Compensation report

For Sonova our people are essential: to succeed in the market and deliver the best products and services, we need to be a strong team working together with, and for, our customers and shareholders. This is why we strive to attract, retain and develop skilled, dedicated, and ambitious colleagues who continuously improve and grow the company for all our stakeholders.

This compensation report describes Sonova's compensation principles, system, and key components, as well as the method of determining the compensation of members of the Board of Directors and the Management Board. It also explains the roles, responsibilities, and governance procedures involved in the design, approval, and implementation of compensation plans. Furthermore, it provides information on the organization of the Board of Directors. More information on topics such as Board composition, independence, diversity, competence, evaluation, and risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

The compensation report provides the context for the shareholder votes on the compensation of the Board of Directors and the Management Board, submitted for approval at the 2020 Annual General Shareholders' Meeting (AGM). This report includes COVID-19 related measures on their compensation.

It has the following structure:

1. Introduction by the Chairman of the Nomination and Compensation Committee
2. Compensation policy and principles
3. Compensation governance
4. Compensation components and system
5. Compensation for the financial year
6. Share ownership information

For ease of reference, abbreviations are also summarized in a glossary at the end of this report.

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

Dear Shareholders,

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

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

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

Even during the normal course of business, we continuously review our compensation framework, making adaptations when and if deemed appropriate, taking into consideration our ongoing dialogue with our shareholders and with proxy advisors, and reflecting our business strategy as well as relevant market trends and best practice. This review is to ensure that our compensation framework is attractive, effective in achieving what we need, and sustainable. Transparency is key for us and we continuously work on improving clarity of disclosure.

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

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

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

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

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

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

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

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

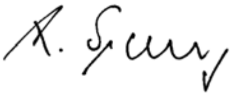
The NCC continued to perform its regular activities throughout the year, including succession planning for positions on the Board of Directors and the Management Board, performance goal setting at the beginning of the financial year and performance assessment at its end, determination of compensation for members of the Management Board, and preparation of the compensation report and of the say-on-pay votes at the AGM.

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

At the 2020 AGM, you will have the opportunity to express your opinion on our compensation principles and system by way of a consultative vote on this compensation report. We will also ask for your approval of the maximum aggregate compensation amounts for the Board of Directors for the next term of office and for the Management Board for the 2021/22 financial year.

On behalf of the Board of Directors, I would like to thank you for your continued support. We hope that you find this report informative and we remain confident that our compensation system rewards for performance in a balanced and sustainable manner, and aligns well with our shareholders' interests. We look forward to our continued dialogue.

Yours sincerely,



Robert Spoerry
Chairman of the Nomination
and Compensation Committee

2. Compensation policy and principles

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

Sonova's compensation principles

Pay for performance

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

Market competitiveness

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

Alignment with shareholders' interests

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

Alignment with company's values

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

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

The compensation of the Management Board consists of fixed and variable, performance-based compensation components. The base salary and benefits form the fixed components are determined based on current market practice. Targets for the short-term are normally defined at the beginning of each financial year and assessed at the end.

To avoid compensation for inappropriate risk taking or short-term profit maximization at the expense of the long-term health of the company, a cap applies to both the short-term and the long-term variable compensation component and claw-back provisions are applicable to the VCC.

Sonova has mandatory share ownership guidelines in place for members of the Board of Directors and the Management Board. These guidelines require members to invest defined amounts in Sonova shares and thus reinforce the alignment between the interests of the Board of Directors and the Management Board with those of our shareholders.

3. Compensation governance

3.1 Board of Directors composition, competence and independence

Board of Directors composition

As determined in Art. 1 of the Organizational Regulations and in Art. 1 of the Rules on Board Operations and Procedures, the Board of Directors plans the succession of its members and defines the criteria for selecting candidates so that the composition is well-balanced in terms of size, professional skills, international experience, and diversity in general. Sonova ensures that newly elected members receive appropriate introduction and orientation and that the members of the Board of Directors receive further training with respect to their responsibilities.

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

Board of Directors competence

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

Board of Directors independence

Members of the Board of Directors are considered to be independent according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally (or in association with related persons) have not been a member of the Management Board during the last three years, and have no or only comparatively minor business relations with the company.

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

Given the overall balance in Sonova's Board of Directors in terms of professional skills and expertise, background, international experience, length of service, and general diversity, and as all other members are considered to be independent, the Board of Directors remains confident that it is well-positioned and experienced in ensuring that its members, as part of this governing body, exercise independent control and supervision.

Fees for members of the Board of Directors are structured to be consistent with the principle of independence; members therefore only receive fixed fees paid in the form of a cash retainer and non-discounted shares with a blocking period of five years and four months (Chairman of the Board of Directors) or four years and four months (all other members of the Board of Directors). The allocation of shares strengthens alignment with shareholders' interests.

In addition, members of the Board of Directors receive committee retainers for their services on Sonova's committees. Members of the Board of Directors do not receive performance-related compensation, severance payments, or benefits.

3.2 Nomination and Compensation Committee

As determined in the Articles of Association, the Organizational Regulations, and the NCC Charter of Sonova Holding AG, the NCC supports the Board of Directors in the fulfilment of its duties and responsibilities in the area of compensation and personnel related matters. Its tasks and responsibilities include, among others:

- Periodical review of Sonova's compensation principles
- Periodical benchmark reviews covering compensation of the members of the Board of Directors (including the Chairman of the Board of Directors), the CEO, and the other members of the Management Board
- A yearly review of the individual compensation of the CEO and of the other members of the Management Board, including the VCC and the EEAP
- Review, amendment, and approval of the performance appraisal of the members of the Management Board (prepared by the CEO) and of the CEO (prepared by the Chairman of the Board of Directors)
- Preparation of the compensation report
- Succession planning
- Selection and nomination of candidates for the role of the CEO, for membership of the Management Board as proposed by the CEO, as well as pre-selection of suitable candidates for the Board of Directors; and
- Periodical review of the employment terms and policies.

Approval and authority levels on compensation matters:

Decision on	CEO	NCC	Board of Directors	AGM
Compensation principles and system for the Board of Directors and the Management Board		proposes	approves	
Maximum aggregate amount of compensation for the Board of Directors and the Management Board to be submitted to shareholders' vote		proposes	reviews and proposes to AGM	binding vote
Individual compensation, including cash components and shares, to be granted to the members of the Board of Directors[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the CEO[1]		proposes	approves	
Employment terms of the CEO[1]		proposes	approves	
Individual compensation, including fixed base salary, variable cash compensation and long-term equity incentives, of the Management Board (excluding CEO)[1]	recommends	proposes	approves	
Annual total amount of long-term equity incentives to be granted to all other eligible employees		proposes	approves	
Compensation report		proposes	approves	consultative vote

[1] Within the framework of the Articles of Association and the maximum aggregate amount of compensation approved by the AGM.

The NCC consists exclusively of independent and non-executive members of the Board of Directors, who are elected individually and annually by the AGM. For the period under review, the NCC consisted of Robert F. Spoerry (Chairman of the Board of Directors), Stacy Enxing Seng, and Beat Hess.

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

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

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

As a general rule, the Chairman of the Board of Directors, the CEO, and the Group Vice President (GVP) Corporate Human Resource Management & Communications (HRM) participate in the meetings of the NCC. However, they do not participate during the section of the meetings where their own performance and/or compensation are discussed.

There is a closed session (without participation of any executive or guest) after each NCC meeting. The Chairman of the NCC reports to the Board of Directors on its activities and recommendations after each meeting and the minutes of the meetings are available to the full Board of Directors.

External advisors

The NCC may decide to consult external advisors for specific compensation matters. In the 2019/20 reporting year, Aon Hewitt was once more tasked with the PSU valuation and performance measurement under the EEAP; Algofin performed the option valuation. Support and expertise are also provided by internal compensation experts such as the GVP HRM and the VP Total Reward.

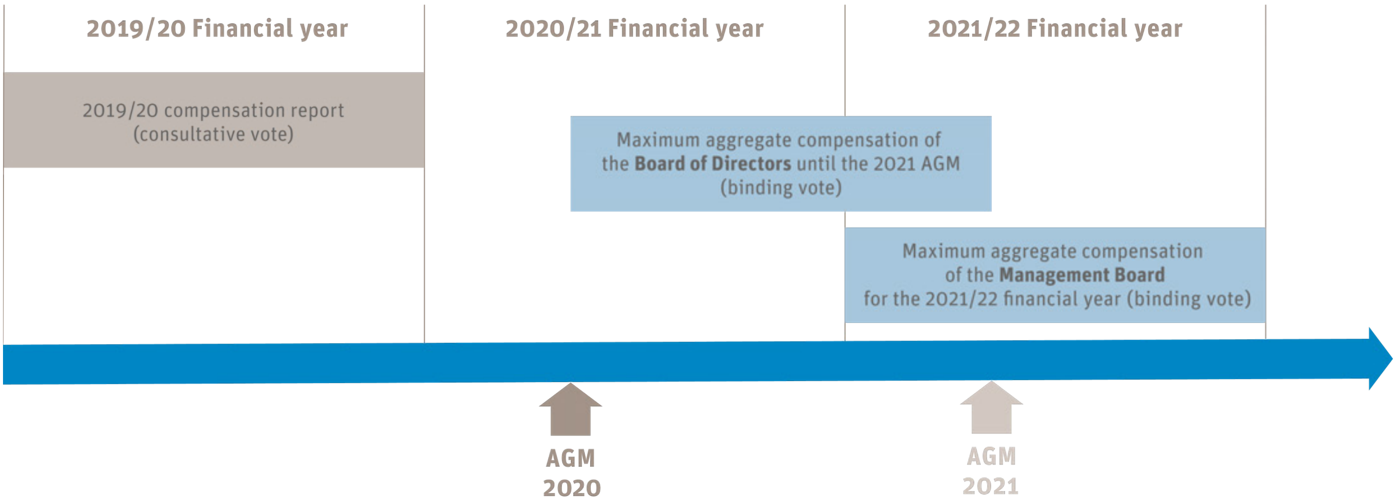
The external advisors had no other mandates during the reporting year.

3.3 Governance and shareholders' involvement

Authority for decisions related to compensation of the members of the Board of Directors and the Management Board is governed by the Articles of Association:

The prospective maximum aggregate compensation amounts to be awarded to the Board of Directors and the Management Board are subject to a yearly binding shareholder vote at the AGM. The provisions of the Articles of Association foresee that shareholders vote prospectively: on the maximum aggregate compensation for the Board of Directors for the period until the next ordinary AGM, and for the Management Board for the following financial year. In addition, Sonova annually submits the compensation report to a consultative shareholders' vote, so that our shareholders have an opportunity to express their opinion on the compensation of the previous financial year.

Over the past several years Sonova has engaged in ongoing dialogue with shareholders and proxy advisors and has made significant efforts to continuously improve its compensation disclosure in terms of transparency and level of detail provided about its principles and system of compensation.



Matters to be voted on at the 2020 Annual General Shareholders' Meeting:

The maximum aggregate compensation amount for the Board of Directors comprises fixed compensation components, including a cash retainer and restricted shares as well as committee fees and travel allowance (as applicable).

The maximum aggregate compensation amount for the Management Board (including the CEO) comprises:

Fixed compensation components:
- Fixed base salary, value of benefits, employer's contributions to Sonova's pension plan.

Variable compensation components:
- Short-term cash incentive award (VCC): maximum possible payout under the VCC, should the achievement of all performance objectives reach the cap.
- Long-term equity incentive award (EEAP): fair value of the equity awards at grant (options and PSUs).

Due to the maximum possible VCC payout, the maximum aggregate compensation amount submitted to shareholders' vote is very likely higher than the actual amount of total compensation for the members of the Management Board based on the performance achieved in the financial year. The total compensation amount awarded to the Management Board will be disclosed in the compensation report of the respective financial year, which will be subject to a consultative shareholders' vote at the AGM.

We are convinced that the binding prospective votes on the maximum aggregate compensation amounts, combined with a consultative retrospective vote on the compensation report, provide Sonova's shareholders with a far-reaching "say on pay."

Articles of Association

The Articles of Association were revised in 2014 regarding the compensation of the members of the Board of Directors and the Management Board and approved by the shareholders at the 2014 AGM. The Articles of Association include the following provisions on compensation:

- Powers and duties (Art. 24)
- Approval of compensation by the General Shareholders' Meeting (Art. 10 para. 5/Art. 26)
- Additional reserve amount for changes in the Management Board (Art. 27)
- General compensation principles (Art. 28)
- Maximum consideration for non-competition agreement (Art. 29 para.3)
- Prohibition on loans (Art. 31)

The Articles of Association are available here.

3.4 Process of determining compensation

Compensation structure and components

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

Benchmarks

Sonova periodically reviews the total compensation of members of the Board of Directors and of the Management Board. The benchmark reviews for the Management Board take into consideration our principles of both market and performance related compensation.

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

For the Board of Directors, the review considered companies in the SMIM (Swiss Market Index Mid), which comprises the 30 largest mid-cap stocks in the Swiss equity market that are not included in the blue-chip SMI index. The analysis (incorporating the input of shareholders and proxy advisors) showed that, although the overall fees paid to members of the Board of Directors are in line with the market, a re-alignment in terms of the structure of board retainer and committee fees was needed, which was implemented during this reporting year and reported in the compensation report for the 2018/19 financial year.

For the Management Board, the analysis showed that the compensation structure at Sonova is more performance oriented (and less fixed) than at other companies, and that levels are generally in line with prevalent market practice. The peer group of companies considered for the review consisted of Swiss general industry companies that are comparable in terms of market capitalization, revenue, industry, number of employees, geographic reach, etc. These included Bucher Industries AG, dormakaba Holding AG, EMS-Chemie Holding AG, Geberit AG, Georg Fischer AG, Logitech International S.A., Straumann Holding AG, and Sulzer Ltd., as described in last year's compensation report.

Performance management

The actual compensation of the members of the Management Board in a financial year depends on the performance of the Group and/or respective business unit, as well as on individual performance, which is assessed through the formal annual performance review process. Financial, business unit, and individual performance objectives are approved at the beginning of the financial year and achievements against those objectives are assessed at the end of the financial year, according to Sonova's performance appraisal process.

4. Compensation components and system

4.1 Overview of compensation components

The table below provides an overview of the compensation components for the Board of Directors and the Management Board, with more details on both included later in the report:

	Management Board 1)	Board of Directors 1)
	CEO/CFO/GVPs	BoD
Fixed compensation components		
Fixed base salary		
Benefits 2)		
Expense allowance 3)		
Cash car allowance 3) 4)		
Cash retainer (fixed fee)		
Restricted shares		
Committee fee 5)		
Meeting attendance fee 6)		
Travel allowance		
Pension benefits		
Pension Fund		
Variable compensation components (performance related)		
Short-term cash incentive award Variable Cash Compensation (VCC)		
Long-term equity incentive award 7) Executive Equity Award Plan (EEAP)		
Social and other benefits		
Other benefits		

1) Mandatory social security contributions (AHV/ALV or for the international MB the local equivalent company costs) are paid by Sonova and disclosed in the compensation report.
2) MB members under a non-Swiss employment contract receive benefits in line with local practice.
3) Only for MB members with a Swiss employment contract
4) Flat rate cash car allowance
5) If applicable
6) Only until the end of this term of office, discontinued going forward
7) Awarded in the form of options, PSUs and the one-time transition arrangement in the form of RSUs

4.2 Board of Directors compensation system

Role, responsibility and commitment

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

Requirements – in terms of qualifications, skills, and experience – for directors of international listed companies are becoming ever more stringent. Sonova's Board of Directors has the relevant and necessary skill set to ensure proper professional supervision, including international, industry, and subject specific experience.

The structure of fees paid reflects varying responsibilities, committee memberships, workloads and time commitments, so individual levels of pay are not the same. The Chairman of the Board of Directors, for example, devotes a substantial amount of his time to mandated duties, including leading the Board of Directors and committees, coordinating Board and committee meeting agendas and topics with committee chairs, and managing as well as contributing to and participating in committees. As NCC chairman, he takes the lead on topics such as Board and CEO evaluation, Board skill and competence definition and composition, new Board member recruitment and on-boarding, and participating in recruitment of Management Board members – as well as overseeing all compensation related matters.

The Chairman is also responsible for the continued development and adaptation of Sonova's governance to meet regulatory and corporate requirements, preparing for and conducting the AGM, and overseeing the annual and compensation reports, as well as advising the CEO on key strategic, financial, HR, and operational matters. His role also encompasses third party interactions such as shareholder inquiries and requests about corporate governance and corporate responsibility as well as meetings with proxy advisors. His sound understanding of the company, developed over many years of service, is a unique and valuable qualification that we believe provides a substantial benefit to Sonova and its shareholders.

More details on the Board of Directors' composition, diversity, competencies, evaluation, risk and compliance management, as well as corporate responsibility, can be found in the corporate governance report.

Compensation structure

It is important that compensation components are structured to achieve a strong alignment with the interests of our shareholders. In line with best practice, a significant portion of the compensation for the Board of Directors consists of restricted shares; members of the Board of Directors receive no variable or performance-based compensation and are not eligible to participate in the occupational pension plan.

The compensation of members of the Board of Directors is defined in a regulation adopted by the Board of Directors; it consists of fixed compensation, namely a cash retainer and shares with a restriction period of five years and four months (Chairman of the Board of Directors) or four years and four months (all other members). In addition, members of the Board of Directors receive a committee fee (if applicable) and a travel allowance.

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

Compensation structure AGM 2019 to AGM 2020

Annual fees in cash in CHF	Chairman [1]	Board members excl. Chairman
Cash retainer	470,000	100,000
Vice-Chairman	n.a.	15,000
Chairman of AC	n.a.	40,000
Chairman of NCC	Included in cash retainer	40,000
Member of NCC/AC	n.a.	20,000
Travel allowance [2]	500	500

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

[1] Including work and attendance in the NCC and the AC
[2] Multiplied by the number of meetings attended

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

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

The compensation of members of the Board of Directors is subject to mandatory employer social security contributions (AHV/ALV). These contributions are paid by Sonova and are disclosed in the compensation report in compliance with Sonova's reporting obligations.

Sonova does not grant contractual severance payments to members of the Board of Directors, nor does Sonova make advance payments or grant loans to them.

Sonova Share Ownership Guidelines

To further align the interests of the Board of Directors with those of our shareholders, the Sonova share ownership guidelines require the members to hold a fixed value in shares.

Members of the Board of Directors are required to maintain a minimum shareholding equivalent to CHF 200,000. They have five months from the first grant of restricted shares to achieve 80 percent of the required shareholdings, and one year and five months from the same point in time to achieve the full required shareholdings. The requirements of the guidelines can be met through shareholdings in the form of the restricted shares awarded as part of compensation and, if applicable, through share purchases on the open market. Compliance with the shareholding requirement is reviewed annually by the NCC.

4.3 Management Board compensation system

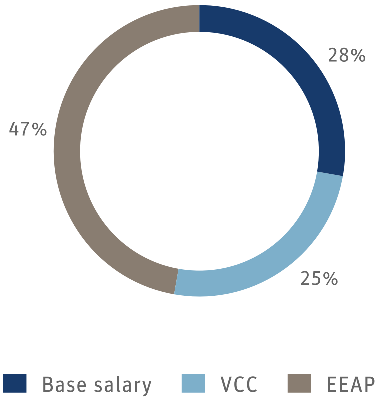
The compensation of the Management Board (including the CEO) is defined in several regulations adopted by the Board of Directors and comprises:

- A fixed base salary
- A short-term cash incentive award (VCC)
- A long-term equity incentive award (EEAP); and
- Employee benefits, such as pension benefits, flat rate cash car allowance, expense allowance, relocation benefits for certain affected members, as well as social security contributions.

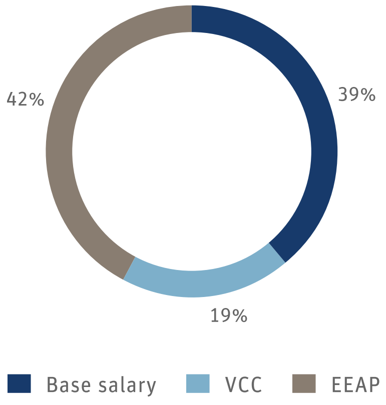
As outlined in the introduction to this compensation report, the compensation system of the Management Board is linked to the company's strategy and business results, and aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. The system has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

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

Compensation mix of the CEO, Arnd Kaldowski



Compensation mix of the other members of the Management Board



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

Compensation structure 2019/20 financial year

	Fixed compensation components		Variable compensation components		
	Fixed base salary	**Benefits**	**Short-term cash incentive award (VCC)**	**Long-term equity incentive award (EEAP)**	
Purpose	Ensures a predictable payment, depends on the market value of the role and the profile of the incumbent	Establishes level of security in line with local market practice Mandatory and voluntary benefits plans offered by the employer	Rewards performance against key performance indicators (KPIs) at Group and business unit level as well as the achievement of individual objectives	Rewards long-term value creation and reinforces alignment with shareholder interests	
Vesting Period	n.a.	n.a.	financial year	Options 16–52 months	PSUs 40 months
KPIs	n.a.	n.a.	**A – Group** Sales, EBITA, FCF, EPS **B – Business Unit** Sales, EBITA, ASP, OPEX **C – Individual objectives**	ROCE	rTSR
Delivery	Cash, regularly	Country specific	Cash	Options	PSUs
Cap	n.a.	n.a.	yes	yes	
CEO Ratio in % of fixed base salary:	n.a.	n.a.	Target of fixed base salary: **89%** Range of fixed base salary: **0%–178%**	Target of fixed base salary: **167%** Range of fixed base salary: **0%–229%**	
MB (excl. CEO) Ratio in % of fixed base salary:	n.a.	n.a.	Target of fixed base salary: up to **50%** Range of fixed base salary: **0%–100%**	Target of fixed base salary: up to **130%** Range of fixed base salary: **0%–195%**	

Fixed base salary

The fixed base salary ensures a recurrent payment in cash in regular instalments. The salary level is based on the scope and complexity of the position, market norms and benchmarks, and the individual's profile in terms of experience and skills. Salary progression depends primarily on the individual's performance, as well as on market developments and the economic environment.

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

Short-term cash incentive award (Variable Cash Compensation)

Sonova's VCC aims at aligning a significant part of compensation to budget achievements in a given financial year. The VCC is an integral component of the compensation for members of the Management Board, defined as a percentage of the annual fixed base salary. At target, it amounts to 89% of fixed base salary for the CEO and up to 50% for the other members of the Management Board.

The Board of Directors normally determines annually the target performance level for each KPI for the following financial year, based on the recommendation of the NCC. The targets are generally set in such a way that on an adjusted base, substantial improvements from the previous financial year's achievement are required, in line with the company's ambitious mid- and long-term financial plans. Setting demanding and ambitious targets helps Sonova strive to deliver best-in-class performance and stay ahead of the market. Lower and upper performance thresholds are also set, below which the payout percentage is zero, and above which it is capped at 200%. Payout levels between the threshold, the target, and the maximum are calculated by linear interpolation.

The VCC for the Management Board is based on three categories of performance objectives: Group and/or business unit and individual performance objectives. The performance objectives that must be met to achieve the target VCC are mutually agreed at the beginning of the financial year.

Group performance objectives are based on the budget; the specific KPIs can include sales, EBITA, FCF, and EPS. Business unit performance objectives can include sales, EBITA, ASP, and OPEX of the respective business unit. These KPIs have been chosen because they are the key drivers for the long-term success of Sonova; they reward for expanding the business, gaining market share, and further increasing profitability through operating leverage.

In broad terms, the rationale for applying these particular Group and business unit performance indicators in determining the VCC is as follows: sales correlate with market success, EBITA reflects profitability, ASP tracks value add and price discipline, OPEX and FCF represent operational and capital efficiency respectively. As for the performance indicators linked to the external market, earnings per share is important to shareholders and for the determination of the share price.

Group and business unit performance objectives together are weighted at 80% of the overall VCC. The individual performance component is based on the achievement of individual objectives defined at the beginning of the financial year between the CEO and individual members of the Management Board – and, for the CEO, between the Board of Directors and the CEO. The total weight of the three to six individual performance objectives for each member of the Management Board is generally 20% of the overall VCC. The weight can be increased up to 40% for exceptional reasons, such as supporting key strategic initiatives.

Ranges of performance objectives for members of the Management Board

Performance Objective	CEO/CFO	Other members of the MB	Minimum payout (threshold)	Target payout (target)	Maximum payout (cap)
A – Group objectives					
Sales	20%	10% – 20%	0%	100%[1]	200%
EBITA		10% – 20%			
FCF	20%	10% – 20%			
EPS	40%	0% – 20%			
B – Business objectives[2]					
Sales		0% – 30%	0%	100%	200%
EBITA		0% – 20%			
OPEX		0% – 20%			
ASP		0% – 10%			
C – Individual objectives					
Initiatives/Projects	20%[3]	20%[3]	0%	100%	200%

[1] At target the VCC amounts to 89% of base salary for the CEO and up to 50% for the other members of the Management Board.
[2] Not all of the business objectives apply to all members of the Management Board.
[3] In exceptional circumstances, up to 40% (e.g. to support key strategic initiatives)

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

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

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

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

Long-term equity incentive award (Executive Equity Award Plan)

The purpose of the EEAP is to ensure long-term value creation for the company, alignment of the interests between shareholders and the members of the Management Board, and the long-term retention of talent at Sonova.

The EEAP is offered annually to the members of the Management Board. The Board of Directors determines the individual grant level to the members of the Management Board based on the recommendation of the CEO, and to the CEO based on the recommendation of the NCC. Generally, the grant date is on February 1st each year.

Under the EEAP, the CEO receives an equity compensation mix of 62.5% in options and 37.5% in PSUs and the other members of the Management Board are awarded 50% in options and 50% in PSUs.

Options

A portion of the EEAP is allocated in the form of performance options: This reflects the growth-focused strategy and the desire to further strengthen the alignment of the Management Board compensation with our shareholders' interests.

Options granted under the EEAP vest in four equal annual instalments over a period of 16–52 months, generally depending on ROCE achievement. The first tranche vests on June 1 of the year following the grant year (16 months after grant date). The exercise price of the options is the closing price of the Sonova share on the Swiss Stock Exchange (SIX Swiss Exchange) at the grant date, and the life of the options is 10 years (grants before the 2017/18 financial year: 7 years).

The fair value of the options is calculated at the grant date by a third party using the "Enhanced American Pricing Model." Additional information is available in Note 7.4 to the consolidated financial statements. Re-pricing of any out-of-the-money options granted under the EEAP is prohibited.

For reference, the average vesting duration for options is 34 months. Options have usually been exercised approximately one and a half years after the vesting date. In this way options align management with shareholder interest, as value creation is only realized in the event of increasing share price (see section 5 for more information on the overall levels of the target achievements as well as other qualitative comments).

Vesting of option grants made under the EEAP to members of the Management Board generally uses ROCE as its performance criterion because it reflects multiple KPIs, including both the profitability of the company and the efficiency with which Sonova's capital is being employed. The Board of Directors generally determines the target level of performance at which the options will vest in full and a minimum performance threshold below which there is no vesting. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation.

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

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

Performance Share Units

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

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

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

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

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

The calculation of rTSR target achievement will be conducted using the average closing price for 90 trading days prior to grant and end of performance period respectively. The fair value of the PSUs is calculated at the grant date by a third party by using the "Monte Carlo Pricing Model." Additional information is available in Note 7.4 to the consolidated financial statements.

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

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

Summary of the EEAP instruments

EEAP 2020		
Equity	Options	PSUs
Grant Date	February 1, 2020	February 1, 2020
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation (Black-Scholes Model for the impact of the holding period)	Based on Monte Carlo Model valuation
Exercise/Strike Price	**CHF 241.80** (Sonova closing SIX share price on February 1, 2020)	n.a.
Vesting Date	25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023 25% vests on June 1, 2024	3 years + 4 months cliff vesting 100% vest on June 1, 2023
Vesting multiple	0%–100% of grant (ROCE)	0%–200% of grant (capped at 100% if the absolute TSR is negative) Floor: 20th percentile TSR (multiple = 0) Target: 50th percentile TSR (multiple = 1.0) Cap: 80th percentile TSR (multiple = 2.0) linear interpolation in between
Performance criterion	Number of options which vest depends on the achievement level of the ROCE target	Number of PSUs which vest depends on the achievement level of the rTSR target (against the SLI constituents)
Holding Period	Five years from the grant date (January 31, 2025)	Five years from the grant date (January 31, 2025)
Exercise Period	After the end of the Holding period until expiry	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2030)	No restriction after vesting

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

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

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

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

- In case of death or disability, unvested options and RSUs vest immediately and unvested PSUs according to the regular vesting schedule. Any still applicable holding period lapses. The vested options are exercisable within a period of 12 months commencing on the date of death or termination.
- In case of retirement, the unvested options and RSUs with a vesting date during the calendar year of the employee's retirement vest according to the regular vesting schedule. The holding period, if applicable, continues to apply. The vested options are exercisable for a period of 12 months from the latter of the date of expiry of the holding period or of retirement. Unvested equity grants with a vesting date after the calendar year of the employee's retirement are forfeited without any compensation.
- For PSUs, in case of a qualified retirement as specified in the plan rules and subject to further requirements, any then unvested PSUs will vest on a pro-rata basis. However, the performance assessment will only be determined upon completion of the performance period.
- In case of a termination of employment by a participant or by Sonova (except for termination for cause) for Management Board members in office on April 1st, 2017 whose date of termination occurs between the grant date in 2018 and/or 2019 and May 31st, 2021 (transition period), any then unvested PSUs will vest on a pro-rata basis. However, the performance assessment will only be determined upon completion of the performance period.
- In the event of termination of employment by Sonova for cause all options, whether vested or not, and other unvested awards become null and void immediately. "Cause" means any act of fraud, embezzlement or dishonesty, unauthorized use or disclosure of confidential information or trade secrets of Sonova, or any other misconduct by the employee.
- In the event of termination of employment by Sonova following a change of control ("double trigger"), unvested equity grants vest immediately on a pro-rata basis considering the period from the grant date to the effective date of the change of control compared to the original period at target level, for options, and for PSUs based on actual achievement of the PSU performance conditions as of the date of occurrence of the change of control. Any still applicable holding period lapses on an employee's date of termination. Vested options are exercisable for a period of 60 days commencing on an employee's date of termination. This rule does not apply in the event of voluntary resignation by the employee following a change of control. In such case, equity grants are forfeited.

Disclosure of targets

Internal individual and/or financial targets under the VCC and the EEAP plans are generally considered sensitive information with the exception of information relating to rTSR for PSUs. Disclosing internal targets would allow confidential insight into our strategy and thus could create a competitive disadvantage for Sonova.

Therefore, after review and careful consideration during the reporting year, the decision was made not to disclose the specifics of the VCC and EEAP internal financial targets at the time of their setting, but to further increase transparency by disclosing target achievements and their respective payouts at the end of the relevant period. For the first time in this report, the specific target achievement for each KPI underlying the VCC is disclosed (see section 5.2 for more information related to the overall quantitative achievements). Similarly, the first PSU target achievement of rTSR occurring in the next reporting year will be disclosed.

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

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

Sonova Share Ownership Guidelines

To further align the interests of the Management Board with those of our shareholders, the Sonova share ownership guidelines require Management Board members to hold a minimum fixed value in shares equivalent to the following amounts:

- CEO: CHF 1,000,000
- Other members: CHF 200,000

They have three years and five months after receiving the first grant as Management Board member to build up the shareholding, with a required progression of one year and five months for a 12.5% achievement, and two years and five months for a 25% achievement. Only shares in the form of fully vested shares awarded as part of compensation and, if applicable, share purchases on the open market are counted. Compliance with the shareholding requirement is reviewed annually by the NCC.

Benefits

As the Management Board is international in its nature, the members participate in the benefit plans available in the country of their employment contract. Benefits consist mainly of retirement, insurance, and healthcare plans that are designed to provide a reasonable level of protection for the employees and their dependents in respect to retirement income, healthcare provision, and coverage against the risk of disability or death.

Sonova maintains defined-contribution plans under the Swiss occupational pension regulations. Pension benefits are provided through the regular pension plan. Members of the Management Board who are under a Swiss employment contract are eligible for the same benefits as all other employees in Switzerland. Members of the Management Board who are under a foreign employment contract receive benefits in line with local current market practice.

The compensation of members of the Management Board who are under Swiss employment is subject to mandatory employer social security contributions (AHV/ALV).

The benefits and company contributions covered by Sonova are disclosed in the compensation report in compliance with Sonova's reporting obligations.

The CEO and selected members of the Management Board are entitled to a flat rate cash car allowance as well as an expense allowance in line with the expense regulations applicable to all members of management in Switzerland, which is approved by the Swiss tax authorities.

Employment terms and conditions

As part of its commitment to good corporate governance, Sonova has a forfeiture provision in all employment agreements with the Management Board members. It provides for repayment of any compensation paid or granted prior to approval by the AGM if the proposed aggregate compensation of the members of the Management Board is not approved.

All members of the Management Board have permanent employment contracts with a notice period of a maximum of six months. The notice period for the CEO is 12 months.

Sonova does not grant contractual severance payments to members of the Management Board, nor does Sonova make advance payments or grant loans to them. There are no change of control provisions other than those highlighted in the EEAP termination provisions.

Claw-back

Sonova has introduced a claw-back provision allowing the company to reclaim any VCC payment, in part or in full, in the event of an accounting/financial restatement due to non-compliance with financial reporting requirements under the Swiss laws at the time of disclosure. This provision applies to all VCC payments for a period of three years following the financial year related to which the VCC payment has been made.

We believe that the five-year holding period under the EEAP represents an effective solution to mitigate any impact in the event of an accounting/financial restatement due to non-compliance with financial reporting requirements under the Swiss laws at the time of disclosure.

5. Compensation for the financial year

5.1 Board of Directors compensation

The tables in this section are audited by the external auditor.

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

Board of Directors compensation

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

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

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

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

3) Including NCC and AC work and attendance.

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

5) Member of the Board of Directors until June 2019

in CHF						2018/19
	Cash retainer (fixed fee)	Meeting attendance fee/ expenses[1]	Total cash compensation	Grant value of restricted shares	Total compensation	Employer's social insurance contribution (AHV/ALV)[2]
Robert F. Spoerry[3] Chairman of the Board of Directors Chairman of the Nomination and Compensation Committee	500,000	2,500	502,500	399,821	902,321	54,808
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	8,000	130,500	199,910	330,410	17,007
Lynn Dorsey Bleil[4] Member of the Audit Committee	106,000	7,500	113,500	199,910	313,410	19,033
Lukas Braunschweiler[5]	80,000	3,500	83,500	199,910	283,410	157,567
Stacy Enxing Seng Member of the Nomination and Compensation Committee	107,500	8,000	115,500	199,910	315,410	19,169
Michael Jacobi Chairman of the Audit Committee	125,000	8,000	133,000	199,910	332,910	17,164
Ronald van der Vis Member of the Audit Committee	107,500	8,000	115,500	199,910	315,410	19,169
Anssi Vanjoki Member of the Audit Committee	107,500	8,000	115,500	199,910	315,410	33,031
Jinlong Wang	100,000	6,000	106,000	199,910	305,910	18,525
Total (active members)	**1,356,000**	**59,500**	**1,415,500**	**1,999,101**[6]	**3,414,601**[6]	**355,473**

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

1) Attendance fees and expenses are based on the number of meetings attended by each member of the Board of Directors (no attendance fees for the Chairman).

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

3) Including work and attendance in the Nomination and Compensation Committee and Audit Committee.

4) New member of the Audit Committee since June 2018

5) New member of the Board of Directors since June 2018

6) Equals CHF 1,550,038 for the value of the shares and CHF 2,965,538 for total compensation, each based on the tax value of the restricted shares at grant. The tax value at grant differs from the market value at grant by reduction of 6% per year of restriction and reflects that once the restricted shares have been granted, they are then blocked over a restriction period of five years and four months for the Chairman of the Board of Directors and four years and four months for the other members of the Board of Directors, as described before. Calculation of the tax value of restricted shares: The tax discounted value per restricted share at grant date for the Chairman of the Board of Directors was CHF 134.93, and for the other members of the Board of Directors CHF 143.05 (approach applied for the purposes of the AGM 2018 vote).

Explanatory comments to the compensation tables

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

Note that the amounts reported for members of the Board of Directors in the tables do not necessarily correspond to the amounts voted on at the AGM, as the reporting period follows the Sonova financial year, whereas the voting follows the term of office – the period between AGMs.

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

The total compensation paid to the Board of Directors for the period from the 2019 AGM to the 2020 AGM is expected to be CHF 2.7 million at grant value. The value of the cash retainer ceded by the Chairman of the Board of Directors from April 2020 until the 2020 AGM equals CHF 0.1 million. The total compensation is within the limit of CHF 2.9 million approved by the 2019 AGM.

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

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

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

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

In the year under review, no payments were made to individuals who are closely related to any current or former member of the Board of Directors.

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

5.2 Management Board compensation

The tables in this section are audited by the external auditor.

The system of the VCC is outlined in more detail in section 4.3 of this report. The following KPIs are used in addition to individual qualitative targets to assess the performance of the Management Board: at the Group level, sales, EBITA, EPS and FCF; and additionally on the business level, ASP and OPEX.

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

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

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

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

The ROCE target, which is relevant for the vesting of the long-term equity award plan (EEAP), was exceeded. Since there is no provision for over-achievement in the EEAP, the vesting of the options is capped at target, namely at 100%. The EEAP target achievement was therefore 100%.

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

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

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

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

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

Management Board compensation

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

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

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

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

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

in CHF										2018/19
	Fixed base salary	Variable compensation [1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	Value of PSUs[2]	Value of options[3]	Value of one-time RSU transition award[4]	Total compensation	Employer's social security contribution [5]
Arnd Kaldowski, CEO	890,848	677,717	166,650	107,002	1,842,217	515,401	859,374	–	3,216,992	114,480
Other members of the MB	3,184,873	1,598,769	301,394	589,553	5,674,589	1,251,816	1,252,428	658,249	8,837,082	904,191
Total	**4,075,721**	**2,276,486**	**468,044**	**696,555**	**7,516,806**	**1,767,217**	**2,111,802**	**658,249**	**12,054,074**	**1,018,671**

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

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

2) Fair value per PSU at grant date CHF 224.38. Fair Value of PSUs provided by a third party based on the Monte Carlo pricing model; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. The settlement will be determined based on actual performance achievement prior the vesting in June 2022.

3) Fair value per option at grant date provided by a third party based on the "Enhanced American Pricing Model" of CHF 26.12.

4) Includes the one-time RSU transition award of February 1, 2019 with a fair value per RSU at grant date of CHF 174.14.

5) Employer social security contributions including the tax value of income derived from options exercised and RSU's vested during the financial year. The total compensation including the employer social security contributions in the financial year amounts to CHF 13,072,745 (approach applied for the purposes of the AGM 2017 vote).

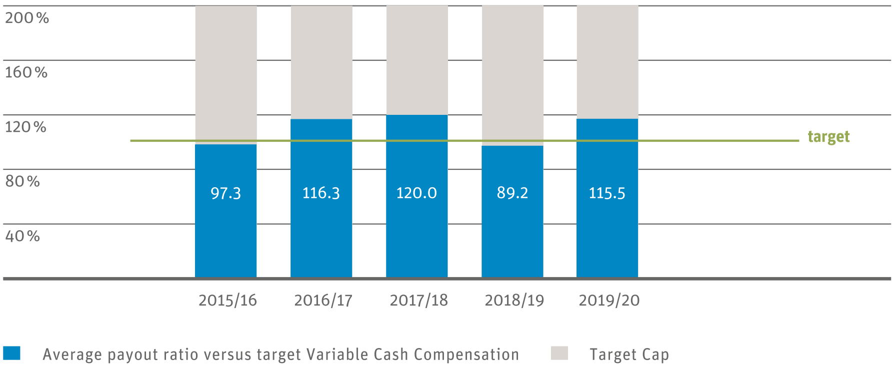
Explanatory comments to the compensation tables:

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

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

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

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



The above chart illustrates that the design of the VCC is effective: in line with Sonova's ambitious target–setting, substantial progress needs to be made to reach the target (100%).

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

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

The approved compensation for EEAP applies fair value at grant, which is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement for PSUs. The actual number of shares allocated for each PSU will depend on the achievement of pre-determined performance conditions, and ranges from 0 to 2 shares per PSU. Actual achievement will be disclosed following vesting in each respective financial year.

Additional information to support the shareholder votes on compensation can be found in the invitation to the 2020 AGM.

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

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

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

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

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

6. Share ownership information

6.1 Shareholdings of members of the Board of Directors

The tables in this section are audited by the external auditor.

The following table shows the equity of the individual members of the Board of Directors and persons closely linked to them.

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

1) These shares are subject to a restriction period which varies from June 1, 2020 to June 1, 2025 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.
3) New member of the Board of Directors since June 2018.
4) Member of the Board of Directors until June 2019
For further details see also Note 7.4 in the consolidated financial statements.

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

6.2 Shareholdings of members of the Management Board

The tables in this section are audited by the external auditor.

The following tables show the equity of individual members of the Management Board and persons closely linked to them.

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

1) Shares are dividend entitled with full voting rights.
2) Member of the Management Board since April 1, 2019.
3) Member of the Management Board since April 1, 2019.
4) Member of the Management Board until March 31, 2019.
5) Member of the Management Board until March 31, 2019.
6) includes SARs (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares). For further details see also Note 7.4 in the consolidated financial statements.

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

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

	Base salary	Share requirements [1]	Actual shares [2]	Fulfillment of share ownership guidelines	Share ownership ratio to base salary
	in CHF	in CHF	in CHF	in %	ratio
Arnd Kaldowski, CEO	900,000	1,000,000	1,177,026	118	1.3
Other members of the MB[3]	385,986	200,000	779,786	390	2.0

1) Share requirements to be achieved for the CEO as of December 31, 2017 and for all other members of the MB after 41 months.
2) Calculated with Sonova closing share price of March 31, 2020.
3) Average of other members of the MB with shareholding requirements.
The calculation of fulfillment and the ratio to base salary of the share ownership shown above are included for illustration purposes only.

The following table shows a detailed breakdown of the outstanding options of the members of the Management Board.

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

1) Exercise price CHF 241.80, vesting period 1.2.2020–1.6.2024 whereas one tranche being vested each year, end of holding period 31.1.2025, exercise period 1.6.2021–31.1.2030.
2) Exercise price CHF 182.40, vesting period 1.2.2019–1.6.2023 whereas one tranche being vested each year, exercise period 1.6.2020–31.1.2029.
3) Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.
4) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
5) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
6) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
7) Exercise price CHF 124.60, vesting period 1.2.2014–1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015–31.1.2021.
8) Member of the Management Board since April 1, 2019.
9) Member of the Management Board since April 1, 2019.
10) Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.
11) SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

								31.3.2019
	Options EEAP 19[1]	Options EEAP 18[2]	Options EEAP 17[3]	Options EEAP 16[4]	Options EEAP 15[5]	Options EEAP 14[6]	Options EEAP 13[7]	Total options
Arnd Kaldowski	32,901	86,543[8]						119,444
Hartwig Grevener	8,422	10,594	9,711	5,158	2,718			36,603
Claudio Bartesaghi	4,881	4,984	2,148[9]	1,529				13,542
Claude Diversi	8,614	10,594	9,381	5,158	1,918			35,665
Hansjürg Emch		10,594	12,948	10,315	10,869	4,687	8,267	57,680
Christophe Fond	8,996	10,835	9,933					29,764
Martin Grieder	8,422	10,594	12,948	7,737	5,435			45,136
Hans Mehl		10,594	9,711	5,158	2,718			28,181
Andi Vonlanthen	8,614	10,594	12,948	10,315	10,869	8,687	8,267	70,294
Total	**80,850**	**165,926**	**79,728**	**45,370**	**34,527**	**13,374**	**16,534**	**436,309**

1) Exercise price CHF 182.40, vesting period 1.2.2019–1.6.2023 whereas one tranche being vested each year, exercise period 1.6.2020–31.1.2029.
2) Exercise price CHF 147.85, vesting period 1.2.2018–1.6.2022 whereas one tranche being vested each year, exercise period 1.6.2019–31.1.2028.
3) Exercise price CHF 130.00, vesting period 1.2.2017–1.6.2021 whereas one tranche being vested each year, exercise period 1.6.2018–31.1.2024.
4) Exercise price CHF 124.20, vesting period 1.2.2016–1.6.2020 whereas one tranche being vested each year, exercise period 1.6.2017–31.1.2023.
5) Exercise price CHF 121.10, vesting period 1.2.2015–1.6.2019 whereas one tranche being vested each year, exercise period 1.6.2016–31.1.2022.
6) Exercise price CHF 124.60, vesting period 1.2.2014–1.6.2018 whereas one tranche being vested each year, exercise period 1.6.2015–31.1.2021.
7) Exercise price CHF 109.10, vesting period 1.2.2013–1.6.2017 whereas one tranche being vested each year, exercise period 1.6.2014–31.1.2020.
8) Includes the one-time, non-recurring performance option grant (47,415 options); exercise price of CHF 147.85, vesting period of 1.2.2018 – 1.4.2023, exercise period 1.4.2023 – 30.9.2027.
9) SAR's EEAP 2017 (SARs grant the right to participate in the appreciation of Sonova shares without issuance of shares).

Glossary

AC Audit Committee
AGM Annual General Shareholders' Meeting
AHV Old Age and Survivors' Insurance
ALV Unemployment Insurance
Articles of Association Articles of Association of Sonova Holding AG
ASP Average Sales Price
BoD Board of Directors
CAGR Compound Annual Growth Rate
CEO Chief Executive Officer
CFO Chief Financial Officer
CHF Swiss Francs
EBITA Earnings Before Interest, Taxes and Amortization
EEAP Executive Equity Award Plan
EPS Earnings Per Share
FCF Free Cash Flow
GVP Group Vice President
HRM Human Resource Management
KPIs Key Performance Indicators
MB Management Board
n.a. Not applicable
NCC Nomination and Compensation Committee
OPEX Operating Expenses
PSU Performance Share Unit
ROCE Return on Capital Employed
RSU Restricted Share Unit
rTSR relative Total Shareholder Return
SARs Stock Appreciation Rights
SLI Swiss Leaders Index
SMIM Swiss Market Index Mid
VCC Variable Cash Compensation

Report of the statutory auditor on the compensation report

We have audited the remuneration report of Sonova Holding AG for the year ended 31 March 2020. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables of sections 5.1, 5.2, 6.1 and 6.2 excluding tables: 5.1.1 and 5.2.1.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

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

Opinion

In our opinion, the remuneration report of Sonova Holding AG for the year ended 31 March 2020 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Sandra Böhm Uglow Audit expert Auditor in charge	Dominik Hattrup Audit expert

Zürich, 14 May 2020

Enclosure:

- Compensation report