



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 life 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

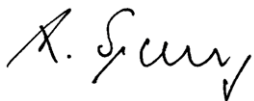
A crisis is, above all, a test of strength. After this eventful year, we have even more reasons to thank our employees for their strength to keep on innovating, improving, and expanding our solutions and businesses, despite all the challenges we have faced. Our customers and colleagues in the world of 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>

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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 wearers¹ 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

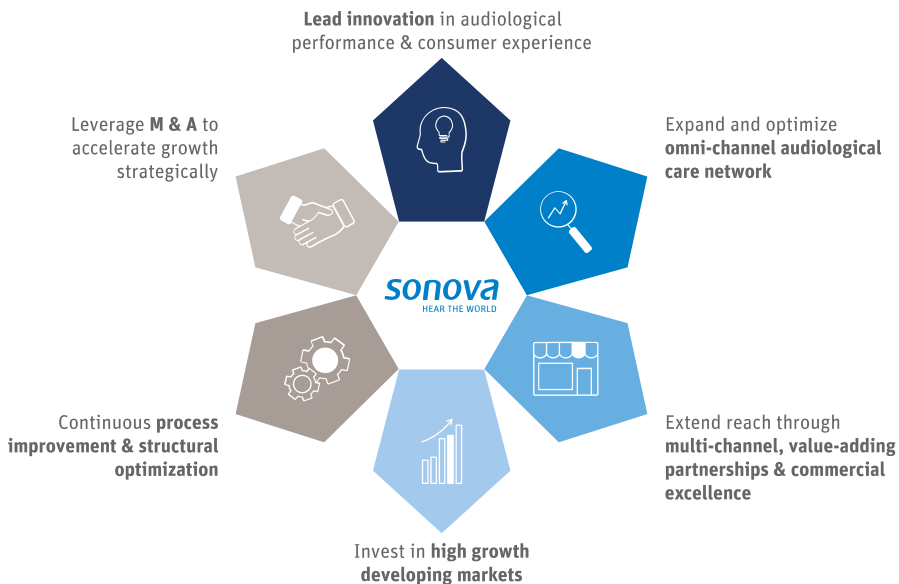
The Sonova Group fulfils its mission through its three core businesses: Hearing Instruments, Audiological Care, and Cochlear Implants. Hearing Instruments delivers market leading audiological performance and consumer experience through innovative technology platforms that support a full range of hearing 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.

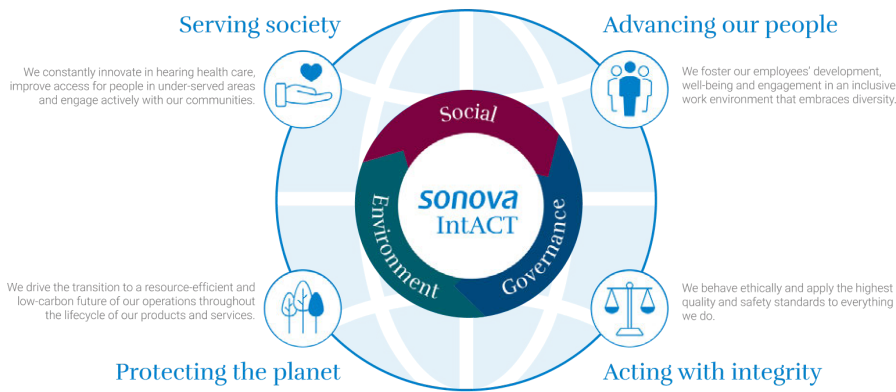


Driving innovation

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.

FEATURE STORY

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.

FEATURE STORY

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."

FEATURE STORY

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 understanding¹, 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.



Connect Hearing

Discover · Discover · Engage
PLEASE USE ONE

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	Registered shareholders
	31.3.2021	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.

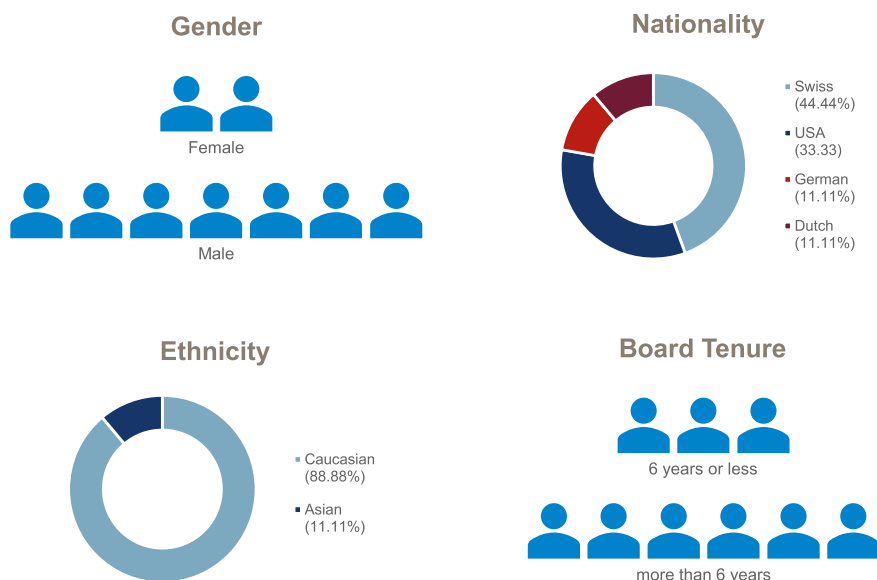
Furthermore, an annual self-assessment is conducted to evaluate the work of the Board of Directors in order to:

- 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.

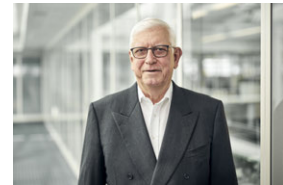
Outside mandates:

- 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.

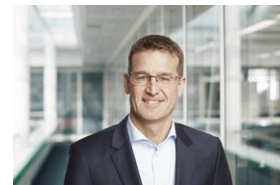
With his broad management background, his experience in M&A and business development and particularly his financial expertise as active CFO, Adrian Widmer is well qualified to serve on the Audit Committee as a financial expert and is an ideal sparring partner for Sonova's CFO.

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 Jelmolli Holding AG in Zürich.



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

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.

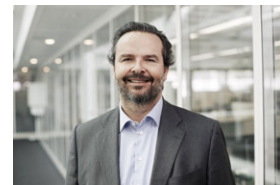


Christophe Fond

(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	PricewaterhouseCoopers
	2020/21	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.

I. 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/re-elected 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

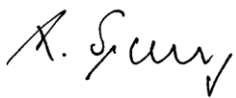
As outlined in this compensation report, the total compensation awarded to the members of the Board of Directors for this term of office is well within the limit approved by the 2020 AGM, due in part to the temporary compensation reduction outlined above. The compensation awarded to the members of the 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.

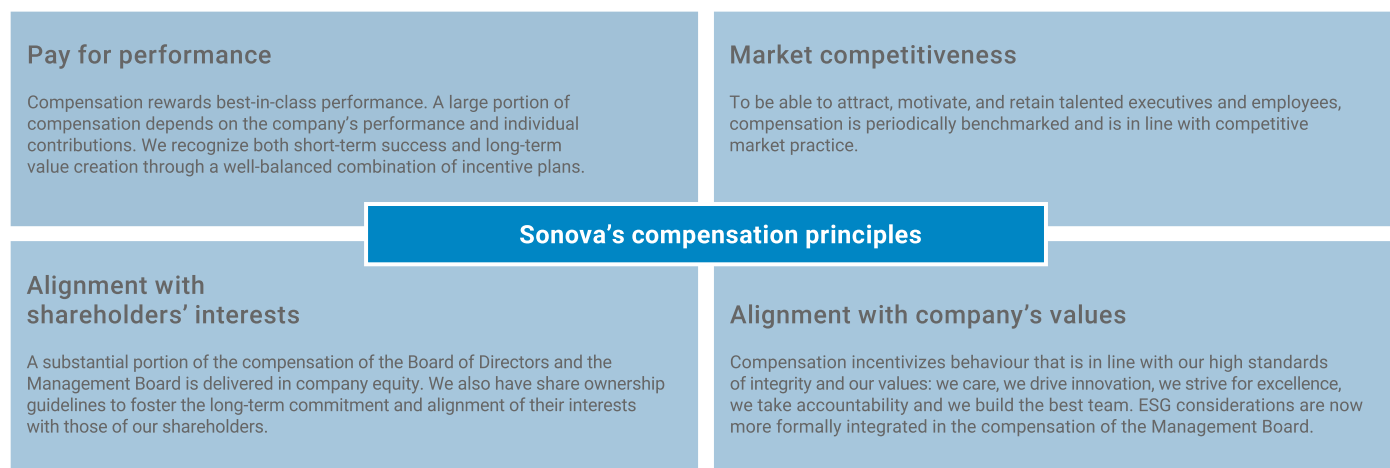
Yours sincerely,



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:



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.

COMPENSATION REPORT

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			<ul style="list-style-type: none"> – 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 	<ul style="list-style-type: none"> – Reconfirmation of compensation proposal for the following financial year – Reconfirmation of EEAP target group for the following financial year
Management Board (MB) matters	<ul style="list-style-type: none"> – Approval of actual vesting of EEAP and payout of VCC for CEO and MB for the previous financial year – Setting of VCC and EEAP performance targets for the new financial year – Approval of individual targets for CEO and MB 	<ul style="list-style-type: none"> – Approval of ESG criteria for MB VCC for the next financial year 	<ul style="list-style-type: none"> – Review of Sonova's succession planning at MB level as covered in the full BoD 	<ul style="list-style-type: none"> – Equity valuation (options and Performance Share Units/PSU) – Target compensation (incl. EEAP grant) review for the following financial year
Governance	<ul style="list-style-type: none"> – AGM preparation – Approval of the corporate governance and the compensation report as well as the compensation part of the AGM invitation – Proposal of the maximum aggregate amount of compensation of the MB and the BoD – Share ownership status review 	<ul style="list-style-type: none"> – Review of proxy advisor/ shareholder feedback on compensation report – Board evaluation 		<ul style="list-style-type: none"> – Review of draft compensation report – NCC agenda for the following financial year

Special ad hoc items such as personnel changes at executive level are covered as and when appropriate. There has been greater interaction between the Board of Directors and the NCC, and also the Management Board, in the context of the current COVID-19 related crisis: for example, 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

COMPENSATION REPORT

- 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 compensation components (performance related)		
Short-term cash incentive award		
Variable Cash Compensation (VCC)		
Long-term equity incentive award⁶⁾		
Executive Equity Award Plan (EEAP)		
Social and other benefits		
Other benefits		

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

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

³⁾ Only for MB members with a Swiss employment contract

⁴⁾ Flat rate cash car allowance

⁵⁾ If applicable

⁶⁾ 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 <small>(social security contributions for the portion delivered in restricted shares are covered)</small>	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 committee 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

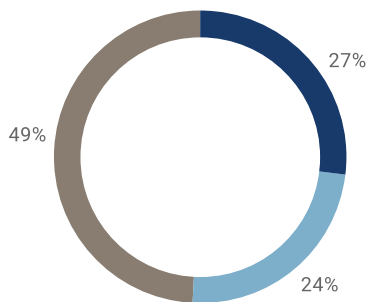
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- 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.

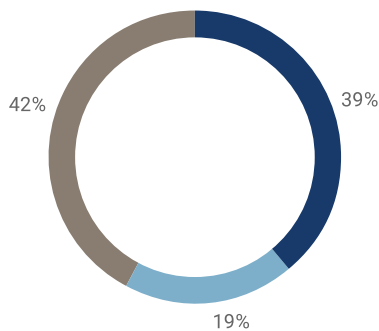
As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company’s strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has 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 Board¹⁾



■ Base salary ■ VCC ■ EEAP

■ Base salary ■ VCC ■ EEAP

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 objectives²⁾					
Sales		0% – 30%	0%	100%	200%
EBITA		0% – 20%			
OPEX		0% – 30%			
ASP		0% – 10%			
C – ESG objectives³⁾					
ESG objectives	10%	10%	0%	100%	200%
D – Individual objectives³⁾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

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

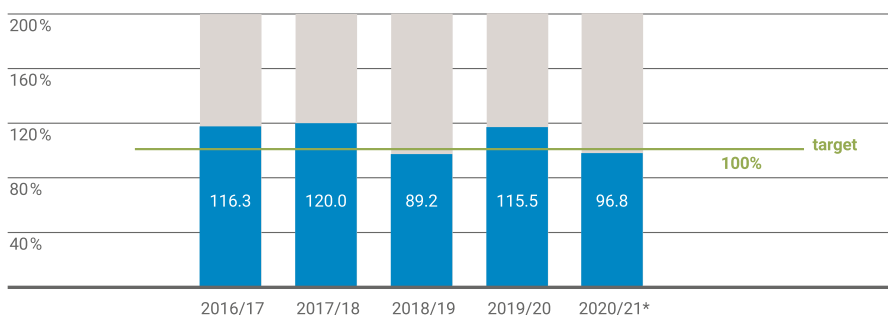
The compensation shown in the table above is gross and based on the accrual principle.

- 1) The variable compensation will be paid out only when the Group's audited financial statements for the financial year have been publicly disclosed by the Group in its consolidated financial statements.
- 2) Fair value per PSU at grant date CHF 266.80. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior to the vesting in June 2023 and the PSUs are blocked after vesting to arrive at the total mandatory holding period of five years from grant date.
- 3) Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" (including the impact of the holding period based on a "Black-Scholes Model") of CHF 33.34. The options are blocked after vesting to arrive at the total mandatory holding period of five years.

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



■ Average payout ratio versus target Variable Cash Compensation ■ Target Cap

* 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							Total options
	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⁾	
Arnd Kaldowski	25,454	28,119	32,901	86,543 ⁸⁾				173,017
Hartwig Greverer		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 Grevenner	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.

COMPENSATION REPORT

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