring hearing care professionals. Its integrated approach combines the advantages of face-to-face tuition and e-learning. This attractive blend of online, offline and practical learning experiences provides a comprehensive grounding in a globally sought-after profession that still has a shortage of qualified specialists. Besides audiological skills and expertise, the program's modular structure also imparts a deeper-than-usual understanding of the sales process and business requirements. In addition, the study program makes training courses viable in emerging economies where opportunities for vocational education are thin on the ground or non-existent.

Albert is in his mid-70s and living with hearing loss. It hardly bothers him, but has been a source of concern to his wife. It is she who persuaded him to seek professional advice at an audiology store. He is at the store right now, not quite sure what to expect. How can Albert be encouraged to acknowledge that he needs assistance? This question is one of many in a fictional consultation within a teaching module designed to help budding hearing care professionals to focus on the customer. This case (which closely mirrors real life) and the ensuing role-play represent a typical scenario in a consultation. Such customer interactions need to be practiced – virtually, in the first instance, via SIHA, a global training program for aspiring and qualified hearing care professionals alike that has been running for Sonova Group employees and external participants since 2020.

Along with their other activities for the Sonova Group, Bettina Turnbull (Director of Audiology, Knowledge Management & Education), Jean Anne Schnittker (Research Audiologist), and Barbara Münch (Audiology and Product Education Manager) have been working on the program as a global, interdisciplinary team for about five years. In addition to their audiological qualifications, they all have many years of experience in education. This has enabled them to structure the SIHA program to meet both varying international educational standards and the needs of a diverse range of participants.

Bettina explains the background to the resources on offer on the SIHA learning platform, which is already used to complement practical training courses at audiological centers such as the Sonova Global Hearing Institute in Suzhou (China): “What’s special about these teaching resources is their problem-based structure. It’s not just a question of correctly diagnosing hearing loss and selecting the appropriate device. There are lots of psychological elements that play a significant part in customer consultations, and the SIHA program can help participants to practice understanding these and approaching them professionally. A consultation will only succeed if the client is prepared to accept help and audiological treatment.” In short, if aspiring hearing care professionals are to navigate challenging real-world situations effectively, they need more than just technical expertise – they must understand the importance of empathy and be able to listen and ask open questions. “We don’t concentrate on hearing and the ears in isolation. Our interest is always in the people to whom those ears belong. We focus on the customers, with all their needs.”

So how does this new blended learning program work? It comprises twelve modules that are worked through in parallel with the practical and technical components over a period of 1,500 to 2,000 hours. The qualification takes about a year to obtain. Those selected to participate log in, use face-to-face teaching resources, do virtual hearing tests, solve sample cases, do homework assignments and receive grades. Bettina gives a concrete example of the process. “Let’s take Albert, the pensioner with hearing loss who is not convinced he needs hearing aids, as a typical case. Several consultation examples are simulated with him, and there is a choice of various response options for each scenario. If the participant clicks on the wrong answer, they are sent back to the start and keep practicing until they are able to provide the correct answers to each scenario.”



Almost 100 participants have benefited from the new program since its launch, with the first external cohort of trainees beginning in Suzhou in May 2020 and finishing twelve months later. Previous graduates from the highly successful test phase hail from various English-speaking countries (USA, Australia, and New Zealand), where the program was introduced in 2019. Although still in its infancy, the SIHA program has already picked up a final-round nomination for “Best Online Distance Learning Program” at the 2020 Learning Technology Awards in London (UK) and won a gold medal for “Best Advance in Technology Innovation for the Remote Workforce” at the prize-giving organized by the Brandon Hall Group, a global research and analysis organization based in the USA.

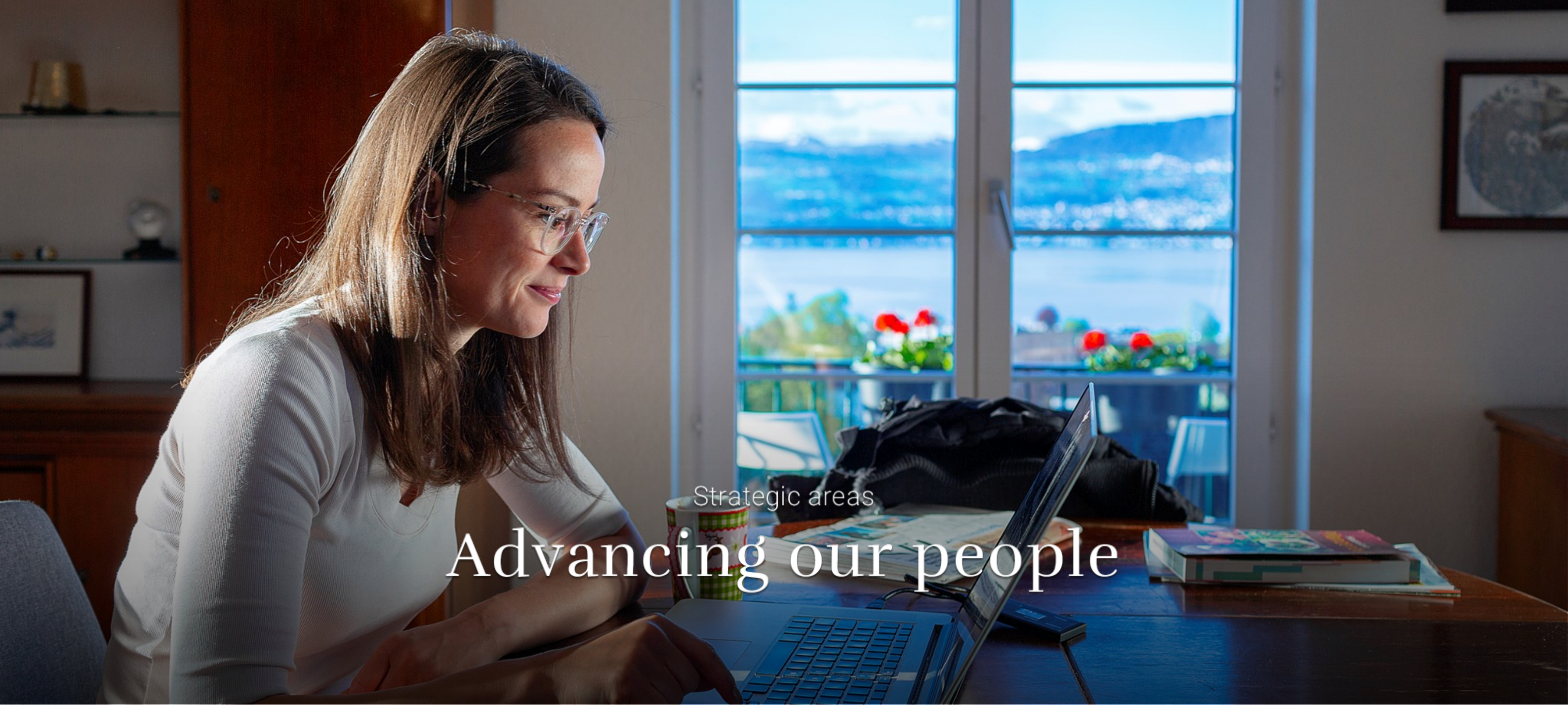
As many sectors switched to virtual working during the pandemic year of 2020, demand for the new program skyrocketed both in-house and further afield. Online learning has also been used at Sonova in vocational training for employees in the marketing department, as Bettina explains: “Almost half of the sales reps in the USA had no experience of audiology when they were hired. The SIHA program, minus its clinical components, was incorporated as onboarding training so these new employees could quickly get up to speed on the hearing aid industry. Thanks to SIHA, the settling-in period, which would otherwise take years, can be completed in just a few weeks.”

Because of its digital approach, the teaching program is also suitable for countries that have no infrastructure in terms of schools and training centers for the audiology sector. To ensure increased access to hearing care in such areas, Sonova is using SIHA to support the expansion of local provision worldwide and to train audiology experts to the highest standards.

In February 2021, Barbara Münch launched a one-year SIHA course that attracted considerable interest and three times as many applications as anticipated. Participants come from a host of different countries and regions, including Eastern Europe, the Middle East, and Latin America.

In light of this high demand, the online resources are to be rolled out in as many countries as possible in the future, and in developing economies in particular. Additional language versions are in the planning stage and several joint ventures have already been set up with local vocational training institutions around the globe. The German Jordanian University in Amman is to work with SIHA to develop a portfolio of courses in Arabic for the Middle East, while the Academy of Hearing Acoustics in Lübeck, which has been offering international courses for more than ten years, also sees great potential in working with SIHA. The range of SIHA courses on offer at Sonova’s Global Hearing Institute in Suzhou is intended to attract interest from across Asia. As the SIHA program was also designed for external participants and not exclusively for Sonova, it can be used on a broad international stage. Against this backdrop, SIHA has been working with the Hear the World Foundation, which is able to run the program for cooperation partners on the ground in low- and middle-income countries where audiological training is not provided.

SIHA aims to continue rolling out its pioneering training program on a global scale with a view to providing practical vocational training in as many countries as possible. Given that training rates in the field of audiology – especially in low and middle-income countries – have historically been very low, SIHA is already making a significant contribution towards enhancing provision worldwide.



Strategic areas

Advancing our people

We foster our employees' development, well-being and engagement in an inclusive work environment that embraces diversity.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this strategic area, Sonova contributes to SDGs 5 and 8. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Our employees are key to our success

The success of Sonova stems not only from our innovative solutions, but our people and our culture. Across our business and brands, we all share one vision: to create a world where everyone enjoys the delight of hearing and lives a life without limitations. This unifying vision, taken together with our corporate values, forms the foundation of our culture and creates a common understanding of how we work to create the best possible result for all our stakeholders.

Number of employees

GRI 102-8

The number of employees decreased in the current reporting year by 4.5% to a total of 14,508 full time equivalents. The difference of 676 employees compared to the previous year stems mostly from acceleration of structural initiatives aimed at optimizing our non-customer facing functions such as general and administrative activities, logistics, and back office, as well as streamlining the Audiological Care store network.

Employees by region
(×) PwC CH
FTE (end of period) [1]

	2020/21	2019/20	2018/19
Total (Regular and Fixed-term)	**14,508**	**15,184**	**14,740**
Switzerland	1,321	1,290	1,224
EMEA (excl. Switzerland)	6,443	6,878	6,748
America	3,415	3,538	3,443
Asia/Pacific	3,329	3,478	3,325

[1] Employee numbers do not show any seasonal or other temporary fluctuation.

Employees by employment contract
(×) PwC CH
% of employee headcount [1]

	2020/21	2019/20	2018/19
Regular	82.4	84.4	86.6
Fixed-term [2]	2.0	2.6	2.9
External temporary [3]	12.5 [4]	9.8 [4]	7.2
Interns	3.2	3.2	3.3

1 Information about FTE not available for temporary hires, therefore % split calculated based on headcount.
2 Employees on fixed-term contract.
3 Agency temps and contingent workers.
4 Increase in external temporary employees compared to previous year due to increased number of time-critical projects that required external support.

Human resource organization

The majority of our employees are directly supported by a local human resources (HR) manager. At our corporate headquarters in Switzerland, we develop – in collaboration with our Group companies – and monitor a comprehensive set of global human resource processes, standards, and policies, which are implemented locally in line with country-specific regulations and customs. We assess the impact of all our activities through a set of key performance indicators such as turnover, internal leadership recruitment rate, and depth of available in-house talent. Regular audits ensure compliance with internal regulations and local labor law, with the objective to provide excellent working conditions and monitor progress in all our locations. We estimate that around 30% of Sonova's global workforce is represented by an independent trade union or covered by collective bargaining agreements.

Employee engagement

This year was the third in which we conducted HearMe, Sonova's anonymized annual employee engagement survey. The survey is conducted together with an external provider. More than 90% of employees participated worldwide, providing valuable information about ways we can boost collaboration across the Group. Of respondents, 83% reported feeling engaged through their work (81% for men, 84% for women). Concrete initiatives inspired by HearMe results have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thereby stimulate professional growth and business success. In 2020/21, a dedicated global cross-functional team was set up to drive continuous improvement in processes that create increased employee engagement.

83%

report feeling engaged through their work at Sonova

Our priority target is to achieve an employee engagement rate equivalent to that of high performing companies by 2022/23. The current employee engagement rate of 83% means that we are currently four percentage points below the benchmark level of high performing companies (87%), which we plan to achieve by 2022/23.

Employee engagement
(×) PwC CH
% of employee headcount

	2020/21	2019/20	2018/19
Employee engagement rate	**83.0**	**83.0**	**84.0**
Women	84.0	84.0	85.0
Men	81.0	81.0	82.0

GRI 404-3

Talent development

We offer a flexible and inclusive work environment and an open culture that inspires personal growth and professional development. Line and HR managers review the competencies, performance, and potential of our employees through a yearly appraisal process. By setting individual and measurable goals, we promote a sense of accountability.

We believe that every employee should have an individual development plan. We therefore launched in spring 2019 an initiative that allows employees at all levels to define their own development objectives under the annual appraisal process and to discuss them with their managers in dedicated development conversations. The aim is to ensure that we are investing effectively in the advancement of each individual's strengths and preferences. In 2020/21, we set the new target that over 95% of employees should have a development plan by the end of the 2022/23 financial year. The target covers all employees at Sonova worldwide, except those with job roles in production/assembly. For these employees, other skill-related growth paths are identified. At the end of 2020/21, over 80% of employees had a development plan.

Our global Succession Planning process allows us to mitigate the risk of losing expertise in key positions while identifying and developing promising candidates for internal succession.

Talent attraction and retention

GRI 401-1

Global trends such as demographic changes, a limited availability of specialist talent, and the need to adapt quickly to shifting markets highlight the importance of a proactive staffing strategy for Sonova. We strongly believe that developing talent with the goal of ensuring internal succession is vital to sustainable success. Appointing internally to key positions while retaining and developing skilled employees helps to ensure that Sonova's specialist knowledge and intellectual property remain within the company, sustaining our competitive advantage. In 2020/21, we were able to fill 69.7% of our open leadership positions with Sonova employees.

Internal leadership recruitment rate (ILRR)
(×) PwC CH

% of employee headcount [1]

	2020/21	2019/20	2018/19
Total (% of total internal hires)	**69.7**	**67.1**	**52.3**
Women (% female of internal hires)	47.1	51.7	55.0
Men (% male of internal hires)	52.9	48.3	45.0

1 In 2018/19, Audiological Care Germany was excluded. In 2019/20 and 2020/21 Audiological Care Germany is included for the total statistics only.

New hire rate
(×) PwC CH
% of new hired FTE

	2020/21	2019/20	2018/19
Region			
Switzerland	8.3	7.3	4.4
EMEA (excl. Switzerland)	27.4	38.9	33.7
America	35.2	38.5	29.7
Asia/Pacific	29.1	15.3	32.1
Gender			
Women	67.6	66.3	67.1
Men	32.4	33.7	32.9
Age			
under 30 years old	50.6	41.9	48.4
30–50 years old	41.5	47.1	41.8
over 50 years old	7.9	11.0	9.7

Our conscientious treatment of our workforce, professional leadership culture, and proactive approach to employee retention over the past years have combined to keep our global employee turnover to a level of 15.1%. The average tenure of our managerial staff is 9.1 years, while the total average workforce tenure is 5.9 years.

Employee turnover rates
(×) PwC CH
% of FTE [1]

	2020/21	2019/20	2018/19
Total	**15.1**	**14.9**	**12.3**
Region			
Switzerland	6.2	8.0	6.8
EMEA (excl. Switzerland)	12.2	13.4	8.9
America	21.7	20.0	19.5
Asia/Pacific	17.6	15.0	12.2
Gender			
Women	15.7	14.5	12.2
Men	13.1	14.8	12.0
Age			
under 30 years old	21.2	19.1	16.2
30–50 years old	13.3	13.7	10.6
over 50 years old	12.3	12.2	8.2

1 The employee turnover rate is the percentage of the employees who left Sonova during the fiscal year; this includes continuing and discontinued operations (excl. leaves following company sale). In 2018/19, Audiological Care Germany was excluded from the total workforce. In 2019/20 and 2020/21, Audiological Care Germany is included for the total and EMEA (excl. Switzerland) statistics only.

Leadership Development programs

Our leadership development landscape is based on a portfolio of different programs:

Training program	Audience	Description
Aspiring Leaders	• Employees with leadership aspirations • 12–16 participants per cohort	The Aspiring Leaders program is two-day program that encourages participants to start thinking about their own leadership brand and about how they can best fulfill and contribute to Sonova's future.
Leadership Foundations	• Aimed at all new people managers • Recommended for all people managers • 8–16 participants per cohort	The Leadership Foundations program is a two-day intensive program focusing on how Sonova's values apply to leadership, and covering people management and leadership skills.
Leadership Foundations Light	•Virtual program aimed at all new and middle people managers. • 16–24 participants per cohort	This is a redesign of Leadership Foundations for virtual learning, consisting of three online sessions delivered during one month.
Leading Effective Teams	• Foundations alumni with direct reports • Ideally 9+ months after Foundations • 16–24 participants per cohort	Leading Effective Teams focuses on effective and productive collaboration. It is a yearlong program containing 2 two-day face-to-face workshops: one in the beginning to kick-off the program, and one in the end to close the program, with virtual sessions in between. Participants are asked to team up to tackle real business problems they are facing as leaders.
Power Sessions for Leaders	• Targeting all leaders • 2–4h workshops • Recommended for all people managers • 8–24 participants per cohort	Power Sessions for Leaders are focused workshops covering specific leadership topics in human resources and other areas to support our leaders in their daily challenges and responsibilities (e.g. Writing Effective Performance Objectives, Performance Appraisal for Managers and more).
Webinars for Leaders	• Targeting all leaders • 1–2h webinars • Recommended for all people managers • Up to 40 participants	Webinars for Leaders are focused virtual sessions covering specific leadership topics in human resources and other areas to support our leaders in their daily challenges and responsibilities.

Through intensive feedback, coaching, and experiential learning, these programs give participants the chance to reflect on their personal style, to understand and to increase the impact they have on their performance, and to plan how they will continue to develop as leaders at Sonova. In the 2020/21 reporting year, around 1,900 individual leaders participated in a total of 6,840 hours of leadership development training.

Learning & Development

SonovaLearning is our group-wide education platform for all employees. It also serves as a cross-business learning network, promoting consistent actions and enabling change throughout our organization. SonovaLearning offers targeted programs, giving all our employees the opportunity to enhance their skills and competencies. We support the programs with an e-learning information platform, launched in 2019, which is accessible at all times. Over 2,500 employees accessed almost 37,000 pages and articles on it during the 2020/21 financial year. In addition, mandatory trainings available on the e-learning platform ensure that our employees have the expertise to do their work correctly and according to relevant rules and regulations.

A strong focus on customer service is also reflected in our training programs: we are convinced that a trusting personal relationship, founded on expertise and understanding, is the best way for customers to reap the full benefit from their hearing solution. The

Sonova Academy in Germany opened in summer 2019, offering face-to-face and online training to further develop the ability of our hearing health care professionals to deliver the best service and customer experience.

We measure the success of the career development process in two ways: each line manager assesses development planning and employee progress, while Sonova's Group HR tracks the internal promotion rate and participation in the training programs.

Traineeship programs

Sonova has an excellent network of research collaboration with various leading universities around the world, where students can participate in joint studies and other activities. We offer them the opportunity to work in our organization as a member of one of our research and development teams, either in an internship, or as part of their Bachelor's, Master's, or PhD thesis work.

Our talent acquisition process also targets the most sought-after group of professionals in our industry: experts in audiology. To support our constant need for top audiologists, we offer an international Audiological Traineeship program, with training placements in the US, Canada, and Switzerland. This program is an opportunity for ambitious audiology graduates to benefit from a one-year formal development and rotation experience, where they can work with our talented audiologists in various business units (audiology, marketing, customer training, sales, and research) before starting on their career path with Sonova.

At Sonova we conscientiously support and invest in Switzerland's effective dual training system, which links formal education with in-company training, providing both theory and necessary practical experience. The number of our apprentices has doubled since 2013, and we train more than 40 apprentices at our headquarters. The range of Sonova apprenticeships is highly diverse, offering training in twelve professions, from polytechnician through logistics clerk to cook. Sonova supports education and training for young people with disabilities. In recent years, several apprentices with disabilities have successfully completed an apprenticeship at Sonova.

Diversity and inclusion

Commitment

GRI 102-8, GRI 405-1

As a leading provider of innovative hearing solutions, Sonova stands for equal opportunity: it is our vision to create a world where everyone – without distinction – enjoys the delight of hearing. By offering the most comprehensive range of solutions to treat all major forms of hearing loss, we aim for our consumers and employees to feel fully included in society. To help us reach this challenging goal, our workforce and work culture need to reflect the values of diversity and inclusion.

As an employer, Sonova actively fosters diversity and inclusion. We value the diversity of languages, background, ethnic origin, disabilities, culture, beliefs, gender identity and/or sexual orientation among our employees, which reflects the diversity of our stakeholders and the communities in which we operate. Our commitment to diversity and inclusion is included in our Code of Conduct and is binding for all our employees.

We know that diversity and inclusion is essential for our success and for our employees to thrive. We are committed to providing equal hiring, development, and advancement opportunities. We strive to create an environment in which all employees feel safe, valued, included, and empowered to do their best work, realize their full potential, and bring innovative ideas to support our customers and businesses. We know that each employee's unique experiences, perspectives, and viewpoints enhance our ability to deliver the best possible medical devices, services, and support to our customers, consumers, patients, and business partners.

D&I Strategy

In 2020/21, Sonova began implementing its enhanced global diversity and inclusion strategy. This is built around five pillars:

Governance
We have set up a global Diversity and Inclusion Council, chaired by Sonova's CEO with representatives from regions and key diversity dimensions. The Council sets targets, establishes accountability for target achievements, ensures that the necessary resources are in place, and regularly monitors progress.

Targets
We set diversity and inclusion objectives and measure our progress toward achieving them, while ensuring their alignment with other strategic business objectives. We monitor the composition of our workforce, where appropriate and legally permitted, along various diversity dimensions such as age, gender, nationality, or ethnic origin.

Hiring and development
We stand for equity, equal opportunity, diversity, and inclusion in the workplace – in all our operations. We foster an environment that attracts and retains the best talent, mitigates biases, and encourages the contribution of diverse ideas, backgrounds, and perspectives to build the best team. We create opportunities for training, development, and progression, helping and encouraging our employees to develop to their full potential.

Training
We train our employees and leaders on general topics in diversity, inclusion, and bias mitigation. We also train colleagues on how to embrace diversity and contribute to an inclusive Sonova culture in their specific functional roles.

Communication
We drive active and transparent communication on diversity and inclusion to foster an inclusive culture, encourage role model behavior, and emphasize the high relevance of diverse and inclusive teams as a core element of our values and business strategy.

Progress and actions

Sonova has put special emphasis on recruiting and promoting women and employees from different cultures to leadership and executive positions. As part of our ESG commitments, we set in 2020/21 the following diversity and inclusion targets:

- To aim for 40% women in key positions by 2025
- To train over 95% of employees on diversity and inclusion by mid-2021

We are proud that today, across all management levels, women hold 49% of all positions involving staff responsibilities and 34% of key positions are held by women. In lower and middle management, the ratio of women is around 57% – these are good conditions to reach our ambitious gender diversity targets in upper and senior management through professional succession planning, individual development plans, and gender-balanced representation in filling open positions. In 2020/21, 39% of all our external hires to lower, middle, upper, and senior management positions were women, as were 47% of all our internal promotions to management positions.

We actively support the compatibility of pursuing a career and raising a family by promoting flexible working models such as home office, flexible working hours, and part-time work in leadership positions. Our terms of employment guarantee our employees in Switzerland several additional family-related benefits, including 16 weeks of maternity leave, four weeks of paternity leave, and the possibility of purchasing additional vacation time. In all our production sites, where shift work is standard, employees returning from maternity leave can choose to work at between 50% and 100% of their previous level during their first year back. We operate our own day care center at our headquarters in Stäfa and financially support lower-salary employees in Stäfa and in our production center in Vietnam to help pay for day care. In the US, among other countries, we have breast feeding rooms at our offices.

The positive trend towards gender balance in senior leadership levels gives us confidence that we are on the right track. To fully leverage the potential of our internal talent, we will further strengthen our efforts to remove unconscious barriers throughout the talent management cycle and keep a diversity focus in talent development.

Women in management positions
(×) PwC CH

% of employee headcount within respective management position

	2020/21	2019/20	2018/19
Women in senior management [1]			
Total	**20.3**	**16.4** [2]	**15.9** [2]
Switzerland	15.6	11.7	14.8
EMEA (excl. Switzerland)	17.8	10.0	8.3
America	39.3	37.9	35.0
Asia/Pacific	12.5	11.8	13.3
Women in upper management			
Total	**36.6**	**35.1**	**33.1**
Switzerland	23.2	20.6	21.3
EMEA (excl. Switzerland)	37.6	36.8	37.4
America	43.4	39.3	33.5
Asia/Pacific	40.0	41.6	36.1
Women in lower and middle management			
Total	**56.6**	**56.5**	**54.8**
Switzerland	26.6	25.6	31.2
EMEA (excl. Switzerland)	58.9	60.0	57.5
America	59.6	56.2	53.1
Asia/Pacific	57.0	56.6	56.9
Women in non-management			
Total	**69.0**	**69.9**	**69.2**
Switzerland	46.4	47.4	45.4
EMEA (excl. Switzerland)	68.0	69.1	68.5
America	69.6	69.9	69.3
Asia/Pacific	78.1	78.7	78.0

1 Definition of “senior management”: Management Board, Managing Directors, Management Board-1.
2 Definition of “senior management” was adjusted in 2019/20 and data restated for 2018/19.

In 2020/21, employees had the opportunity, through our global HearMe employee engagement survey, to voluntarily self-identify as belonging to an underrepresented group within their team or organization – in terms of age, gender, language, ethnic origin, religion, sexual orientation, health status, or any other category. Out of all respondents, 17% of employees self-identified as belonging to an underrepresented group.

Below is a breakdown of our global workforce over the past three years by gender and age.

Employees by gender
(×) PwC CH

% of employee headcount [1]

	2020/21	2019/20	2018/19
Women			
Share of total workforce	65.5	66.4	65.7
Part-time employees	13.3	16.4	18.4
Men			
Share of total workforce	34.5	33.6	34.3
Part-time employees	2.5	6.0	6.3

[1] Only regular contracts, no fixed-term contracts.

Employees by age
(×) PwC CH

% of employee headcount [1]

	2020/21	2019/20	2018/19
All employees			
under 30 years old	18.8	21.7	20.7
30–50 years old	58.7	59.7	60.3
over 50 years old	22.5	18.6	18.9
Women			
under 30 years old	20.7	23.9	22.6
30–50 years old	58.6	59.1	59.9
over 50 years old	20.6	17.0	17.4
Men			
under 30 years old	15.0	17.1	17.1
30–50 years old	58.9	61.1	61.1
over 50 years old	26.1	21.8	21.9

[1] Regular employees only.

To advance on our journey of diversity and inclusion, we are actively addressing the role of unconscious biases. In September 2020, we began roll-out of unconscious bias training for all leaders across the organization. At the end of the financial year 2020/21, around 72% of leaders have already participated, with 21% approaching completion of the training. Follow-up webinars are scheduled for after the first training cycle. In addition, we launched an unconscious bias awareness e-learning course for all employees, which will also be part of the mandatory onboarding program for new joiners. Diversity and inclusion has also been included in our senior leader training and our Code of Conduct training covers its key aspects. We recently conducted a diversity and inclusion training program for our Corporate Communications team which covers unconscious bias in language and imaging and proposes concrete steps to build diversity and inclusion into our communications.

In 2020/21, as part of our HearMe annual employee engagement survey, we calculated and benchmarked Sonova’s diversity and inclusion index. 80% of respondents reported a favorable result, representing a positive trend to the two previous year’s diversity inclusion scores of 78% in 2019/20 and 76% in 2018/19.

One of the diversity and inclusion strategy's key pillars is to establish governance through dedicated bodies and responsibilities. In 2020/21, we set up the regional Diversity and Inclusion Councils Americas, EMEA, Asia, and Oceania, followed by national task forces. The Councils' main focus to date has been on analyzing the regional results from the HearMe employee engagement survey and defining diversity and inclusion priorities for the respective countries. The regional Councils will provide quarterly updates and discussion points to the global Diversity and Inclusion Council.

To raise awareness and continuously advance a culture of inclusion, we also support expanding employee networks, providing platforms where people can connect and learn from one another. Women's networks, initiated by our employees, have been established in Canada, the US, Germany, and Switzerland. Since hearing loss should not stop anyone from striving for excellence and innovation nor thriving at Sonova, we have also set-up a global Hearing Loss Resource Group which has been actively engaged in providing input and making our processes more inclusive.

Sonova also provides reasonable accommodation in its job application procedures for individuals with disabilities, and to find alternative ways for individuals with disabilities to perform essential job functions.

GRI 403-2

Occupational health and safety

Sonova promotes and provides a safe and healthy workplace. Occupational health and safety are integral to our activities. Sonova has established an effective occupational health and safety culture that supports and protects our employees. We regularly monitor and analyze the potential health and safety risks of our operations and implement both legally-required and voluntary occupational health and safety programs. Sonova's operations have a relatively low exposure to health and safety risk. Most injuries and lost work days are not caused by the manufacturing processes; they are more likely to be sustained during activities such as movement of goods. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

Any incident that requires external medical health care is considered as a work-related injury. First-aid level injuries are not included. Any work-related injury that results in the company employee not being able to return to work the next scheduled work day/shift is considered as a lost-time injury. Lost days refer to working days, not calendar days, and begin right after the accident.

In 2020/21, we recorded a lost day rate (LDR) of 32.5 (2019/20: 26.0) and lost-time injury frequency rate (LTIFR) of 2.4 (2019/20: 1.4). The increase in the LDR and LTIFR stem from a higher number of injuries and total lost days, combined with a decrease in total working hours due to COVID-19. The severity of the incidents (average number of lost days per injury) has continuously reduced over the past three years. Generally, the absolute number of injuries is low at Sonova, and small changes in it can have a significant impact on the key performance indicators. The most common types of accidents were behavior-based, such as slips, trips or falls. The root causes of each work-related injury are strictly investigated, regular local internal health and safety audits are carried out, and action plans are implemented, such as intensified local training and awareness raising activities to further reduce exposure to work-related health and safety risks. No occupational illness or disease cases have been registered in the past three years, leading to an occupational illness frequency rate (OIFR) of zero. There were no work-related fatalities.

The LDR, LTIFR, OIFR and work-related fatalities reported in the table above cover 23% of our global workforce. The selection of the facilities follows a risk-based approach, and includes e.g. the operation centers in Switzerland, Vietnam and China, as well as the operation and distribution center in the United States, and the regional European service centers in Spain and the United Kingdom. We strive to reduce further the number of lost days due to work-related injuries and have defined an internal reduction target covering all the sites mentioned above. Each site has a designated person responsible for local implementation of the health and safety program. Gender-specific indicators are not considered relevant on an aggregated level. Sonova does not record health and safety statistics for contractors since we engage only a small number of contractors and licensees. We operate within a highly integrated business model: all operation centers are owned by Sonova.

Occupational health and safety
(×) PwC CH

	2020/21	2019/20	2018/19
Lost day rate (LDR) [1]	32.5	26.0	47.0
Lost-time injury frequency rate (LTIFR) [2]	2.4	1.4	2.5
Occupational illness frequency rate (OIFR) [3]	0.0	0.0	0.0
Work-related fatalities	0	0	0

1 LDR = total number of lost days due to injuries/total hours worked x 1,000,000 (definition changed in 2019/20 from 200,000 to 1,000,000 and previous years' data adjusted for comparability).
2 LTIFR = total number of lost-time injuries/total hours worked x 1,000,000.
3 OIFR = total number of occupational illness or diseases cases/total hours worked x 1,000,000.

The COVID-19 pandemic has highlighted the importance of the health and safety topic. For Sonova, our first priority is protecting the health and safety of our global team, followed immediately by assuring that our operations can continue while complying with emergency regulations. Employees who are in contact with hearing care patients or consumers work according to the instructions of the relevant authorities and give maximum priority to safety, health, and hygiene. In countries with high infection rates, employees whose presence at the workplace is not absolutely necessary work from home whenever possible. At our offices, production sites and stores, a strict sanitary and safety protocol is in place to protect our people and avoid any further spread of the virus. Group management is helping our individual companies to execute their COVID-19 plans and contingency measures.

Employee wellbeing

Sonova is committed to foster employees' health and wellbeing. Our Group companies and operation centers take specific prevention and health promotion measures to help maintain and enhance each employee's capacity for productive and fulfilling work. Sonova's global Body & Mind initiative aligns and supports its various prevention measures. The health initiative rests on four main pillars:

- Sound and well-balanced nutrition
- Physical and mental harmony through exercise
- Re-energizing through active relaxation
- Medical care through regular check-ups and vaccinations

Our Group companies are responsible for implementing Body & Mind measures locally and for continuously refining programs in all the four areas: nutrition, exercise, relaxation, and medical care. As an example, health coaches at our operation centers lead employees in three-minute break-time exercises to reduce muscle tension. Some employee wellbeing activities at Group companies were adapted due to COVID-19 restrictions. Among examples of local activities in 2020/21 were virtual coaching sessions on stress management, resilience, ergonomics, and emotional agility, virtual yoga classes, and healthy breakfast options and salad buffet for employees where working from home was not possible. Some offerings, e.g. at headquarters in Stäfa, were reduced or postponed in light of COVID-19 related restrictions, including sports groups and sports events run by employees, the use of sports changing rooms with showers, free medical check-ups, or a health awareness day.

Responsible reorganizations

At Sonova, we are committed to treating our workforce responsibly. In the event of major reorganizations, such as restructuring, relocation, outsourcing, or mergers and acquisitions, we strive to reduce negative impacts on our workforce, ensure employment security, minimize compulsory redundancies, and mitigate the consequences for those made redundant.

We apply such measures on a case-by-case basis and depending on local conditions. At our headquarters in Stäfa, for example, the applicable measures include early retirements, internal mobility, financial compensation, re-training or outplacement services, case management, extended notice periods, and hardship funds.

In the past three financial years, there were no significant job cuts at Sonova affecting more than 1,000 employees or more than 5% of the total global workforce annually.

In July 2020, in line with the Group’s overall strategy, Sonova announced the acceleration of its structural optimization initiatives, which aim to optimize non-customer facing functions such as general administration, manufacturing, logistics, and back office. The initiatives also included streamlining the Group’s Audiological Care store network by combining certain store locations to improve efficiency while protecting sales. Whenever possible, employee number reductions were carried out through natural attrition. Total related job cuts affected less than 5% of the total global workforce in the 2020/21 financial year.

Strategic areas

Acting with integrity

We behave ethically and apply the highest quality and safety standards to everything we do.

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this strategic area, Sonova mainly contributes to SDGs 3, 8, 9 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Product quality, safety and reliability

Regulatory and standards

GRI 416-1

SASB HC-MS-410a.1

Sonova's medical devices are regulated globally by government agencies, healthcare authorities, and other regulatory bodies who verify that we are complying with applicable health and safety regulations throughout our products' life cycle. We work to maintain transparent, constructive, and professional relationships with all applicable regulatory authorities on matters of policy, product submission, compliance, and product performance. The requirements we meet include design controls, marketing approvals, good manufacturing practices, vigilance systems, clinical studies, and other relevant product regulations, standards, and normative documents specified by these agencies.

Each national healthcare authority has specific requirements for products that are made available in its national territory. Requirements for hearing instruments in Europe are mostly centered around European legislation, including the Medical Device Regulation 2017/45, the Radio Equipment Directive 2014/53/EU, and requirements for conformity to other applicable international standards. In the US, hearing instruments are regulated by the United States Food and Drug Administration (FDA) and classified as class I medical devices (hearing aids) and class II (wireless hearing aids). Both categories are exempt from the requirement to submit premarket notification submissions and can be introduced into commercial distribution without a premarket FDA clearance notification.

Cochlear implants and their respective accessories from Advanced Bionics in Europe are regulated by the Medical Device Regulation 2017/45; prior to market launch, class III medical devices must undergo a formal premarket submission-type process. In the US, they are classified as class III medical devices and must also therefore undergo a separate premarket submission procedure prior to market launch.

Sonova carefully monitors changes in the relevant worldwide regulatory environment to ensure that its products conform at all times.

Product quality and safety management

SASB HC-MS-430a.1, SASB HC-MS-430a.3

All our operation centers and major Group companies are certified according to the ISO 13485 standard and fulfill the requirements for quality management systems of the US FDA Quality System Regulation, Title 21 CFR Part 820. Third-party audits are conducted at all ISO 13485 certified operation centers and major Group companies on an annual basis to maintain the quality of manufacturing, management, and products, including materials and components.

Sonova conducts internal audits of its established systems at planned intervals to determine the effectiveness of the quality management system and its conformance to the requirements of ISO standards, FDA Regulations, other country specific and MDSAP requirements. Sonova has established procedures to define responsibilities and requirements for planning and conducting audits, and for reporting results and maintaining records. The audit program is planned based on consideration of past audit results, significance and status of the processes and areas to be audited. The audit process also defines the audit criteria, scope, frequency, and methods. Qualified personnel who are independent of the task being audited may conduct the audits. Management, at its discretion, may employ outside resources to conduct the internal audits. Audit findings are documented and reported to the responsible management, who ensure that actions are taken without undue delay to eliminate detected nonconformities and their causes. Reports of corrective actions, their review and other follow-up activities are also documented and filed. These data are reviewed for trends.

Based on our supplier visits and assessments, the percentage of direct material suppliers with a quality management system that is certified and audited by a third party is above 90% of the purchasing volume.

We evaluate potential product-related risks using a systematic method to estimate, evaluate, control, and monitor risks; this is governed by the ISO 14971 standard, which specifies the application of risk management to medical devices. We ensure up to date knowledge of regulatory and statutory requirements through initial and maintenance training programs. Employees, independent of their employment contract, are qualified to perform their tasks based on their education, training, and experience. General requirements are established based on job responsibilities and are identified in position descriptions. Employees are provided general training on the Quality Management System and on health, environment, and safety as applicable. In-depth training needs for work performed are systematically identified and documented. Training effectiveness is verified.

The topic of product safety is an integrated element of the product design and development process. Design and development inputs are documented and include but are not limited to functionality, performance, and safety requirements according to the intended use, applicable statutory and regulatory requirements, environmental impact, and clinical, user, and patient needs. Changes to the design inputs are approved in the same manner as the original design input. We conduct regular in-house product testing to validate design and external third-party testing to ensure compliance to standards/ requirements.

SASB HC-MS-430a.2

All products brought into commercial distribution by Sonova Group companies are continuously assessed to improve safety and effectiveness. Sonova uses tools such as complaint handling, post-market surveillance, vigilance reporting, reliability and trending analysis, and post-launch engineering to achieve and maintain regulatory compliance. We comply with the requirements for product serialization, track and trace technology including barcoding, as mandated by existing local regulations in various regions and countries across the globe.

Customer complaints are documented and reviewed for product safety and product performance trends through an established system that complies with applicable regulatory and legal requirements. Early warnings of quality problems become an input for the corrective and preventive action processes. Records of customer complaints and resulting investigations are maintained. If investigation determines that activities outside Sonova contributed to the customer complaint, relevant information is exchanged with the contributing organization. If a customer complaint is not followed by corrective or preventive action, the reason is authorized and recorded. Documented procedures are established to assure that regulatory authorities are notified according to national or regional regulations whenever advisory notes or recalls are necessary and/or adverse events occur that meet specified reporting criteria. Decisions are made based on risk analysis and health hazard evaluation as applicable. Sonova has established a process for assessing and reporting to the FDA and Regulatory Agencies of other countries those customer complaints that resulted in an adverse event.

In 2020/21, there were no listings associated with the Sonova Group that appear in the "Medical Devices" category of the U.S. Food and Drug Administration (FDA)'s MedWatch Safety Alerts for Human Medical Products database. There have not been any fatalities related to products as reported in the FDA Manufacturer and User Facility Device Experience. To ensure compliance with current Good Manufacturing Practice, Sonova global facilities have been subject of several regulatory agency inspections during the reporting year. In 2020/21 there have not been any FDA enforcement actions, such as FDA Form 483 notices or FDA Warning Letters (or equivalent notices from other regulatory agencies). There were no Class I or Class II (or equivalent) product recalls at Sonova during the 2020/21 financial year.

SASB HC-MS-250a.1, SASB HC-MS-250a.2, SASB HC-MS-250a.3, SASB HC-MS-250a.4

At Advanced Bionics, the safety and hearing experience of recipients and the reliability of our products are prime concerns, and we are committed to continuous reliability improvement. For example, we adopt more stringent test standards than what are demanded by regulatory authorities. Details can be found in the annual Global AB 2020 Reliability Report. For reporting purposes, we have adhered to the global ISO 5841-2:2014 standard and the principles outlined in the European Consensus on Cochlear Implant Failures and Explantations. We are also reporting to ANSI/AAMI CI86Standard – Cochlear Implant Systems: Requirements for Safety, Functional Verification, Labeling and Reliability Reporting.

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Advanced Bionics 2020 Global Implant Reliability Report

In the previous 2019/20 financial year, Advanced Bionics undertook a voluntary field corrective action and retrieved from the market the unimplanted units of the initial version of its HiRes™ Ultra and Ultra 3D cochlear implants. The vast majority of these devices function correctly, but the company 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 and these devices. The initial version of the HiRes™ Ultra 3D implant has been superseded by a new version, which includes several improvements to support consistently good hearing performance.

Product reliability global targets

Continuously improving product reliability and reducing repairs takes priority at Sonova. We have set the target of improving average product reliability rate, for both hearing instruments (HI) and cochlear implants (CI), by more than 20% year-over-year. We define the HI product reliability rate as the ratio between the annualized number of in-warranty product returns over the past three months and the number of hearing instruments in the market and within warranty (installed base). We define the CI product reliability rate as the Naìda pediatric system monthly product returns divided by the number of registered Naìda processors used by pediatric recipients. The target specifies the Naìda pediatric system because external farts constitute the vast majority of all product returns, and return rates for pediatric products are higher than those for adults.

Product reliability rates year-over-year improvements
improvement vs. previous year

	2020/21	2019/20
HI reliability rate	21%	4%
CI reliability rate	32%	27%

A dedicated global and cross-functional team sponsored by the Sonova Management Board was set up to work on continuous process improvements and root cause analysis of product returns and repairs, with the aim of significantly improving reliability of existing and future products. In 2020/21, we improved the average HI product reliability rate by 21% and the CI product reliability rate by 32% compared to the previous year and thus achieved the annual targets of >20% for both HI and CI. Key measures implemented in the past year included product design adjustments, manufacturing process refinements, active dialog with suppliers to improve manufacturing processes of product components, launches of new, more reliable products, and hardware and software improvements to existing products.

Responsible supply chain

International supply chain

GRI 102-9

Sonova deals with 352 direct material suppliers who deliver components for manufacturing and assembly to its hearing instruments segment, and 124 direct material suppliers to its cochlear implant segment. In spending terms, 69.5% of Sonova's purchase volume is in the Asia/Pacific region, 10.5% in Switzerland, 17.4% in Europe (excl. Switzerland), 2.5% in North America, and 0.2% in Africa. Our suppliers are mainly high-tech design and component makers, or original equipment manufacturers with a high degree of automation. Sonova engages only a very small number of contractors and licensees.

Sonova's own manufacturing operations extend from fully automated processes, such as hybrid circuit production, to highly skilled manual work, such as assembly of hearing aids and cochlear implants.

Commitment, policies and guidelines

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

The Sonova Group Supplier Principles (SGSP) are based on a range of international standards, customer requirements, and industry characteristics. These principles are non-negotiable; they are the first basis of contact with possible suppliers. Once a supplier has been approved as a Sonova partner, the SGSPs, the General Conditions of Purchase, as well as the Sonova Code of Conduct are incorporated into all development and supply agreements. All suppliers have to certify in written form that they will now and at all times in the future comply with these standards and principles in all of their Sonova-related dealings, activities, products, and services. Sonova includes this certification in all supply agreements, and periodically requests suppliers to renew their accordance. The SGSPs are available in English and German and are publicly available on the Sonova website. The SGSPs require suppliers to put in place and maintain systems that ensure:

PDF
Sonova Group Supplier Principles (SGSP)

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

The SGSPs were last revised in 2019 and the updated version was published on the Sonova website. All existing suppliers were contacted to secure their agreement with the updated version of the principles.

Identification of critical suppliers

SASB HC-MS-430a.3

In the 2020/21 financial year, we had nine critical tier-1 and non-tier-1 suppliers. Critical suppliers for Sonova include suppliers whose items or materials have a direct impact on the performance of our products or come into direct contact with the skin of users (critical components), whose items or materials are not substitutable (e.g. due to criteria related to technology, sustainability, quality, regulations), and who supply high volumes. The classification of critical suppliers is carried out at the beginning of each new supplier relationship and is reviewed regularly.

You can find further information on the management of risks associated with the use of critical materials in the sections Product quality, safety, and reliability and Eco-friendly products.

Supplier risk evaluation and mitigation

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

GRI 308-1, GRI 414-1

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

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

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

Supplier visits and audits

GRI 308-2, GRI 414-2

In the 2020/21 financial year, Sonova was not able to visit or audit its critical suppliers because of the restrictions related to COVID-19. In 2020/21 we have not identified any critical tier-1 or non-tier-1 supplier as having significant actual or potential negative concerns related to environmental issues, labor practices, or human rights matters. No suppliers, therefore, had to take corrective or preventive actions. Examples of key performance indicators, targets and progress related to responsible supply chain management until 2022/23 are the following:

Responsible supply chain management KPIs and targets

KPIs	2022/23 target	2020/21	2019/20	2018/19	2017/18
Share of new and existing tier-1 suppliers having signed the Sonova Group Supplier Principles (SGSP)	100%	100%	100%	100%	100%
Share of critical suppliers visited or audited at least once per business year	100%	0%	100%	100%	100%
Share of purchase volume coming from suppliers with certified environmental management systems	75%	75%	72%	66%	52%

Long-term supplier collaboration

Sonova strives for long-term collaborations and long-term contracts with its suppliers. In the 2020/21 financial year, 84% of the total purchase volume came from suppliers with more than 10 years of business relationship with Sonova and 97% of the total purchase volume came from suppliers with more than 5 years of partnership. Sonova also offers its suppliers financial support to buy necessary equipment and technology.

The global health and economic crisis resulting from the COVID-19 pandemic is impacting global supply chains and logistics. Sonova is in a constant and close dialog with key suppliers and partners to monitor and manage the impact of the crisis. Our first priority is protecting the health of our global team, followed immediately by assuring that our operations continue while complying with emergency regulations.

Human rights and labor practices

Commitment and policies

Sonova respects and supports human rights. This commitment extends throughout our worldwide operations and along our entire value chain. It is reflected in our Code of Conduct and Group Supplier Principles (SGSP) and embedded in our company culture. It is fundamental for us to treat everyone with respect and fairness. We value the varied experiences and backgrounds of individuals from different countries, walks of life, and orientations.

PDF
Sonova Group Supplier Principles (SGSP)

Sonova is formally committed to maintaining high standards of business ethics and integrity in accordance with the law, as well as recognizes human rights and labor standards as outlined in international human rights frameworks such as the:

- Universal Declaration of Human Rights (UDHR)
- United Nations International Covenant on Civil and Political Rights
- United Nations International Covenant on Economic, Social and Cultural Rights
- International Labor Organization (ILO) - Core Labor Conventions
- United Nations Guiding Principles on Business and Human Rights (UNGPs)
- OECD Guidelines for Multinational Enterprises
- OECD Due Diligence Guidance for Responsible Business Conduct
- OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas

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

In 2020/21, we went through a consultation process involving internal and external experts to develop a new global policy providing a worldwide framework for our human rights support, values and principles across our entire business. The policy will be published in 2021/22.

Human rights due diligence (HRDD)

GRI 412-1

Sonova is committed to aligning its human rights due diligence (HRDD) process with the United Nations Guiding Principles on Business and Human Rights (UNGP). Our aim is to conduct HRDD throughout our business to proactively assess, identify, prevent, and mitigate actual and potential adverse human rights impacts on potentially affected rightsholders across the value chain. To this end, Sonova set up a cross-functional internal human rights working group in 2020/21, which draws on the help of external business and human rights experts, and started to implement a stepwise HRDD project plan.

The process framework follows five steps as required by the UNGP:

- Affirm policy commitment
- Assess actual and potential impacts
- Integrate findings and take appropriate action
- Track and communicate performance
- Enable access to grievance & remedy

Risk assessments

GRI 408-1, GRI 409-1

In 2020/21, Sonova conducted an overall human rights risk assessment based on international standards such as the UNGP and OECD Guidelines. The risk assessment was performed by the cross-functional internal human rights working group, together with external business and human rights experts. The assessment included our global value chain with a focus on prioritization of potential human rights issues and based on the severity of the risk to potentially affected people. Using a range of methods, including value chain mapping, issue mapping, consultations and interviews, desk research, and internal workshops, we identified the salient human rights issues that are described in the section below. This risk assessment exercise will be followed by an in-depth human rights impact assessment in 2021/22 to conduct meaningful engagement with relevant stakeholders.

In the 2020/21 financial year, no specific concerns were raised relating to human rights violations. Sonova's internal audits and supplier assessments found no operations or supplier businesses with specific incidents related to violations of human rights, such as child labor, forced or compulsory labor, illegal labor, or limitation of freedom of association or collective bargaining. Therefore, no remediation or mitigation actions needed to be taken.

Focus human rights issues areas

Sonova is committed to respecting internationally recognized human rights and does not attribute more importance to one human right than to another. We do, however, assign priority to those rights that are most salient to our business, as determined by the human rights risk assessment described above. The list, which appears below, will be adapted as required based on future human rights risk and impact assessments.

In prioritizing key human rights issues according to their scale, scope and remediability, Sonova recognizes that negative impacts on human rights may be particularly severe for some people due to their vulnerability or marginalization. Sonova recognizes that the evaluation of the severity of potential impacts may change and that other issues may grow in importance over time. We will therefore regularly reevaluate the key issues based on further assessments and regular dialog with internal and external stakeholders, including but not limited to government representatives, customers, and patient groups.

Human rights issue	Definition of human rights & issue illustration
Access to healthcare	Access to healthcare must be non-discriminatory and can be physical, economic (affordability) and informational in its nature. According to the UN Committee on Economic, Social and Cultural Rights, "health facilities, goods and services must be within safe physical reach for all sections of the population, especially vulnerable or marginalized groups (…)" [1] .
Child labor	Child labor refers to work performed by people under 18 and is prohibited by international standards. Employment or work may be authorized as from the age of 15 years (or 14 in certain developing countries) on condition that the health, safety, and morals of the young persons concerned are fully protected and that the young persons have received adequate specific instruction or vocational training in the relevant branch of activity (special protections for young workers).
Community and land rights	This term refers to all fundamental rights pertaining to local communities, including those recognized as pertaining to indigenous people, that are impacted by business activities. Issues related to land rights are most frequently disputed between companies (and governments) and local communities, as they may have direct consequences for a wide set of fundamental rights (e.g. right to housing, right to life, right to food and water, right to social security, property access rights, cultural identity, etc.).
Contributing to conflict	A company can potentially become involved in or contribute to social or political unrest or conflicts leading to heightened tension, violence and human rights abuses. In fragile environments (e.g. conflict-affected areas), companies shall avoid by any means complicity with governmental/non-state actors' (armed groups, militia, extremists) abuses. Moreover, they shall be aware that an excessive control on key resources (e.g. food, water and electricity supply) and other abusive business decisions have potential consequences on local communities, both during conflict and in post-conflict.
Customer safety	Customer safety refers to the company's approach to preventing negative impacts of its products and services on consumers' health and safety. It includes consumers' right to be properly informed about potential hazards.
Employment practices	In the context of labor rights, this term refers to all practices that are not mentioned under other issue areas, including contracts specifying the terms of conditions for work, working hours, social security, and fair wages. Fair wages ensure workers and their families a decent standard of living (living wage). Elements of a decent standard of living include food, water, housing, education, health care, transport, clothing, and other essential needs, including provision for unexpected events.
Freedom of association and collective bargaining	Freedom of association expresses the right of workers to freely join trade unions or employee associations, while collective bargaining is defined as the "negotiation between employers or employers' organizations and workers' organizations, with a view to the regulation of terms and conditions of employment by means of collective agreements." [2] The two concepts are inextricably linked, the first being a prerequisite for the realization of the second. Moreover, they both imply the recognition of the right to strike. Each of these rights shall be guaranteed by the company and no retaliation/reprisal shall be tolerated in exercising those rights.
Information security and data protection	Information security and data protection refer to all measures implemented by the company to protect the confidentiality and integrity of personal information and data transmitted by workers, clients, suppliers, business partners, and any other stakeholders. The company shall guarantee at all times the proper use, processing and storage of data. This right is ultimately founded on the human right to privacy.
Modern slavery and forced labor	Modern slavery includes compulsory, bonded, or child labor, human trafficking, and forced labor. Forced or compulsory labor is "all work or service which is exacted from any person under the threat of a penalty and for which the person has not offered himself or herself voluntarily." [3]
Non-discrimination	Discrimination in employment and occupation includes "any distinction, exclusion or preference made on the basis of race, color, sex, religion, political opinion, national extraction or social origin, which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation" [4] .
Occupational health and safety	Occupational health and safety deals with all aspects of health (physical or mental) and safety in the workplace.

1 UN Committee on Economic, Social and Cultural Rights (CESCR), General Comment No. 14: The Right to the Highest Attainable Standard of Health (Art. 12 of the Covenant), 12b, 11 August 2000, E/C.12/2000/4
2 International Labour Organization (ILO), Right to Organise and Collective Bargaining Convention, C98, 1 July 1949, C98, Art. 4
3 International Labour Organization (ILO), Forced Labour Convention, C29, 28 June 1930, C29, Art. 2
4 International Labour Organization (ILO), Discrimination (Employment and Occupation) Convention, C111, 25 June 1958, C111, Art. 1

Training

General human rights standards are specified in the Sonova Code of Conduct, on which annual mandatory training is given to all Sonova employees worldwide. The training in 2020/21 had a specific focus on the topics of nondiscrimination and non-harassment, including how to identify and report potential violations (grievance mechanism). Further training on human rights topics is planned for all employees as well as specific roles throughout 2021/22.

Business ethics and legal compliance

Code of Conduct and internal regulations

Sonova's commitment to compliance promotes ethical conduct between colleagues at all levels of the organization, and also in our dealings with our stakeholders. Compliance means that we follow applicable laws and regulations of each country in which we operate while also abiding by our own Code of Conduct and internal regulations. The ultimate oversight for business ethics and compliance lies with the Board of Directors.

Sonova's Code of Conduct defines general principles for ethical behavior; it applies to all employees of the Sonova Group, all its subsidiaries, and any contractors or vendors while they are performing work for the Sonova Group. Written acknowledgment of the Code of Conduct is part of every new employment and supplier contract.

Sonova Code of Conduct

The Code of Conduct is reviewed regularly and revised when necessary. It was prepared by the office of the Group General Counsel in consultation with relevant stakeholders and was approved by the Sonova Board of Directors on August 23, 2012, updated in September 2019, and reapproved by the Board of Directors. The Code of Conduct covers all relevant aspects of Sonova's business operations from compliance with laws and regulations, conflicts of interest, and anti-competition to Sonova's social and environmental responsibility. It includes such topics as dignity and human rights, diversity and inclusion, non-discrimination, and safety in the workplace. The Code of Conduct is available in 18 languages.

Each employee is required to be trained on the Code of Conduct. All new employees of the Sonova Group, including all its subsidiaries, are trained on its principles as part of their initial orientation. Suppliers are regularly instructed to ensure that they adequately understand and can comply with the Code of Conduct. Annual mandatory Code of Conduct training is given to all Sonova employees worldwide, including part-time employees. The training explains the content of the Code of Conduct and how to identify and report potential violations, such as conflict of interest, harassment, fraud, discrimination, corruption, or breach of secrecy. The Group targets >95% on-time completion for employee annual mandatory Global Compliance training. In 2020/21, this annual target was achieved with a training completion rate of 95.9%. For the 2021/22 financial year the target completion rate has been revised to 98%.

The principles of the Code of Conduct are further refined in various internal guidelines and policies, including – but not limited to – anti-bribery, interaction with healthcare professionals, competition law, trade compliance, and Swiss Stock Exchange reporting obligations. Non-compliance with the company's Code of Conduct or Sonova's internal policies and guidelines triggers disciplinary action, including – where appropriate – dismissal and prosecution. The requirements for conflict resolution, including e.g. the use of independent parties, are determined on a case by case basis.

Sonova's internal audit function audits compliance with the key policies and reports these to the Audit Committee.

Group Compliance program

GRI 419-1

Compliance is everyone's responsibility at Sonova. Ultimate oversight lies with the Board of Directors. The Management Board sets the tone at the top for a strong compliance culture. Local Compliance Champions ensure implementation of the Group Compliance program within each Group company. The Group Compliance program covers all employees, including part-time workers, contractors, and all business partners.

We have reinforced Code of Conduct compliance with "Speak-Up!", an internal communication and training campaign rolled out across the worldwide Sonova Group. It focuses particularly on employees with less access to online reporting channels, such as those in operations or audiological care stores. Its two main goals are to increase awareness of the revised Code of Conduct and to foster a culture where employees feel comfortable about raising compliance questions and reporting compliance issues. Posters are visibly displayed in numerous locations and clearly indicate how to easily report non-compliance.

No fines or non-monetary sanctions for non-compliance were levied against Sonova in the 2020/21 financial year.

Internal grievance procedures

GRI 102-17

Sonova strongly encourages every employee who knows of or suspects a violation of applicable laws, regulations, the Code of Conduct, or the company's related policies and procedures – including those relating to accounting, internal controls and auditing matters – to report that information through the Speak-Up system. This 24-hour anonymous grievance reporting system is operated by an independent third-party provider. Employees can use Speak-Up to report concerns they may not otherwise want to report directly to their supervisor or compliance manager. Employees or third parties can report a concern either by phone or via a secure website. All local phone numbers and websites are listed in the Appendix to the Code of Conduct.

Reported violations are promptly investigated and treated confidentially to the extent reasonably possible. The Company does not tolerate any kind of retaliatory actions against any employee who, in good faith, reports suspected wrongdoing, or complains about violations of the Code of Conduct or other internal policies. The Audit Committee of the Board of Directors is informed quarterly about concerns received through the compliance channels, the number and types of cases, and the measures taken.

GRI 205-2

In the 2020/21 financial year, a total of 94 Speak-Up complaints from 19 countries were reported to the Compliance Department. Of the reported cases, 62% involved allegations of inappropriate behavior. The next most recurring complaints were of fraud (15%) and conflicts of interest (9%). Less-reported issues included data processing (7%) related allegations, sexual harassment (4%), and bribery (3%). All allegations were promptly addressed by the internal investigation team, supported by external experts as needed. Over 61% of the complaints were substantiated and followed up with corrective actions, ranging from written warnings or performance improvement planning up to termination of employment (13 employees were terminated this year).

Corruption and bribery

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

PDF
Sonova Global Anti-Bribery Policy

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

The Anti-Bribery Policy has been communicated to all Sonova employees worldwide and is available in 15 languages. Sonova business partners – such as distributors or suppliers – must commit to complying with the principles underlying the Anti-Bribery Policy. The content of the Anti-Bribery policy is integrated in the annual mandatory Global Compliance training for all employees.

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

The Sonova Group Supplier Principles also cover ethical standards, including compliance with laws and regulations on bribery, corruption, and prohibited business practices. These have been communicated to all our suppliers who are regularly instructed to ensure that they adequately understand and are able to comply with all anti-corruption policies and procedures.

In 2020/21, there were no monetary losses as a result of legal proceedings associated with bribery or corruption.

SASB HC-MS-510a.1

Anti-competitive behavior

GRI 206-1

At the core of Sonova's Code of Conduct there is a clear commitment to fair competition. Fair competition is essential because it guarantees that customers and consumers will benefit from the most innovative products and services at the best prices and conditions. At Sonova, we respect and strictly follow antitrust and competition laws.

Sonova's Global Competition Law Policy describes the basic principles of fair competition in doing business. All Sonova employees worldwide must comply with the principles it sets out. An updated Global Competition Law Policy became effective as of May 1, 2020. The roll out of the revised policy was supported by bespoke global online training. Both the policy and the training are available in 19 languages.

In the 2020/21 financial year, Sonova was not involved in any legal actions related to anti-competitive behavior or violations of anti-trust and monopoly legislation.

Data privacy and digital ethics

Data privacy and protection

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

Sonova issued a Group Data Protection Policy, effective June 1, 2018. The policy covers all personal data collected or processed by Sonova, and applies to all Sonova legal entities and their employees and contractors on a worldwide basis. The policy is complemented by standard operating procedures and guidelines that break down the various data protection and privacy topics and provide more detailed guidance.

Sonova has established a Global Privacy Office, which provides subject matter guidance and training to the management, business functions and employees. The Global Privacy Office is also responsible for the support and monitoring of the Sonova Data Protection Program. The Global Privacy Office is supported by a team of over 100 Privacy Champions representing and supporting the task of embedding Privacy at the Group company level. The implementation of the Program is part of the regularly conducted internal audits, and the Global Privacy Office and the Internal Audit Team are working closely together when conducting the audits and monitoring deriving actions.

In addition, an important part of the Global Privacy Office's work is to raise awareness and provide training on all levels across the Group. A mandatory online training for all employees is deployed by the Global Privacy Office, complemented by on- and offline trainings for specific departments and teams (e.g. Marketing, HR, R&D), webinars and communication platforms for knowledge exchange. These trainings contain the essential legal principles and requirements, taking into consideration Sonova's Data Protection Policy and legal frameworks like the EU General Data Protection Regulation (GDPR), the Health Insurance Portability and Accountability Act (HIPAA), the California Consumer Privacy Act (CCPA), the Personal Information Protection and Electronic Documents Act (PIPEDA) or Data Protection and Security laws in China.

We have not identified substantiated complaints concerning breaches of customer privacy in 2020/21.

IT and cyber security

GRI 418-1

At Sonova, protecting our information assets is a priority. We are committed to securing digital and non-digital files, records, and information to prevent unauthorized access, modification, and loss. Sonova's IT and cyber security is supported by guidelines issued by the Vice President Corporate IT, who oversees the company's information and cyber security and acts as Chief Information Officer (CIO), reporting directly to the Group CFO. The guidelines on IT security determine security standards for all functional or business applications controlled by Sonova. The Board of Directors receives regular updates on cyber security from the CIO and the Management Board.

Sonova issued its IT Acceptable Use Directive in 2012/13; it is regularly revised and was last updated in 2018/19, effective as of January 1, 2019. The guideline defines the use of IT assets, the secure use of systems and programs, as well as the appropriate and secure management of data. The Information Security Guideline, effective as of October 31, 2019, specifies processes and responsibilities to ensure IT and cyber security, including the security of digital information processed and stored on our products. This policy framework continues to be amended and supplemented, e.g. with directives on remote working or application security.

In 2020/21, we launched a global program to maintain and inform best cyber security practice among Sonova's employees worldwide. This year's program focused on further enhancing security monitoring, incident detection and resolution capabilities. Next year's will focus on an in-depth review of critical business applications and their security hardening.

Our continuing efforts to ensure IT and cyber security are underpinned by mandatory annual online training for all employees worldwide. During the 2020/21 financial year, training topics included best practice for password protection, information management responsibilities, and appropriate online behavior. Relevant global and local staff received additional specific training in implementing the IT and cyber security guidelines.

Sonova has put in place an efficient and comprehensive system to identify and assess strategic, operational, financial, legal, and compliance risks related to the Group's business activities – including IT and cyber security risks. Further information on how Sonova monitors and mitigates those risks are provided in the section "Risk Management" in this chapter.

Sonova has business continuity/disaster recovery plans and incident response procedures in place, which are tested regularly. In areas with heightened exposure or security risk, penetration tests are applied annually by qualified external providers. In addition, we conduct third-party vulnerability analysis from time to time, including simulated hacker attacks in selected IT security risk areas. Sonova also holds an information security risk insurance policy.

Sonova has not experienced material information security breaches during the 2020/21 reporting period.

As part of IntACT, our enhanced ESG Strategy, we committed in 2020/21 to establish a digital ethics committee by the end of the financial year 2021/22.

Corporate governance

Structure

GRI 102-18, GRI 102-19

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. The present chapter in the CR Report gives a high-level overview of the principles of corporate governance for the Sonova Group and provides background information with a special focus on environment, social and governance (ESG) issues. More detailed information can be accessed at the corporate covernance chapter of the 2020/21 Annual Report and at the corporate governance section of the Sonova website.

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

PDF

Sonova Organizational Regulations (OrgR)

Composition of the highest governance body and its committees

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

The composition of the Board of Directors and its committees is described in detail in the relevant section of the corporate governance chapter of the 2020/21 Annual Report: Board of Directors.

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

The Nomination and Compensation Committee and the Board of Directors evaluate current and prospective members of the Board according to a skills and experience competency matrix to ensure that an appropriate mix of relevant skills and experience is represented in the Board of Directors. In the nomination and evaluation processes, by following the matrix criteria, the Nomination and Compensation Committee as well as the Board of Directors are committed to consider characteristics such as, and including but not limited to, gender, age, nationalities or country of origin, ethnicity, cultural background, ways of believing, and mindsets to establish balance in terms of diversity and inclusion.

PDF

Articles of Association of Sonova Holding AG

As part of our ESG strategy, we strongly believe that a more balanced gender representation on the Board of Directors is in the best interests of the Sonova Group, and we are committed to achieving a 30% proportion of women on the Board well before the time this becomes a legal requirement in 2026.

Nomination and selection for the highest governance body and its committees

GRI 102-24, GRI 102-25

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

PDF

Sonova Committee Charters

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

The members of the Management Board are proposed by the CEO and appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee. More details on the Management Board are provided in the relevant section of the corporate governance chapter of the 2020/21 Annual Report: Management Board.

Article 4 of the OrgR governs how Sonova deals with potential conflicts of interest. Cross-board memberships of the Board of Directors and significant shareholders (holding more than 3% of shares) are disclosed in the corporate governance chapter of the 2020/21 Annual Report. Related party transactions, if any, are disclosed in the Annual Report notes to the Group consolidated financial statement.

Roles, policy, and strategy

GRI 102-26

The OrgR and the Committee Charters define the roles and the duties of the highest governance bodies. The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. It approves policy and strategy. The CEO has the duty and authority to link the company's strategy with its operational management by preparing the corporate strategy documents, policies, and procedures for submission to the Board of Directors' review and approval. The Management Board supports the CEO in his responsibility to direct the company's operations by actively participating in directing, planning, and executing the business strategy.

Competencies and performance evaluation

GRI 102-28

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

Consultation between stakeholders and the highest governance body

GRI 102-21, GRI 102-29

Sonova actively engages with a broad range of stakeholders on ESG topics as described in the "Stakeholder engagement" chapter of this CR Report. Internal reporting procedures ensure consultation between stakeholders and the highest governance body on topics deemed highly relevant.

Compensation and incentives

The compensation report is an integral part of the 2020/21 Annual Report and covers the compensation principles, system, and key components, with a focus on the Board of Directors and Management Board as the governing bodies. Sonova complies with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Corporations, which among other matters stipulates annual binding votes on the compensation of the Board of Directors and Management Board.

Sonova is committed to the principle of equal pay for equal work, and is taking all necessary steps in its position management and grading processes to ensure a fair compensation system. The company regularly reviews its compensation in terms of relevant local legal and regulatory equal pay requirements as they continue to evolve.

The variable cash compensation (VCC) for the Management Board is based on Group, business unit, and individual performance objectives. In line with our strategy, and to reflect Sonova's corporate responsibility and sustainable business approach, business relevant ESG targets have been formally reflected in the VCC from the second half of the 2020/21 financial year. As already outlined in the 2019/20 compensation report, 10% of the overall VCC targets for each member of the Management Board were shifted (5% each from the financial and from the individual targets) and linked to specific, tangible ESG related initiatives. The performance objectives that must be met to achieve the target VCC are mutually agreed at the beginning of the financial year.

ESG targets for the second half of the financial year were defined around seven categories, with energy and climate, as well as employee engagement, set as a target for all Management Board members. Additionally, members each had a selection of targets set depending on their role and responsibilities. These included product quality and customer satisfaction, product reliability, environmentally friendly packaging, business ethics and legal compliance, as well as human rights and responsible supply chain.

The Board of Directors and the Management Board decided to take a number of COVID-19 related short-term compensation measures, which are outlined in further detail in the compensation report.

Risk management

GRI 102-11, GRI 102-30

Sonova has implemented an efficient system to identify and assess strategic, operational, financial, legal, reputational, and compliance risks related to the Group's business activities. The risk management function categorizes risks by impact and likelihood and supports the Management Board in determining the measures necessary to address or mitigate them. In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk assessment prepared by Risk Management before it is presented to the Board of Directors. The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are discussed by the Management Board and presented to the Audit Committee on a quarterly basis. Currently, Sonova's Group Risk Map consists of 33 risks, of which 13 are designated as key risks.

ESG issues are an integrated part of Sonova's strategic risk management process. Topics such as climate change, human rights and labor practices, loss of key talent, infringement of data privacy, cyber security and infringement of information security are evaluated in the regular risk assessment process together with all other business risks.

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 controls in processes. Management is responsible for the control of business risks and for compliance with laws and regulations. The Head of Internal Audit & Risk reports to the Chair of the Audit Committee. The Audit Committee approves the annual work plans of Internal Audit and ensures that the relevant Group companies are adequately reviewed according to their risk scoring. The Audit Committee also reviews and discusses the reports on completed audits submitted by Internal Audit. Internal Audit, together with business controlling, monitor the implementation by Group companies of any measures necessary to address findings from previous audits, and provides quarterly reports to the Audit Committee.

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

In response to COVID-19, Sonova established global and national Crisis Response Teams that meet often and maintain close mutual communication. The response to the pandemic has been structured in three phases: 1) Health and Safety 2) Protecting the Core and 3) Preparing for the Rebound. Disaster Recovery and Business Continuity Planning is being updated to reflect the experiences of the Crisis Response Teams and Group companies worldwide.

Ethical marketing and sales practices

Policies and guidelines

SASB HC-MS-240a.2

Sonova strictly adheres to ethical marketing practices in all our businesses and takes active steps to prevent inappropriate practices or false claims. We ensure that our advertising, packaging, and promotional materials provide accurate, balanced, and non-misleading information. This commitment is laid out in our Group Code of Conduct and further refined in policies, guidelines, and standard operating procedures, e.g. on claims management (see below).

PDF

Sonova Code of Conduct

Interactions with healthcare professionals

SASB HC-MS-510a.2

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

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

More detailed information on how we ensure ethical interactions with healthcare professionals is provided in the Sonova Global Antibribery Policy as well as internal standard operating procedures and country-specific guidelines for interactions with HCPs.

Claims management

Sonova is committed to ensure that statements declaring or implying that a product, service, or any other Sonova solution will provide a benefit to customers or consumers are truthful, non-misleading, and fair. We have established a claims management process that defines how to assess, substantiate, and monitor a claim for solutions from all Sonova brands. Claims go through a standardized review and approval process by a dedicated committee before being disseminated. The purpose is to ensure both compliance with global regulatory requirements and a high quality standard of claims. Relevant employees have to complete annual training on the claims management standard operating procedure. A mandatory training for all employees will be launched in 2021/22. In 2020/21 an external third-party audit of the claims management process and systems was conducted. As of 2021/22, the claims management process and systems will be subject to regular external audits.

PDF
Sonova Global Antibribery Policy

In 2020/21, there were no monetary losses as a result of legal proceedings associated with false marketing claims.

SASB HC-MS-270a.1

Taxes

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

Tax strategy and policies

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

As laid down in Sonova's Code of Conduct, Sonova strives to attain the highest standards in complying with laws, rules, regulations, reporting, filing, and disclosure requirements. This also applies to tax matters. The publicly available Sonova Tax Principles provide high level information on procedures and internal guidelines for tax compliance within the Sonova Group, that is for all legal entities that are majority-owned or otherwise controlled directly or indirectly by Sonova Holding AG. The Sonova Group Tax Principles were approved by the Board of Directors and released by the CFO in February 2019.

PDF
Sonova Group Tax Principles

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

Approach towards taxation

Key elements of Sonova's approach towards taxation are:

- **Taxes follow the business:** Sonova is committed not to transfer value created to low tax jurisdictions. Sonova does not use non-business-related offshore structures (so-called "tax havens"), nor does the Group allocate functions or risks to international structures purely for tax reasons. Sonova avoids the acquisition of non-business-related offshore structures. An important step during the integration process for newly acquired companies is to unwind acquired tax schemes and bring the tax structure of the new business fully in line with Sonova's tax policy and BEPS (Base Erosion and Profit Shifting) principles.

- **Full compliance:** Sonova fully complies with the spirit and letter of local laws and regulations, and is aligned with internationally recognized standards such as the OECD- G20 Inclusive Framework on Base Erosion and Profit Shifting Initiatives as well as European guidelines. Sonova's complex cross-border operations and added value chains are subject to yearly reviews to align Sonova's Transfer Pricing Processes. Arm's length profit allocation within the added value chains is granted through yearly reviews in line with multiple benchmarking analysis. Inter-company transactions are regularly monitored to ensure complete alignment with international standards and Sonova's internal Transfer Pricing Processes.

- **Cooperation with tax authorities:** Although Sonova has not entered Advanced Pricing Agreements (APAs), it highly values open and proactive cooperation with tax administrations worldwide for any kind of tax matter. We continuously engage in constructive and transparent dialogue with tax authorities as part of our tax compliance policy.

Organization and reporting

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

Sonova has prepared a Country-by-Country Report (CbCR) since 2017, and has filed this with the Swiss Federal Tax Administration since 2018. The Swiss Federal Tax Administration shares the file through automatic information exchange with tax authorities worldwide, as foreseen by the BEPS initiative.

Information on earnings before tax, reported taxes, reported tax rate, cash taxes paid, and cash tax rate can be found in the 2020/21 Sonova Financial Report. Sonova's tax rates might be lower than industry group averages because of group-wide net operating losses and net operating losses from previous periods in subsidiaries of acquired groups. Furthermore, Sonova is a Swiss-based multinational enterprise with large activities, substance, risks and assets in Switzerland, and the Swiss tax rate is lower than the global average tax rate. Cash tax paid is largely influenced by advanced as well as final adjustment payments.

Sonova has also introduced a further reporting tool to monitor, collect, and where applicable report information under Mandatory Disclosure Reporting, as introduced under EU directive DAC-6 (enacted as of 2018). Since the first European country started applying the new directive, Sonova has checked about 140 cases and in eight cases has opted to report to comply beyond any reasonable doubt with the formalistic approach of the Directive.

GRI 102-12, GRI 102-13, GRI 415-1

Public policy

As a general rule, Sonova does not allow donations to political parties. This principle is stipulated in our Global Anti-Bribery Policy.

PDF
Sonova Global Anti-Bribery Policy

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

We are a member of the European Hearing Instrument Manufacturing Association (EHIMA), the Hearing Instrument Manufacturers' Software Association (HIMSA), the Hearing Industries Association (HIA), the Hearing Instrument Manufacturers' Patent Partnership (HIMPP), and the Hearing Industry Research Consortium (IRC). Arnd Kaldowski, CEO of the Sonova Group, is member of EHIMA's Board of Directors. Founded in 1985, EHIMA represents the major European hearing instrument manufacturers. In 2020/21, Sonova contributed around 540,000 CHF in membership fees to trade associations and non-commercial organizations. Amongst the largest contributions are membership fees and contributions to Hear-it AISBL, an international non-profit information resource on hearing loss, SwissHoldings, the federation of Swiss-based multinational enterprises, and EHIMA.

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

Animal welfare

SASB HC-MS-410a.1

As a manufacturer of medical devices, Sonova is required by regulatory authorities to demonstrate the biological safety of any product with body contact by complying with the international standard ISO 10993-1. According to this standard, animal tests need to be considered in biological safety evaluations; in some cases, they cannot be completely avoided. Sonova also provides components of cochlear implants to cochlear implant research centers and universities, where these are tested on animals for basic research concerning e.g. safety, feasibility or efficacy of new technologies.

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

Replacement

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

Reduction

- We apply strategies to reduce the number of animals used in testing.
- We use previously evaluated or historically established biologically safe materials whenever possible, by taking advantage of shared research between the different

Sonova companies around the world. We strive to avoid completely any unnecessary or duplicated testing.
- We emphasize risk assessment to evaluate clearly any need for animal testing.

Refinement

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

Strategic areas

Protecting the planet

We drive the transition to a resource-efficient and low-carbon future of our operations throughout the lifecycle of our products and services.

6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

Sonova and the United Nations Sustainable Development Goals (SDGs)
Through this strategic area, Sonova contributes to SDGs 6, 7, 9, 12, and 13. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Our approach

Commitment and policies

Sonova has made an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the whole lifecycle of its products and across all its business activities. We set the priorities and provide the resources needed to reduce our environmental impact through responsible, efficient management of our buildings and infrastructure, processes, products, and services. Our environmental policy supports Sonova's commitment to environmentally proactive behavior and describes the company's environmental management organization and responsibilities.

PDF
Sonova Group Environmental Policy

Environmental management systems

As part of its strategy of continuous operational improvement, Sonova has established ISO 14001-certified environmental management systems at all its key manufacturing and distribution centers; these require employees to make sound environmental decisions when designing, manufacturing, and servicing products. For non-manufacturing sites, Sonova has adapted its environmental management system to ensure integration of environmental factors in decision-making and improvement in environmental performance. All key Sonova manufacturing and distribution centers are currently certified to the ISO 14001 standard:

- Sonova AG and Advanced Bionics AG (Stäfa, Switzerland)
- Phonak Communications AG (Murten, Switzerland)
- Sonova Operations Center Vietnam Co., Ltd. (Binh Duong, Vietnam)
- Sonova Hearing (Suzhou) Co., Ltd. (Suzhou, China)
- Sonova USA Inc. manufacturing and distribution centers (Warrenville/Aurora, USA)
- Advanced Bionics LLC (Valencia, USA)

Environmental goals and targets

Sonova's new ESG Strategy, IntACT, sets ambitious targets that demonstrate our firm commitment to combating climate change and attaining environmental sustainability. Through energy savings and the transition to renewable energy, we will align our long-term carbon reduction targets with the Science Based Targets initiative (SBTi) aim to keep global warming below 1.5°C.

Sonova's environmental program sets clearly defined goals and targets. We continuously monitor progress and optimize environmental performance across the Group. The five most important key environmental targets, current progress, and related UN Sustainable Development Goals (SDGs) are outlined in the table below. All our environmental five-year targets have 2017 as the base year and 2022 as the target year. Most of the programs are on track to reach their targets and further measures have been taken where necessary. Sonova will be carbon-neutral across all its owned operations by the end of 2021.

Sonova 2022 key environmental targets and progress

Goal	2022 target	2020	2019	2018	2017 base year
Energy and climate: Reduce greenhouse gas emissions [1] relative to revenue by 50% (Key SDGs: 7, 9, 12, 13)	9.3 t CO_2 e per million CHF (-50% vs. base year)	11.3 t CO_2 e per million CHF (-39% vs. base year)	14.7 t CO_2 e per million CHF (-21.1% vs. base year)	16.4 t CO_2 e per million CHF (-11.7% vs. base year)	18.6 t CO_2 e per million CHF
Green procurement: Increase share of purchase volume from suppliers with certified environmental management system (EMS) to 75% (Key SDGs: 12, 13)	75%	75%	72%	66%	52%
Materials: Zero [2] substances of very high concern (SVHC) in Sonova products (Key SDG: 12)	0	4	4	3	1
Waste: Increase recycling rate to 60% (Key SDG: 12)	60%	53%	53%	53%	47%
Water: Reduce total water withdrawal per employee by 5% (Key SDG: 6)	17.3 m^3/FTE (-5% vs. base year)	15.1 m^3/FTE (-15% vs. base year)	18.1 m^3/FTE (-0.3% vs. base year)	18.3 m^3/FTE (+0.3% vs. base year)	18.2 m^3/FTE

1 Scope 1&2 + air-travel related Scope 3 emissions.
2 Above the threshold level of 0.1% by weight according to REACH regulation.

Environmental legal compliance

GRI 307-1

Thanks to Sonova's low risk exposure to environmental issues and its strict group-wide environmental management, no fines or non-monetary sanctions were levied against Sonova in 2020 and in previous years for noncompliance with environmental laws or regulations.

Energy and climate

Commitment and approach

Climate change is one of the biggest challenges of our time: it requires prompt, effective action from governments, industries, and individuals. Sonova acknowledges its responsibility and is committed to reducing its greenhouse gas (GHG) footprint. In 2020/21, Sonova set the target of becoming carbon-neutral in its own operations (Scope 1+2 emissions) by the end of 2021. We are also committed to further reduce our Scope 3 emissions across the value chain and set science-based long-term emission reduction targets in line with the Science Based Targets initiative (SBTi) aim to keep global warming below 1.5°C. Our strategy includes a steady increase in the energy efficiency of our operations, integrating environmentally friendly energy sourcing and on-site generation, and optimizing transportation and distribution logistics. Sonova has set up implementation initiatives that focus on our most energy-intensive facilities, while considering other sites that show potential for improvement.

Sonova strives to be trustworthy and transparent with all its stakeholders. We have therefore participated in the Carbon Disclosure Project (CDP) since 2012. The results are publicly available and accessible on the CDP website. The CDP scoring level (Disclosure, Awareness, Management, Leadership) demonstrates a company's level of environmental stewardship, and actions and approaches in managing climate change. In 2020, Sonova received a B management level ranking, recognizing our environmental transparency and climate change related actions.

We are committed to align our disclosures in this CR Report with the recommendations of the Task Force on Climate-related Disclosures (TCFD). The TCFD recommends the use of scenario analysis to assess climate-related risks and opportunities and asks companies to report on the extent to which adequate governance, strategy, risk management, and metrics and targets are in place to address climate issues.

Climate-related risks and opportunities

We recognize that climate-related risk and opportunities are a relevant topic for our business and that undertaking a TCFD-based scenario analysis is a key step to obtaining greater insight into these potential future risks and opportunities of climate change. It will enable us to adapt Sonova's approach to strengthen our resilience to physical climate-related risks and the transition to a low-carbon economy.

Sonova launched its initial TCFD assessment in 2021. The first task is to identify climate-related risks to which our operations and supply chain are vulnerable. Potential relevant physical risks are heatwaves, drought, heavy precipitation and sea level rise. Potentially relevant transition risks include policy, technology, and market risks. We will next perform a TCFD physical and transition climate change scenario analysis focusing on the climate-related risks we have identified. In this scenario analysis we will use a "business as usual" 4°C scenario (RCP 8.5) for assessing physical climate risks/opportunities and a "high-mitigation" below 2°C scenario (RCP 2.6, IEA SDS and IEA ETP) for assessing transition related climate risks/opportunities. These risks will be assessed for medium and long-term time horizons across the various geographic regions where Sonova operates. The findings will be used for continuous improvement of our strategic risk management process as well as internal and external reporting.

Energy

GRI 302-1

In 2020, the total energy consumption of the Sonova Group from heating (fuel oil, natural gas, district heating), electricity, and vehicle fuels (diesel, gasoline, liquefied petroleum gas, liquefied natural gas, ethanol) amounted to 106,827 megawatt-hours (MWh). Of this total, 50,140 MWh can be attributed to the Wholesale business and 56,687 MWh to the Audiological Care business. The Wholesale business accounts for a higher proportion of electricity consumption because of the air conditioning systems necessary in operation centers in China, Vietnam, and the US. On the other hand, the Audiological Care business accounts for a higher proportion of heating because of a stronger presence in Europe, where cold winters make heating more relevant.

14%

reduction of total energy consumption compared to 2017 (base year)

Compared to the previous year, total energy consumption reduced by 11% due to the COVID-19 related slowdown in production capacity and the temporary closure of certain facilities during regional lockdowns. Over the past three years, Sonova reduced its total energy consumption by 14%.

Energy consumption
(×) PwC CH

MWh

	2020		2019		2018	
	Audiological Care [1]	Wholesale	Audiological Care [1]	Wholesale	Audiological Care [1]	Wholesale
Total	**56,687**	**50,140**	**62,270**	**57,705**	**63,971**	**56,351**
Heating	28,031	7,146	29,297	9,089	30,991	7,879
Electricity	20,327	31,694	22,020	35,733	20,769	35,405
Vehicle fuels	8,329	11,301	10,953	12,882	12,211	13,067

1 Extrapolation, only partial data available.

Energy intensity
(×) PwC CH

MWh relative to million CHF revenue

	2020	2019	2018
Total energy consumption (Scope 1 & 2)	106,827	119,975	120,322
Revenues	2,602	2,917	2,763
Energy intensity	**41.1**	**41.1**	**43.5**

Sonova is committed to increasing the share of renewable energy in its total energy budget. In line with our GHG reduction target, we have set a target of 100% renewable electricity for all key manufacturing and distribution centers by 2022. Across the company, our target is to increase the share of renewable energy to 20% of total energy consumption by 2022. In 2020, 19,198 MWh of electricity came from renewable sources, representing an increase in the renewable energy share of total energy consumption from 12% to 18%, compared to 2019. A total of 570 MWh of our renewable electricity was generated by on-site photovoltaic panels at our locations in China and Murten, Switzerland. There are several projects planned for 2021/22 to build further photovoltaic panels across our operations.

Renewable energy
(×) PwC CH

MWh

	2020	2019	2018
Total energy consumption	**106,827**	**119,975**	**120,322**
Non-renewable energy consumption	87,629	105,644	109,704
Renewable energy consumption	19,198	14,331	10,618
Share of renewable energy	18%	12%	9%

Greenhouse gas emissions

GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4

By 2022, Sonova aims to achieve a 50% reduction of greenhouse gas (GHG) emissions in relation to revenues compared to the base year of 2017. The GHG total for our target comprises Scope 1, 2, and air-travel related Scope 3 emissions. In 2020, the GHG emissions intensity further declined by 23% from 14.7 to 11.3 metric tons of CO_2 equivalents (t CO_2e) per million CHF revenues, compared to 2019. This results in a total reduction of GHG emissions intensity by 39% compared to 2017 levels, keeping us on track to achieve our 2022 target. The main reason for this large drop in GHG emissions was largely due to the impact of COVID-19 on our operations and business practices.

We have set the target to achieve carbon neutrality across our own operations by the end of 2021. We aim to achieve this by reducing our energy consumption and increasing energy efficiency, switching to renewable energy sources, and offsetting unavoidable emissions. For the latter, we collaborate with an external partner to ensure that we invest only in high quality, certified carbon offsetting projects.

23%

reduction of total absolute Scope 1-3 greenhouse gas emissions compared to 2017 (base year)

Total Scope 1, 2, and 3 absolute greenhouse gas emissions for 2020 amounted to 63,058 t CO_2e, a reduction of 17% compared to the previous year (75,868 t CO_2e) and a reduction of 23% compared to 2017 (82,243 t CO_2e). The majority of Sonova's GHG emissions are Scope 3 emissions (59% in 2020).

GHG emissions – Scope 1 – 3
(×) PwC CH
t CO_2e

	2020	2019	2018
Total Scope 1 – 3	**63,058**	**75,868**	**78,431**
Scope 1	12,428	14,145	14,633
Scope 2	13,716	17,974	20,867
Scope 3	36,914	43,749	42,931

Sonova Group's absolute carbon footprint of Scope 1 and 2 emissions for 2020 amounted to 26,145 t CO_2e, down by 9.5% from the previous year's emissions of 32,119 t CO_2e. The main reason (other than the impact of COVID-19) for the absolute reduction in Scope 1 and 2 GHG emissions is the increased use of renewable electricity in our Wholesale business, as well as group-wide efforts to improve energy efficiency in our infrastructure and production processes. Sonova Group companies continued to develop local carbon footprint reduction measures to collectively reach the 2022 environmental targets. Examples include the replacement of conventional lighting with LED technology across multiple Group companies, the improvement of building automation and optimizing electricity use for heating, ventilation, and air conditioning at our operation centers in Vietnam and China, and electricity use reduction programs which cover the data center, manufacturing, and offices at Advanced Bionics headquarters in Valencia, California.

Greenhouse gas (GHG) emissions – Scope 1+2
(×) PwC CH
t CO_2e

	2020		2019		2018	
	Audiological Care [1]	Wholesale	Audiological Care [1]	Wholesale	Audiological Care [1]	Wholesale
Total Scope 1+2	**16,802**	**9,342**	**18,671**	**13,448**	**19,386**	**16,114**
Scope 1	7,935	4,493	8,900	5,245	9,584	5,049
Scope 2	8,868	4,849	9,771	8,203	9,802	11,065

[1] Extrapolation, only partial data available.

We also take energy efficiency and carbon reduction into account when renovating existing buildings and constructing new ones. For example, our new Wireless Competence Center in Murten, Switzerland, completed in 2020, is one of the first net-zero office buildings in Switzerland and consumes minimal energy. It was built using mainly renewable and reusable materials, so that construction-related grey energy could be minimized. The building largely regulates itself by absorbing heat and releasing it again when it gets colder outside. The building's photovoltaic array generates 260 MWh of energy per year, which is a higher amount of renewable and carbon-neutral electricity than is required to run it. This surplus capacity is fed back into the grid and made available to other consumers.

Several Sonova Group companies, e.g. in the UK and Canada, have initiated local cross-functional environmental working groups, which meet regularly, drive local action and increase awareness on environmental topics.

In 2020, we have disclosed Scope 3 emissions for three categories: upstream transportation and distribution (17,471 t CO_2e), business travel (3,146 t CO_2e), and employee commuting (16,296 t CO_2e), which amounts to total Scope 3 emissions of 36,914 t CO_2e. Throughout 2021/22, we will conduct a full Scope 3 screening to determine other potentially relevant Scope 3 emissions for Sonova to enhance the accuracy of our baseline for setting science-based reduction targets.

Greenhouse gas (GHG) emissions – Scope 3
(×) PwC CH
t CO_2e

	2020	2019 [1]	2018 [1]
Total Scope 3	**36,914**	**43,749**	**42,931**
Upstream transportation and distribution	17,471	11,543	11,543
Business travel	3,146	10,648	9,830
Employee commuting	16,296	21,558	21,558

1 Studies to gauge emissions from upstream transportation and distribution, as well as employee commuting, are based on values from the 2017 study and survey.

Business-related air travel

Sonova is a global company: business-related air travel cannot be fully avoided and is at times required to maintain and improve operations, as well as to collaborate with internal and external stakeholders. However, we are committed to reduce our carbon emissions from business-related air travel by systematically using information and communications technology to substitute for air travel. In 2020, the carbon emissions from business-related air travel on a group-wide basis declined sharply by 70% compared to the previous year (2019: 10,648 t CO_2e), down to 3,146 t CO_2e. Sonova's stringent travel restrictions during the pandemic accelerated the uptake of video conferencing and other technologies. With the anticipated opening of international borders, an increase in air-travel related emissions is expected, however, we remain committed to continue our strict enforcement of travel policies and the continued use of web-conferencing tools.

Corporate car fleet

The total CO_2e footprint of Sonova's owned and leased corporate car fleet in 2020 is around 5,196 t CO_2e in 2020, which represents a reduction of 17% compared with 2019 emissions of 6,259 t CO_2e. This decrease is mostly due to a fleet-wide reduction in distance driven stemming from COVID-19 related restrictions. Part of our strategy to reduce emissions is to electrify our car fleet over the coming years. To drive the transition towards less polluting vehicles such as electric, hydrogen or hybrid cars, we adjusted Sonova's global car policy in 2020/21 and introduced a stricter CO_2 limit for new cars.

Employee commuting

In 2020, Sonova conducted a global employee commuting survey, which showed a reduction of 24% in GHG emission from employee commuting since the last global survey carried out in 2017 (21,558 t CO_2e), amounting to 16,296 t CO_2e. This reduction in emissions, like that from the corporate car fleet, is strongly linked to COVID-19 and its 'working from home' implications. Our survey shows that COVID-19 measures accounted for a reduction of roughly 30%, and that our CO_2e emissions would have been around 23,171 t CO_2e.

As the availability of public transport differs across countries, Sonova's initiatives to promote environmentally friendly commuting are influenced by the local infrastructure. The headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns. This initiative started in 2006 and increased the proportion of employees who commute using public transportation, by foot, or by bike substantially. The target for 2025 is to achieve a share of 67% by further strengthening the mobility program. In 2019, Sonova France also launched a mobility program, with elements including installation of charging stations for electric vehicles (EVs) and financial incentives for using public transport. Since the uptake of electric and hybrid cars is projected to increase over the next years, further EV charging stations were installed across several Group companies, e.g. in Vietnam, the US, and Switzerland, to encourage employees to follow this positive trend. To reward environment-friendly commuting at our operations center in Vietnam, Sonova will build motorbike charging stations in 2021/22, where local employees will be able to charge their e-motorbikes without cost using on-site generated solar energy.

Upstream transportation and distribution

In product distribution, air freight is clearly the dominant contributor to Sonova's carbon footprint, accounting for around 98% of relevant CO_2e emissions. Based on a study conducted in 2020, the total GHG emissions from upstream transportation and distribution are estimated at 17,471 t CO_2e. This includes the transport GHG emissions arising from the supplier's facilities to our operation centers, our operation centers to our distribution centers, and from our distribution centers to retail stores (own and third parties). Compared to the study in 2017, Sonova's carbon footprint from this source appears to have increased by 51%. The main reason for this substantial increase, however, is the increase in data coverage and improved data quality. For instance, unlike the 2017 study, the 2020 transportation data includes for the first time product returns and repairs for specific locations.

Sonova is committed to reduce its GHG footprint from upstream transportation and distribution and to switch to lower-polluting modes of transportation where this is feasible, such as the switch from domestic air freight to road or the change to sea freight for goods that are heavier in weight and less time-critical. In 2020, Sonova has switched some shipments from air freight to sea freight, thereby generating CO_2e savings estimated at around 1,400 t CO_2e. We are also working towards further reductions of packaging weight and volume. Furthermore, we are revisiting our global sourcing and distribution network with the aim to move towards more regional sourcing to reduce distances for transportation and distribution.

Eco-friendly products

SASB HC-MS-410a.1

Sonova is committed to minimizing the impact on the environment and human health of its products and packaging throughout their entire life cycle, and to fostering the transition toward a more circular economy. Our global environmental initiatives cover all the life-cycle stages from product design, to procurement and manufacturing, packaging and distribution, consumer use, and end-of-life.

Product design

Sonova aims to reduce the use of hazardous substances, avoid other environmental risks, minimize consumption of resources, and design for recycling and easy end-of-life treatment. As part of this endeavor, Sonova performs Life Cycle Assessments (LCA) of selected products.

Through new approaches in product design, we aim to shrink the size of products and reduce material use. One example is RogerDirect™, introduced in 2019. Since 2013, Roger™ wireless communication technology has bridged the understanding gap in loud noise and over distance by transmitting a speaker's voice directly to the listener. Before RogerDirect™, hearing aid wearers had to plug an extra component into their hearing aids or use an intermediary streamer to receive the Roger signal. New devices equipped with RogerDirect™, such as this year's Naída Paradise, enable a broader range of hearing solutions without extra components, significantly decreasing their size.

As a medical device manufacturer, the Sonova Group takes a proactive approach to evaluating materials in its products and components to assess environmental, health, or safety risks. Sonova may restrict substances because of customer or legal requirements, or because the company believes it is appropriate, based on a precautionary approach. Evaluating alternative materials is a continuous process, relevant to all stages of production.

SASB HC-MS-430a.3

The main materials used in Sonova products are polymers (e.g. nylon, silicone, acrylonitrile-butadiene-styrene, acrylic polymers), metals (steel, titanium, tin), and semimetals (e.g. silicon). Sonova complies with the EU directive on Restriction of Hazardous Substances (RoHS 2015/863/EU), which governs the use of heavy metals and halogenated compounds in electrical and electronic equipment, and with the EU's regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH EC 1907/2006) for the safe manufacture and use of chemical substances throughout their life cycle. Sonova's suppliers are also required to prove their compliance with the RoHS directive and the REACH regulation in their respective processes and supply chains.

In accordance with REACH regulation, Sonova continuously updates the list of substances of very high concern (SVHC) that may be present in its products above the regulatory threshold level of 0.1% by weight of the article. This list is made publicly available on the Phonak website. By the end of the 2020/21 financial year, there were four SVHC substances requiring communication in accordance with the REACH regulation: DEHP, 1,3-propanesultone, lead titanium trioxide, and lead. It is our target to have zero SVHC present in Sonova products above the 0.1% threshold level by 2022. In 2020/21, we initiated further process improvements aiming at reducing the number of SVHCs, e.g. enhanced testing of new products – including packaging – as part of the product launch process, and structured and regular review of the SVHC candidate list to assess the impact on new and existing products

Other substances classified as hazardous – but excluded from the RoHS directive – include solder paste and wire, paint, organic solvents, oil emulsions, mineral oil, and water-based cleaning solution. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

Procurement and manufacturing

GRI 308-1

We insist on environmentally friendly business practices throughout our supply chain: we do not restrict our environmental standards to our own operations, but consider them equally crucial in selecting our suppliers. The Sonova Group Supplier Principles recommend that suppliers use the international ISO 14001 standard as the starting point and basis for their work. All new suppliers are screened using environmental criteria. In 2020, we achieved our 2022 goal – to increase the share of our purchase volume from suppliers with certified environmental management systems (EMS) to 75% - ahead of schedule (2019: 72%). Due to Covid-19 related travel restrictions, this year's assessment was based solely on desk research and did not involve internal or external audits and visits. However, based on our previous supplier visits and assessments, the percentage of suppliers actively using an environmental management system and complying with certain environmental standards (with or without certification) is even higher: above 90% of Sonova's purchase volume.

Sonova Group Supplier Principles (SGSP)

EMS-certified suppliers
(×) PwC CH
% of total purchase volume (CHF)

	2020/21	2019/20	2018/19
Supplier with certified EMS	75%	72%	66%

Sonova has been advancing the industrial use of 3D printing technology for many years: at the beginning of the millennium, Sonova was one of the first companies to start digitally producing custom shells for In-The-Ear (ITE) hearing aids and earpieces. Today, we print hundreds of thousands of custom-made products every year, such as the Virto™ M-Titanium, combining the strength and lightness of titanium with the versatility of 3D printing to produce Phonak's smallest custom ITE hearing aid – and saving material with a shell that is thinner than traditional custom shells.

Packaging and distribution

We continuously strive to further reduce the amount of waste we generate, and the carbon footprint of our product packaging and transportation. Our SLIM packaging project aims at a substantial reduction in the packaging size and weight of selected hearing aids, along with the number of hard cases. In 2019, we implemented a SLIM packaging solution that reduces packaging materials volume and carbon footprint by almost 40% per shipped pair compared to the previous packaging concept, as revealed by an internal comparative screening life cycle analysis. The largest climate change impact from our packaging arises in the transportation phase. Since the SLIM packaging is lighter, the impact from transport is significantly lower.

75%

purchase volume from suppliers with certified environmental management systems

During 2020/21, Sonova set a new 2023 target to reduce packaging waste by 20% in terms of weight from a 2020 baseline.

Consumer use

An important research and development task is improving product energy efficiency during use. We also provide a broad range of repair and refurbishment services to lengthen the life cycle of our products and their components.

Since 2018, we have continuously increased the proportion of products that are based on our proprietary SWORD™ (Sonova Wireless One Radio Digital) chip – a low-voltage radio chip with the lowest power consumption of any hearing aid using Bluetooth®[1] Classic.

Since 2016, Sonova's Phonak, Unitron, and Hansaton brands have continuously expanded their portfolios of hearing aids with a built-in lithium-ion rechargeable battery. Our increasing focus on rechargeable hearing solutions helps us to reduce the use of disposable batteries. Advanced Bionics also offers rechargeable battery options for cochlear implant sound processors.

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

Product end-of-life

Sonova complies with the EU directive on Waste Electrical and Electronic Equipment (WEEE), which requires such equipment to be returned to the manufacturer for recycling or environmentally friendly disposal.

SASB HC-MS-410a.2

Sonova Group companies in the Audiological Care business offer different battery collection programs, in which customers can bring their used hearing aid batteries back to the store or take home a box, collect their batteries and bring them back to the store for recycling. The batteries collected are forwarded and disposed of through officially authorized disposal agents. In 2020, approximately three metric tons of batteries were collected at different stores worldwide. One example is the battery collection initiative of Connect Hearing Canada, where customers can collect their used hearing aid batteries in "The Little Green Box" and return them to the clinic for recycling once the box is full.

GRI 306-2

Waste

For Sonova, dealing with materials sustainably means avoiding or reducing waste wherever possible, collecting recyclables separately, and disposing of hazardous waste in environmentally compatible ways. Our 5-year target from 2017 to 2022 is to increase the recycling rate to 60% through group-wide efforts to reduce waste, improve waste separation, and foster recycling. As part of IntACT, our new ESG Strategy, we raised our 2023 targets not only to increase our operational waste recycling rate but to reduce by 20% our product and transportation packaging waste by weight, compared to our 2020 baseline.

53%

of total waste recycled

In 2020, the recycling rate remained stable at 53%, We reduced the amount of total waste by 8% compared to the previous year, which is in line with the reduction in production volume. Recycling waste decreased by roughly 7% compared to the previous year, to 1,063 metric tons. Solid waste sent to disposal, such as municipal solid waste or material left over from manufacturing processes, decreased by 101 metric tons to 894 metric tons.

Sonova complies with legal requirements to transport and dispose of hazardous waste solely through officially authorized disposal agents. The main categories of hazardous waste substances are solvents, oil emulsions, paints, adhesives, soldering paste, filters, petroleum, and washing fluids. The amount of hazardous waste was slightly reduced in 2020 to 37 metric tons.

Waste

metric tons

	2020	2019	2018
Total waste	**1,994**	**2,179**	**2,201**
Non-hazardous waste	894	995	995
Hazardous waste	37	39	40
Recycling waste	1,063	1,146	1,165
Recycling rate	**53%**	**53%**	**53%**

GRI 303-1

Water

Sonova uses water provided by utilities primarily for sanitary services and kitchen and garden areas. Our manufacturing processes do not require significant amounts of water. In our environmental program we therefore mainly focus on conserving water in our office buildings, e.g. with low-volume water equipment in restrooms.

Sonova takes a systematic approach to managing ESG risks, both in its supply chain and in its own operations. Risks related to water are reviewed and assessed together with all other business risks. In the 2020/21 financial year, Sonova conducted a basic physical water risk analysis on the geographic water-catchment area (basin level) for its major production and manufacturing sites, using the WWF's Water Risk Filter tool. The analysis revealed that the majority of sites are not located in water stressed regions.

The sources of all water withdrawn are municipal water supplies or other public or private water utilities. Compared to 2019, water consumption at Group level dropped by 19% from 139,707m^3 to 112,589 m^3. This significant reduction is mainly related to Covid-19 containment measures such as increased home working and regional lockdowns in several countries. Compared to 2017, when water consumption per employee was 17.8m^3, our target for 2022 was to reduce our water consumption by 5% to 17.3m^3. Our water consumption per employee has currently decreased by 15% compared to the 2017 baseline, but is expected to rise again as business returns to normal. Despite this anticipated upturn, we are committed to further intensifying measures to achieve our 2022 target.

Sonova returns water to the sewage system without contamination. The company has experienced no spills from operating processes or other instances of water contamination.

Water use

m^3

	2020	2019	2018
Total municipal water supply	112,589	139,707	140,627
Municipal water supply per full-time employee (FTE)	15.1	18.1	18.3

Biodiversity

Sonova's global activities, products, and services have a limited direct or indirect impact on biological diversity and natural ecosystems, such as loss of biodiversity, destruction of natural habitats, and deforestation.

GRI 302-1, GRI 303-1, GRI 305-1, GRI 305-2, GRI 305-3, GRI 306-2

Environmental reporting and system boundaries

Sonova's environmental data monitoring and reporting includes energy consumption, CO_2e footprint, materials, waste disposal, and water consumption and is based on the calendar year. The company reports and discusses environmental performance to the limits of the available data. Actual data was collected whenever possible, and estimated if data collection was not feasible given the decentralized organizational structure of these businesses and their small, often rented facilities.

The tables in the section 'Protecting the planet' show environmental data from Sonova Group companies that operate as headquarters, manufacturing sites, or wholesale distributors, as well as Group companies with audiological care activities. CO_2e footprint and energy consumption data are provided for all entities in the 2020 environmental data reporting. Waste and water data were collected for all Group companies that operate as headquarters, key manufacturing and distribution centers, or larger wholesale distributors. For Group companies with only audiological care activities, waste and water data are only monitored where feasible and not included in this report. Overall, the entities covered in the waste and water data reporting account for 51% of Sonova's global employees.

Sonova's environmental management system monitors greenhouse gas emissions arising from its consumption of electricity, heating oil, natural gas, district heating, and vehicle fuels such as diesel and gasoline. The company measures its carbon footprint using country-specific grid emission factors and, if available, specific emission factors provided by energy utilities. Scope 2 emissions were calculated using the 'market-based' approach in accordance with the Greenhouse Gas Protocol Scope 2 Guidance. When reported according to the 'location-based' approach, the Scope 2 emissions were 21,202 t CO_2e. Sonova purchased 11,647 MWh as renewable energy certificates (RECs), which were accounted for under the market-based approach for Scope 2. The measurement methodology and reporting format for the carbon footprint are based on the standards and guidance of the Greenhouse Gas Protocol. Sonova followed the financial control consolidation approach for setting organizational boundaries. Key emission factor sources for calculating greenhouse gas emissions include the International Energy Agency (IEA) for electricity and the UK Government GHG Conversion Factors for Company Reporting for other emissions sources. Global warming potentials from the IPCC's fourth assessment report (AR4) were applied to calculate CO_2 equivalents. Relevant gases included are CO_2, CH_4, and N_2O.

Sonova differentiates between direct emissions (Scope 1) deriving from sources such as burning natural gas or vehicle fuels, indirect emissions (Scope 2) from sources such as using electricity, and indirect emissions (Scope 3) from upstream transportation and distribution, business travel, and employee commuting. For the car fleet and air travel data, all Sonova Group companies were taken into account.

About this CR Report

Reporting profile

GRI 102-50, GRI 102-51, GRI 102-52

Reporting practice

Sonova reports in an annual cycle. The 2020/21 reporting period covers the financial year from April 1, 2020 to March 31, 2021. The most recent previous Annual Report and Corporate Responsibility Report were released on May 19, 2020.

The Sonova Corporate Responsibility (CR) Report for 2020/21, when combined with the 2020/21 business and financial report, complies with the Global Reporting Initiative (GRI) Standards and forms an integral part of Sonova's UN Global Compact Communication on Progress. See our GRI content index for details on how the report content maps against the GRI Standards and UNGC principles. See our SASB index for details on how the report content maps against the Sustainability Accounting Standards Board (SASB) standards governing sustainability disclosure topics and accounting metrics for the medical equipment & supplies industry. These indices refer solely to the content of the online CR Report. Additional relevant information about economic performance and remuneration is provided in the compensation report, corporate governance report, and financial review chapters of the Annual Report.

GRI 102-45, GRI 102-1

Entities

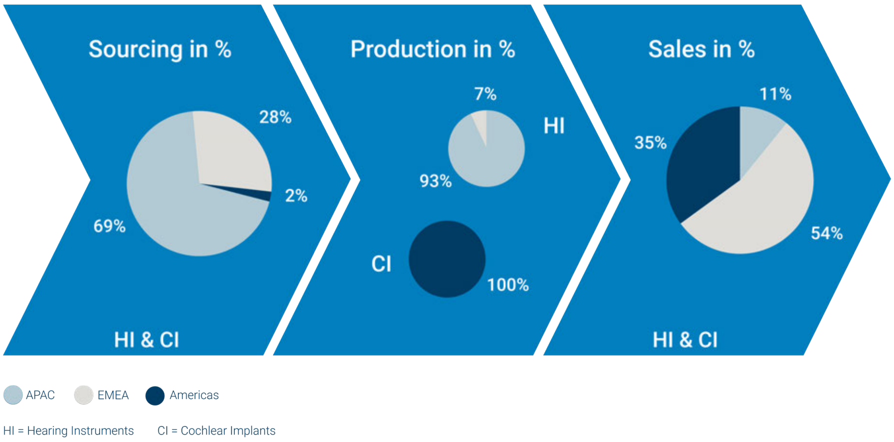
The information and data provided relate to the entire Sonova Holding AG, including its Group companies, unless explicitly noted. Some ESG data stem from actual data collection, whereas other data from particular Group companies were only estimated. Whenever applicable, it is stated in the respective sections whether the data are measured or estimated.

GRI 102-1, GRI 102-2, GRI 102-3, GRI 102-4, GRI 102-5, GRI 102-6, GRI 102-7

Organizational profile

Sonova, headquartered in Stäfa, Switzerland, is a leading provider of innovative hearing care solutions. The Group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and the brands of the Audiological Care business, e.g. AudioNova, Geers, Boots Hearing Care, Connect Hearing and Lapperre. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Pursuing a unique vertically integrated business strategy, the Group operates through three core businesses – Hearing Instruments, Audiological Care and Cochlear Implants – along the entire value chain of the hearing care market. The Group's sales and distribution network, the widest in the industry, comprises over 50 own wholesale companies in over 30 countries and more than 100 independent distributors. This is complemented by Sonova's Audiological Care business, which offers professional audiological services through a network of around 3,300 locations in 20 key markets. Founded in 1947, the Group has a workforce of over 14,000 dedicated employees and major operation sites in Switzerland, the United States, China, and Vietnam. Across all businesses, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Sonova Holding AG is a Swiss public limited company. More details on our products, services, brands, and activities as well as financial information, including a list of significant shareholders are provided in the 2020/21 financial report and business report.



GRI 102-10, GRI 102-48, GRI 102-49

Restatements and significant changes

There were no significant changes during 2020/21 in the scope, boundary, or measurement methods applied in the report that would require a restatement of information provided in earlier Sonova CR Reports. There were no significant changes to the organization's size, structure, ownership, or supply chain that could cause or contribute to significant ESG impacts during the reporting year. The list of material topics has been last updated in 2019/20 as described in the section IntACT – Sonova's ESG Strategy.

GRI 102-54

Declaration and assurance

This report has been prepared in accordance with the GRI Standards: Core option.

PricewaterhouseCoopers AG has provided independent assurance on specific data outlined in the CR Report 2020/21. For more detail, see the Independent Assurance Report. The compensation report, the consolidated financial statements, and the financial statements of Sonova Holding AG in the 2020/21 Annual Report have been audited by a statutory external auditor.

GRI 102-53

Contact

If you have questions regarding this 2020/21 CR Report or its contents, please contact
Sonova AG, Laubisrütistrasse 28, 8712 Stäfa, Switzerland.
Phone: +41 58 928 01 01 | Email: responsibility@sonova.com

Independent Assurance Report

on the Sonova Corporate Responsibility Reporting 2020/21 Stäfa

We have been engaged to perform assurance procedures to provide limited assurance on the aspects of the 2020/21 Corporate Responsibility (CR) Reporting of Sonova Holding AG, Stäfa and its consolidated subsidiaries ("Sonova Group").

Scope and subject matter

Our limited assurance engagement focused on the selected CR indicators for the year ended on 31 March 2021 published on Sonova's website[1] https://report.sonova.com/2021 marked with (×) PwC CH and summarized in the GRI content index:

- the tables disclosed in the sections 'Advancing our people' and 'Protecting the planet' marked with (×) PwC CH; and
- the management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of CR indicators.

Criteria

The management reporting processes with respect to the CR reporting and CR indicators were prepared by Sonova Group based on the internal policies and procedures as set forth in the following:

- the Sonova Group internal CR reporting guidelines based on the 'GRI Standards' published in October 2016 by the Global Reporting Initiative;
- the Sonova Group internal reporting manuals 'Environmental Reporting' dated 31st of March 2020 and 'HR KPI Calculation Factsheet'; and
- Procedures, by which the data for the CR indicators reporting is gathered, collected and aggregated internally.

Inherent limitations

The accuracy and completeness of CR indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with Sonova's internal guidelines, definitions and procedures on the CR reporting.

Sonova's responsibility

The Board of Directors of Sonova Holding AG is responsible for both the subject matter and the criteria as well as for the selection, preparation and presentation of the selected data and information in accordance with the criteria. This responsibility includes the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention to indicate that the identified CR information selected and contained in this report and as published on Sonova's website[1] https://report.sonova.com/2021 and marked with (×) PwC CH is not stated, in all material respects, in accordance with the reporting criteria.

We planned and performed our procedures in accordance with the International Standard on Assurance Engagements (ISAE 3000) (Revised) 'Assurance engagements other than audits or reviews of historical financial information', and, in respect of greenhouse gas emissions, with the International Standard on Assurance Engagements (ISAE 3410) 'Assurance Engagements on Greenhouse Gas Statements'. These standards require that we plan and perform the assurance engagement to obtain limited assurance on the identified sustainability information prepared, in all material aspects, in accordance with Sonova's internal policies and procedures.

A limited assurance engagement under ISAE 3000 (Revised) and ISAE 3410 is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement. The procedures selected depend on the assurance practitioner's judgement.

Our independence and quality control

We are independent of the Sonova Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) that are relevant to our audit of the financial statements and other assurance engagements in Switzerland. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of the work performed

Our assurance procedures included, amongst others, the following work:

- *Evaluation of the application of Group guidelines*
  Reviewing the application of the Sonova Group internal CR reporting guidelines;
- *Site visit and management inquiry*
  Remote site visit procedures at Sonova USA Inc. The selection was based on quantitative and qualitative criteria;
  Interviewing personnel responsible for internal reporting and data collection at the site and at the Sonova Corporate level;
- *Assessment of the key figures*
  Performing tests on a sample basis of evidence supporting selected CR indicators concerning completeness, accuracy, adequacy and consistency;
- *Review of documentation and analysis of relevant policies and principles*
  Reviewing relevant documentation on a sample basis, including Sonova Group CR policies, management of reporting structures and documentation.

Conclusion

Based on our work performed nothing has come to our attention causing us to believe that in all material respects:

- The CR indicators outlined in the scope and subject matter section and published on Sonova's website[1] https://report.sonova.com/2021 marked with (×) PwC CH are not stated in accordance with Sonova Group internal policies and procedures; and
- The management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of these key performance indicators are not functioning as designed.

PricewaterhouseCoopers AG

Stephan Hirschi | Raphael Rutishauser

Zurich, 14 May, 2021

1) The maintenance and integrity of Sonova's website is the responsibility of the Board of Directors; the work carried out by us does not involve consideration of these matters and, accordingly, we accept no responsibility for any changes that may have occurred to the CR indicators or reporting criteria when presented on Sonova's website.

GRI content index

COMMUNICATION ON PROGRESS

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Disclosure	Description	UNGC	SDG	Reference	External assurance
GENERAL STANDARD DISCLOSURES					
1. Organizational profile					
102-1	Name of the organization			Reporting profile	No
102-2	Activities, brands, products, and services			Reporting profile	No
102-3	Location of headquarters			Reporting profile	No
102-4	Location of operations			Reporting profile	No
102-5	Ownership and legal form			Reporting profile	No
102-6	Markets served			Reporting profile	No
102-7	Scale of the organization			Reporting profile	No
102-8	Information on employees and other workers	6	8	Advancing our people	Yes
102-9	Supply chain			Acting with integrity	No
102-10	Significant changes to the organization and its supply chain			Reporting profile	No
102-11	Precautionary Principle or approach			Acting with integrity	No
102-12	External initiatives			Acting with integrity	No
102-13	Membership of associations			Acting with integrity	No
2. Strategy					
102-14	Statement from senior decision-maker			Message from the CEO	No
3. Ethics and integrity					
102-16	Values, principles, standards, and norms of behavior	1	16	IntACT – Sonova's ESG Strategy	No
102-17	Mechanisms for advice and concerns about ethics	1	16	Acting with integrity	No

4. Governance					
102-18	Governance structure			IntACT – Sonova's ESG Strategy	No
102-19	Delegating authority			IntACT – Sonova's ESG Strategy	No
102-20	Executive-level responsibility for economic, environmental, and social topics			IntACT – Sonova's ESG Strategy	No
102-21	Consulting stakeholders on economic, environmental, and social topics		16	Acting with integrity	No
102-22	Composition of the highest governance body and its committees		5, 16	Acting with integrity	No
102-23	Chair of the highest governance body		16	Acting with integrity	No
102-24	Nominating and selecting the highest governance body		5, 16	Acting with integrity	No
102-25	Conflicts of interest		16	Acting with integrity	No
102-26	Role of highest governance body in setting purpose, values, and strategy			IntACT – Sonova's ESG Strategy	No
102-27	Collective knowledge of highest governance body		4	IntACT – Sonova's ESG Strategy	No
102-28	Evaluating the highest governance body's performance			Acting with integrity	No
102-29	Identifying and managing economic, environmental, and social impacts		16	IntACT – Sonova's ESG Strategy	No
102-30	Effectiveness of risk management processes			Acting with integrity	No
102-31	Review of economic, environmental, and social topics			IntACT – Sonova's ESG Strategy	No
102-32	Highest governance body's role in sustainability reporting			IntACT – Sonova's ESG Strategy	No
102-35	Remuneration policies			Business report: Compensation report	Yes
102-36	Process for determining remuneration			Business report: Compensation report	Yes
102-37	Stakeholders' involvement in remuneration		16	Business report: Compensation report	Yes
5. Stakeholder engagement					
102-40	List of stakeholder groups			Stakeholder engagement	No
102-41	Collective bargaining agreements	3	8	Stakeholder engagement	No
102-42	Identifying and selecting stakeholders			Stakeholder engagement	No
102-43	Approach to stakeholder engagement			Stakeholder engagement	No
102-44	Key topics and concerns raised			Stakeholder engagement	No
6. Reporting practice					
102-45	Entities included in the consolidated financial statements			Reporting profile	No
102-46	Defining report content and topic Boundaries			IntACT – Sonova's ESG Strategy	No
102-47	List of material topics			IntACT – Sonova's ESG Strategy	No
102-48	Restatements of information			Reporting profile	No
102-49	Changes in reporting			Reporting profile	No
102-50	Reporting period			Reporting profile	No
102-51	Date of most recent report			Reporting profile	No
102-52	Reporting cycle			Reporting profile	No
102-53	Contact point for questions regarding the report			Reporting profile	No
102-54	Claims of reporting in accordance with the GRI Standards			Reporting profile	No

102-55	GRI content index			GRI content index	No
102-56	External assurance			Assurance Report	No
SPECIFIC STANDARD DISCLOSURES					
Serving society					
103-1	Explanation of the material topic and its Boundary			IntACT – Sonova's ESG Strategy	No
103-2	The management approach and its components			IntACT – Sonova's ESG Strategy	No
103-3	Evaluation of the management approach			IntACT – Sonova's ESG Strategy	No
Own indicator	Unit sales of hearing instruments (HI) in low- and middle-income countries		3, 4	Serving society	No
Advancing our people					
103-1	Explanation of the material topic and its Boundary			IntACT – Sonova's ESG Strategy	No
103-2	The management approach and its components			IntACT – Sonova's ESG Strategy	No
103-3	Evaluation of the management approach			IntACT – Sonova's ESG Strategy	No
401-1	New employee hires and employee turnover	6	5, 8	Advancing our people	Yes
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		8	Advancing our people	Yes
404-3	Percentage of employees receiving regular performance and career development reviews	6	5, 8	Advancing our people	No
405-1	Diversity of governance bodies and employees	1	5, 8	Advancing our people	Yes
Own indicator	Employee engagement rate		5, 8	Advancing our people	Yes
Acting with integrity					
103-1	Explanation of the material topic and its Boundary			IntACT – Sonova's ESG Strategy	No
103-2	The management approach and its components			IntACT – Sonova's ESG Strategy	No
103-3	Evaluation of the management approach			IntACT – Sonova's ESG Strategy	No
205-2	Communication and training about anti-corruption policies and procedures	10	16	Acting with integrity	No
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices			Acting with integrity	No
308-1	New suppliers that were screened using environmental criteria	8		Acting with integrity	No
308-2	Negative environmental impacts in the supply chain and actions taken	8		Acting with integrity	No
408-1	Operations and suppliers at significant risk for incidents of child labor	4, 5	8, 16	Acting with integrity	No
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	4, 5	8	Acting with integrity	No
412-1	Operations that have been subject to human rights reviews or impact assessments	1, 2		Acting with integrity	No

414-1	New suppliers that were screened using social criteria	2	8, 16	Acting with integrity	No
414-2	Negative social impacts in the supply chain and actions taken	2	8, 16	Acting with integrity	No
415-1	Political contributions		16	Acting with integrity	No
416-1	Assessment of the health and safety impacts of product and service categories			Acting with integrity	No
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data		16	Acting with integrity	No
419-1	Non-compliance with laws and regulations in the social and economic area		16	Acting with integrity	No
Own indicator	Product reliability rate for hearing instruments (HI) and cochlear implants (CI)		3, 9	Acting with integrity	No
Own indicator	On-time mandatory employee Global Compliance training completion rate	10	16	Acting with integrity	No
Protecting the planet					
103-1	Explanation of the material topic and its Boundary			IntACT – Sonova's ESG Strategy	No
103-2	The management approach and its components			IntACT – Sonova's ESG Strategy	No
103-3	Evaluation of the management approach			IntACT – Sonova's ESG Strategy	No
302-1	Energy consumption within the organization	7, 8	7, 12, 13	Protecting the planet	Yes
303-1	Water withdrawal by source	7, 8	6	Protecting the planet	No
305-1	Direct (Scope 1) GHG emissions	7, 8	12, 13	Protecting the planet	Yes
305-2	Energy indirect (Scope 2) GHG emissions	7, 8	12, 13	Protecting the planet	Yes
305-3	Other indirect (Scope 3) GHG emissions	7, 8	12, 13	Protecting the planet	Yes
305-4	GHG emissions intensity	7, 8, 9	12, 13	Protecting the planet	Yes
306-2	Waste by type and disposal method	8	12, 13	Protecting the planet	No
307-1	Non-compliance with environmental laws and regulations	8		Protecting the planet	No

UNGC = UN Global Compact Principle.
SDG = UN Sustainable Development Goal.
All references refer to the 2016 version of the GRI Standards.

About this CR Report

SASB content index

SASB code	**Metric description**	**UNGC**	**SDG**	**Level of disclosure**	**Main reference**	**External assurance**
HC-MS-240a.1	Ratio of weighted average rate of net price increases (for all products) to the annual increase in the U.S. Consumer Price Index		3	Omission [1]		No
HC-MS-240a.2	Description of how price information for each product is disclosed to customers or to their agents		3	Partial	Ethical marketing and sales practices	No
HC-MS-250a.1	Number of recalls issued, total units recalled			Full	Product quality, safety and reliability	No
HC-MS-250a.2	List of products listed in the FDA's MedWatch Safety Alerts for Human Medical Products database			Full	Product quality, safety and reliability	No
HC-MS-250a.3	Number of fatalities related to products as reported in the FDA Manufacturer and User Facility Device Experience			Full	Product quality, safety and reliability	No
HC-MS-250a.4	Number of FDA enforcement actions taken in response to violations of current Good Manufacturing Practices (cGMP), by type			Full	Product quality, safety and reliability	No
HC-MS-270a.1	Total amount of monetary losses as a result of legal proceedings associated with false marketing claims			Full	Ethical marketing and sales practices	No
HC-MS-270a.2	Description of code of ethics governing promotion of off-label use of products			Omission [2]		No
HC-MS-410a.1	Discussion of process to assess and manage environmental and human health considerations associated with chemicals in products, and meet demand for sustainable products	8		Full	Eco-friendly products	No
HC-MS-410a.2	Total amount of products accepted for takeback and reused, recycled, or donated, broken down by: (1) devices and equipment and (2) supplies	8	12	Partial	Eco-friendly products	No
HC-MS-430a.1	Percentage of (1) entity's facilities and (2) Tier I suppliers' facilities participating in third-party audit programs for manufacturing and product quality			Full	Product quality, safety and reliability	No
HC-MS-430a.2	Description of efforts to maintain traceability within the distribution chain			Partial	Product quality, safety and reliability	No
HC-MS-430a.3	Description of the management of risks associated with the use of critical materials			Partial	Responsible supply chain	No

HC-MS-510a.1	Total amount of monetary losses as a result of legal proceedings associated with bribery or corruption	10		Full	Business ethics and legal compliance	No
HC-MS-510a.2	Description of code of ethics governing interactions with health care professionals	10		Full	Ethical marketing and sales practices	No
HC-MS-000.A	Number of units sold by product category			Adjusted [3]		No

UNGC = UN Global Compact Principle.
SDG = UN Sustainable Development Goal.

1 Sonova does not report detailed price information on all its products in its investor reporting. However, information related to the pricing strategy is reported in the Annual Report (Strategy and businesses, compensation report, financial review).

2 This metric is not applicable to Sonova's business model.

3 Sonova instead reports the sales volumes by business segment (Annual Report: Notes to the consolidated financial statements – 2.2 Segment information).

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Disclaimer

This report contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

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