FINANCIAL REPORT

Annual Report 2018/19

Table of content

Dear shareholders,

2018/19 marked another year of solid financial performance, posting further record levels of sales and profits to which all three businesses contributed. Moreover – and as expected – growth accelerated from the first half-year to the second, driven by the launch of a number of innovative products and solutions.

Sonova affirmed its leading position in audiological performance with the release of the Marvel™ technology platform. Marvel takes full advantage of the unique connectivity enabled by our SWORD™ (Sonova Wireless One Radio Digital) chip and combines it with the proven convenience of our rechargeable solutions.

We also made significant progress in our retail business, which we have renamed “audiological care” for one simple reason: care is what we deliver. The expert service provided by our hearing care professionals adds key value for the consumer.

Our cochlear implants business launched a series of innovative new products to strengthen its leading position in this expanding market.

You will find details of these and other strategic initiatives in the “strategy and businesses” section of this report.

The global market in which we operate is poised for further growth, as developed countries see increasing demand from the “baby boomer” generation and developing countries begin to bridge the gap in hearing care provision. Our vertically integrated business model – covering every step from R&D, through manufacturing, all the way to the consumer – gives us the breadth and depth to thrive in a fast-evolving global environment. Our growth strategy emphasizes innovation and audiological performance, expansion of our differentiated audiological care network, and investment in high-growth developing markets. At the same time, we sustain profitability growth by extending our multi-channel distribution partnerships, and driving continuous structural and operational improvements.

As in previous years, we would also like to give you some specific examples of how we are implementing our strategy locally in one of our key markets: The feature story this year describes our business in France.

We have made significant progress in implementing our strategy.

Robert Spoerry

Success combines clear strategy with effective execution, and both depend on employee engagement. We already have a strong tradition of innovation and consumer awareness, and we are building on this to foster a company culture, where growth mindedness, commercial execution, collaboration, and personal initiative are key. This year we conducted our first global employee survey, HearMe; around 90% of employees participated, providing valuable information about ways we can boost collaboration across the Group. The first resulting initiatives have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thus stimulate professional growth and business success.

Hearing instruments segment

The hearing instruments segment saw a further rise in sales of 3.9% in local currencies; the increase was driven by organic growth, while the net impact of acquisitions and divestments made at the beginning of the year slightly reduced growth. Both the hearing instruments and audiological care businesses contributed to sales growth.

A key highlight in the hearing instruments business was the launch of the Phonak Marvel product platform, which helped to accelerate sales growth in the second half-year. Marvel delivers exceptional sound quality from the first fit[1] – hence our slogan, “Love at first sound” – while improving speech understanding in the most difficult listening situations. It benefits from new connectivity solutions, further exploiting the capabilities of our SWORD chip: Consumers can make hands-free phone calls, stream music from electronic devices, and benefit from a wide range of life-enhancing apps. Combined with our proven rechargeable technology, the new platform is a true multifunctional marvel. The market reaction is very positive, reflecting the step-change that Marvel represents in the lives of consumers.

> Breakthroughs like Marvel reinforce our position as an innovation leader.
>
> Arnd Kaldowski

The audiological care business also contributed strongly to positive results this year. The highly-trained hearing care professionals in our international network deliver advanced audiological services and form an integral part of Sonova’s strategy to expand direct consumer access. We have now completed the integration of AudioNova and created a strong platform for future growth.

We successfully addressed the challenges we faced in individual markets such as the US and Netherlands. In the US, we streamlined and reconfigured our store network with a bigger focus on the Sun Belt, where our highest consumer concentration is found. In the Netherlands, we optimized our store network while simultaneously introducing a new flagship store concept. This year’s same-store sales growth in both markets confirmed the success of these initiatives. We have also made good use of our strongest brand by introducing Phonak Marvel throughout our own global network and supporting the launch with dedicated marketing campaigns, including television advertising.

Cochlear implants segment

Our cochlear implants segment generated another year of solid growth, with sales up 6.3% in local currencies. Much of this rise was from new system sales, which is a reliable indicator of the competitiveness of our product range. We also made significant progress in profitability.

Advanced Bionics further expanded its range of implants this year with the launch of its HiRes™ Ultra 3D cochlear implant, which features an innovative magnet design that allows cochlear implant recipients to undergo MRI scans without the need to surgically remove the magnet. This gives our recipients peace of mind and ensures that they can enjoy uninterrupted hearing if they need to go through this medical procedure.

In March 2019, Advanced Bionics introduced cochlear implant recipients to the universal direct connectivity made possible by Sonova's SWORD chip, once again highlighting the synergies between our businesses. We have further expanded our global partnerships with hearing care professionals (including those in our own audiological care business) and cochlear implant clinics to identify potential candidates for an implant solution among current hearing aid users and to manage their transition from hearing aids to the new experience of an implant.

Financial highlights

The Group's consolidated sales for the year were CHF 2,763.2million, a rise of 4.4% in Swiss francs and 4.1% in local currencies. The increase was driven by organic growth, while the net impact of acquisitions and previously announced divestments slightly reduced growth. As expected, growth accelerated from the first half-year to the second, driven by new product introductions.

Towards the end of the financial year, Sonova announced steps to further improve its local operating structure in the UK, Germany, and Canada, streamlining the supply chain. The measures resulted in restructuring costs of CHF 11 million in the 2018/19 financial year, and are expected to lead to annual costs savings of around CHF 7 million once fully implemented. Adjusted for these costs, operating profit before acquisition-related amortization (EBITA) reached CHF 594.0 million, up 6.7% in local currencies (compared to the adjusted EBITA for 2017/18). Reported EBITA was CHF 582.5 million and reported earnings per share (EPS) reached CHF 6.98 (2017/18: CHF 6.13). The adjusted EPS was up 11.7% to CHF 7.11.

The Group achieved a stable cash flow. Net debt stands at CHF 253.9 million, and the balance sheet remains strong with a net debt/EBITDA ratio of 0.4.

Total shareholder return strategy

In October 2018, Sonova initiated a new share buyback program of up to CHF 1.5 billion, which will run for up to 36 months. The shares are repurchased for purposes of cancellation. In the event of an attractive larger acquisition opportunity, the program can be suspended or amended. In addition, the Board of Directors proposes a dividend of CHF 2.90 per share, an increase of 11.5% and representing an adjusted payout ratio of 41%. Our total shareholder return strategy, consisting of significant dividends and a steady share buyback program, is based on our confidence in Sonova's future cash generating capacity.

Corporate responsibility

Creating sustainable value for all our stakeholders and doing business responsibly are permanent elements of Sonova's corporate strategy. Our innovation and broad range of solutions create value for consumers and enable us to offer a path to better hearing for people around the world; this is why we continue to invest significantly in R&D. Of equal importance to us is that we continuously invest in the development of our employees and partners.

These efforts, along with our continuing pledge to apply eco-efficient practices across all our activities, have once again been recognized through our inclusion in the Dow Jones Sustainability and FTSE4Good Global indices for 2018. Our first-time selection to the Bloomberg Gender-Equality Index shows that our commitment to equality and a comprehensive diversity and inclusion strategy is bearing fruit.

The Hear the World Foundation, a key pillar of Sonova's social engagement, has supported people with hearing loss, especially disadvantaged children in developing countries, for more than twelve years. This year the foundation provided funding, hearing aid technology, and expertise for 23 projects, including in Peru assessing the hearing of over 20,000 children, fitting hearing aids, and training 50 speech therapy students to become audiology technicians.

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

Changes to the Management Board and Board of Directors

In November 2018, the Board announced the appointment of Victoria E. Carr-Brendel, effective April 1, 2019, as Group Vice President Cochlear Implants and President of Advanced Bionics, taking over from Hansjürg Emch. Having spent her entire career in healthcare, she has a background as an innovation and growth leader, bringing with her marketing, development, clinical, and strategic business experience in the medical device sector. The Board also announced that Ludger Althoff will be succeeding Hans Mehl as GVP Operations and member of the Sonova Management Board, effective April 1, 2019. He adds a wealth of experience in manufacturing of medical technology and life science products, global sourcing, and logistics, and is a highly experienced continuous improvement expert.

We are very pleased to welcome both new Management Board members, who will be important contributors to our team on our journey to further expand our business in a fast-moving global environment. We also want to sincerely thank Hansjürg Emch and Hans Mehl for the key roles they have played in past years.

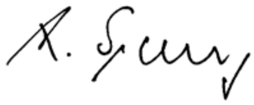
Anssi Vanjoki, non-executive member of the Board of Directors, will not stand for re-election at the Annual General Shareholders' Meeting in June 2019. We warmly thank Anssi Vanjoki for his many years of most valuable contributions to the growth and strategic development of the Sonova Group.

Our thanks

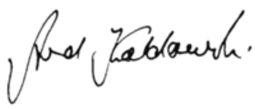
Operating at the forefront of innovation and giving consumers ever better hearing experience requires not just the commitment to excel – it demands the desire to improve continually, year-on-year. Sonova employees show that desire: their enthusiasm for pushing the limits of hearing care is the source of our success. The collaboration we enjoy with researchers and hearing care professionals helps to ensure that our innovation is centered on the consumer's most critical needs. And the people who benefit from our solutions remain our inspiration and motivation, every working day. All this is enabled by the firm support of our shareholders, which allows us to make continued significant advances. We sincerely thank you all.

Outlook 2019/20

The global hearing care market offers both general and specific opportunities for continued growth. Our strategy is tuned to capture these benefits while delivering further advances in commercial excellence and operational efficiency. We therefore expect to increase consolidated sales in 2019/20 by 6-8% in local currencies, while further expanding profitability.



Robert Spoerry
Chairman of the
Board of Directors

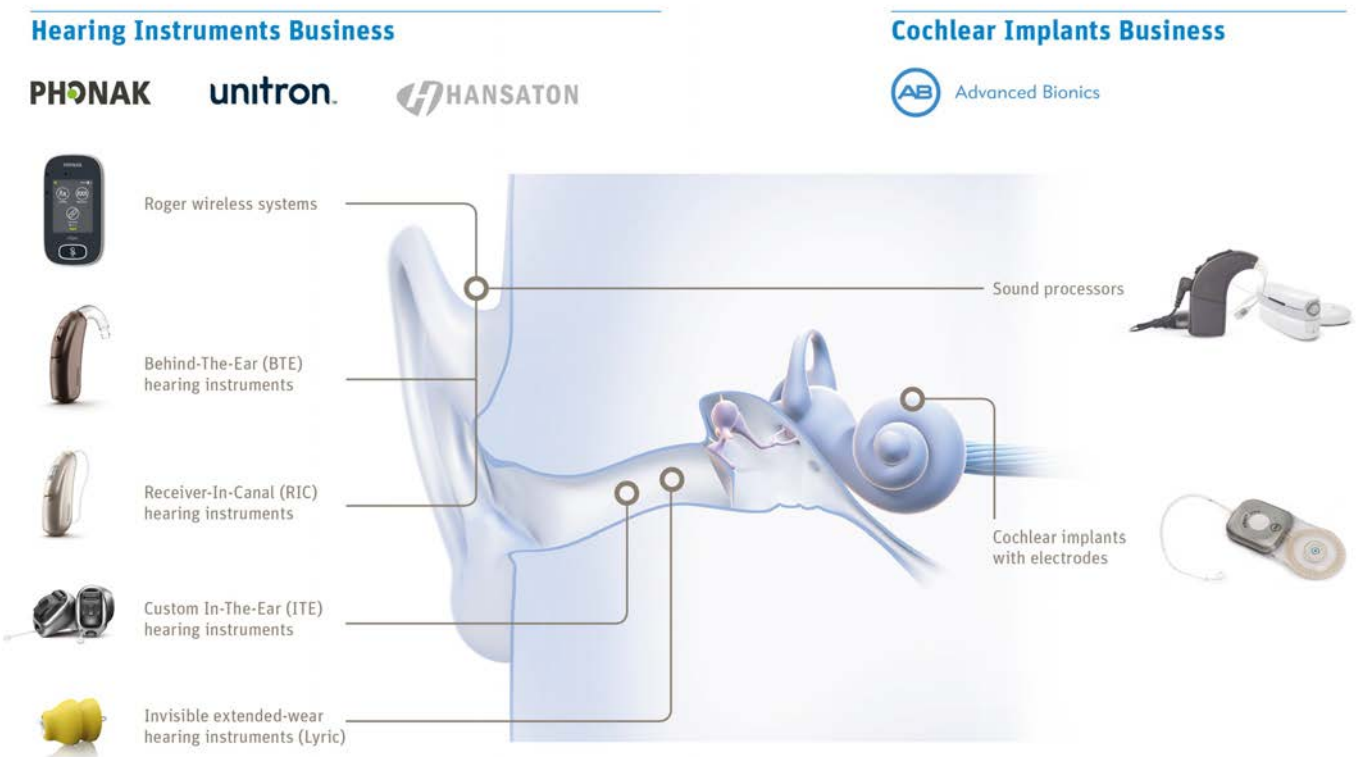


Arnd Kaldowski
CEO

1) Jansen, S., & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. Phonak Insight, retrieved from www.phonakpro.com/evidence, accessed October 16th, 2018.

Our product and service offering

The Sonova Group is a leading global provider of hearing solutions and committed to offering the most comprehensive range of industry-leading solutions. Our product brands – Phonak, Unitron, Hansaton and Advanced Bionics – create compelling new products to offer the optimal solution for every user, provided by hearing care professionals through a broad range of service channels, including our well established global audiological care business.



Audiological Care Business – Professional audiological services




Phonak

Audéo™ Marvel

The Phonak Audéo Marvel Receiver-In-Canal hearing aid delivers top-rated streamed sound quality[1] and automatically adapts to different listening situations thanks to AutoSense OS™. This multifunctional hearing aid is the world's first to feature technology capable of supporting binaural direct streaming from iOS, Android and Bluetooth enabled phones as well as from billions of other devices, all in stereo sound. Hearing aid wearers can enjoy the benefits of rechargeable technology and a host of dedicated apps which allow them to experience remote hearing adjustments and real-time voice-to-text call transcription.

1) Legarth, S., Latzel, M. & Rodrigues, T. (2018). Media streaming: The sound quality wearers prefer, Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed October 17, 2018.

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Unitron

Moxi™ Jump R

Moxi Jump R – Unitron's first lithium-ion rechargeable Receiver-In-Canal hearing aid has impeccable natural sound and speech clarity. It offers a full day of hearing, including phone and media streaming, to both ears – hands-free. It's easy to use, with no battery door – and, it looks great. With the revolutionary Unitron Flex™ ecosystem of technologies, services, and programs it is designed to make the process of buying and using a hearing aid easy, personal, and empowering.

Hansaton

sound SHD stream

The HANSATON sound SHD stream is a Receiver-In-Canal hearing system (RIC) with binaural features for a more natural hearing experience. Safe hands-free phone calls, for example in the car or while cooking, are possible for all operating systems, in short MFA ("Made For All"), for various manufacturers of Bluetooth® capable telephones. The wearers are offered an all-rounder hearing system that ideally meets the needs and demands of the digital communication age.

1) Smartphones and traditional mobile phones with Bluetooth® 4.2 wireless technology and most older Bluetooth® versions, Bluetooth® is a trademark owned by the Bluetooth SIG

Advanced Bionics

HiRes™ Ultra 3D Cochlear Implant

Advanced Bionics this year introduced the new breakthrough HiRes™ Ultra 3D implant, featuring a new magnet design. More and more people undergo an MRI scan (magnetic resonance imaging) during their lifetime, but this has long been a hassle as the powerful magnetic field generated by the scanner caused a strong force on the magnet contained in traditional implants. This resulted in the need to surgically remove the magnet in order to ensure a pain-free scan and meant that recipients were not able to hear until it was replaced and the healing process was complete. With the HiRes Ultra 3D implant, recipients can now undergo an MRI scan without feeling pain or discomfort and without the need to remove the magnet, thereby improving the quality of life for recipients.

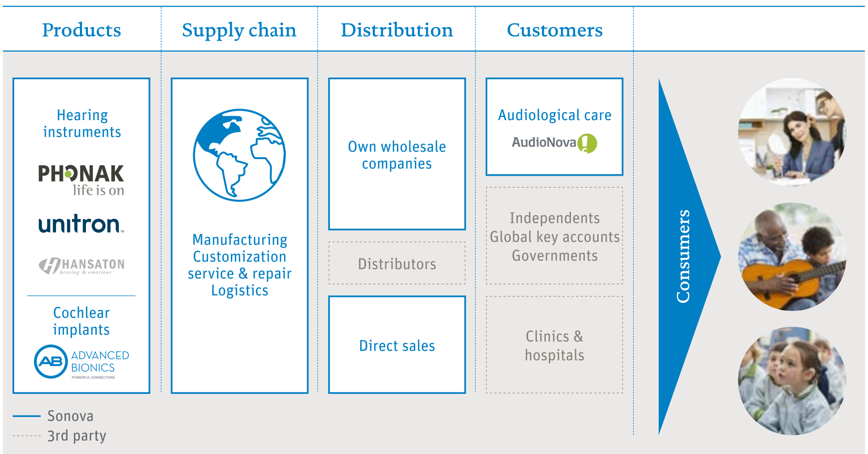
Strategy and businesses

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

Every person's experience of hearing loss is different, hence Sonova's market is naturally diverse. Our mission, though, is simple and unchanging: to be recognized as the innovation leader in the global hearing care market. In everything we do, we aim to provide industry-leading audiological performance and outstanding consumer experience.

We reach our consumers through multiple channels; this diversity lets them benefit from our broad range of solutions – hearing aids, cochlear implants, wireless communication products, eSolutions, and professional audiological care – in the way that best suits their individual needs.

Our vertically-integrated business model lets us be both flexible and efficient, using the consumer insights gained through every channel to drive our shared R&D in a cycle of continuous customer-focused innovation.



Our growing emphasis on connectivity and digital applications means that we can both broaden and deepen our engagement with consumers, offering trusted, valuable support at every stage of their journey to better hearing.

Sonova's strategy builds on the strengths we have established over many years.

Our market-leading innovation, such as this year's worldwide launch of Phonak's Marvel platform, puts us at the forefront of audiological performance and clear rich sound experience. Our audiological care network combines in-store, remote, and online support to deliver a uniquely flexible and personal consumer experience. We continue to optimize our sales and marketing to fit precisely to the needs of our various distribution channels and to establish a strong presence in high-growth developing markets. And we never stand still: where there is a possibility to improve our processes, optimize our structure, or expand our consumer offering and technological capabilities – whether organically or through acquisitions – we will seize that opportunity, not only to increase Sonova's profitability, but to build the investment capacity that fuels future growth.

Our Group is organized in three core businesses: hearing instruments, audiological care, and cochlear implants. Collectively, they enable Sonova to offer innovative solutions for every type of hearing loss along with the training, tools, and support that create an optimal consumer experience.

Hearing instruments business: Sonova continues to be a leading developer and manufacturer of hearing aids and related solutions. Our R&D focus enables us to consistently launch new technology platforms that support significant performance improvements across our wide product spectrum and through multiple distribution channels. Our emphasis is on audiological performance, offering a clear, rich sound experience and speech understanding even in the most challenging environments. Recent innovations in connectivity and digital applications let us deliver fundamental improvements in the consumer's experience.

Audiological care business: The new name for what was previously called our retail business underlines the quality that sets it apart: its emphasis on care. The 5,000 trained specialists who work in our centers are there to care for people who have a clear medical need. A personal relationship founded on expertise and understanding is the best basis for getting the full benefit from a hearing solution. Our technology and our increasingly integrated IT systems give consumers the freedom to choose how they would like to receive our support – in person, remotely, or online – at every stage of their relationship with us. This integrated approach lets us care for every consumer with the individual attention he or she deserves.

Cochlear implants business: A cochlear implant offers people with significant or complete hearing loss the chance to hear clear sound and join in conversations. Our Advanced Bionics implants benefit from the latest sound processing capabilities made possible by our Phonak technology. The cochlear implant market is expanding from being mostly children born with hearing loss to adults whose hearing loss has become too severe to be treated only with hearing aids.

Key areas of activity

Innovation

Phonak developed SWORD, an ultra small, ultra low power chip. The structure includes 42 million transistors placed on 6.8mm^2 size chip. Using 40 nm CMOS technology, SWORD is the only wireless chip with one antenna to power all applications.

Last year, we introduced our first products based on the proprietary SWORD™ (Sonova Wireless One Radio Digital) chip that allows hearing instruments to communicate with a vast selection of electronic devices such as mobile phones or televisions. This year, we extended the benefits of this technology, providing users with the ultimate combination of excellent stereo sound quality with universal Bluetooth® connectivity[1] and rechargeability, all in a single product.

We never innovate simply for innovation's sake: what matters are capabilities, not features. The benefits offered by technology such as our SWORD chip go far beyond mere connectivity: hands-free phone conversations, direct media streaming, remote fitting and supporting consumer applications – a whole new universe of possibilities that enriches the consumer's experience.

1) with Bluetooth® 4.2 wireless technology and most older Bluetooth phones.

Market and consumer access

Sonova's global distribution network is the broadest in the industry. We seek engagement with consumers through a range of channels: our own audiological care business, retail chains, independent audiologists, government agencies, and cochlear implant clinics. This wide reach, extending to more than 100 countries, offers many points of contact with consumers where we can gather feedback and offer enhancements. Digital connectivity and eSolutions let us deepen that contact with consumers across all channels.

The global hearing instrument industry shows a wide difference in growth potential between developed and developing markets. As general wealth increases in countries like China, the number of people with hearing loss using a hearing aid will rise from the current 1–2% toward the developed world average of around one quarter. We are therefore building access and engagement with consumers and hearing care professionals in those markets. In China, for example, we are expanding our distribution network, accelerating our China-specific innovation, and scaling up our education program for local professionals.

Continuous improvement

Every year brings its technological innovations, but there are other improvements that can contribute materially to growth. We benefit from highly efficient manufacturing and aim to increase productivity further by continuous process improvement and structural optimization.

In every area, from maximizing product reliability to fine-tuning our sales and marketing approach to optimizing capital allocation, we seek to increase the number of projects delivering these incremental gains, both on the operational and the market-facing sides of our business. Every gain helps us to build our investment capacity for future growth.

Feature story: Pioneering innovation

Sonova has been operating successfully in France for decades. We took a trip to a country where creativity and innovation lie at the heart of French "genius".

"An invasion of armies can be resisted, but not an idea whose time has come." This quotation from the famed French writer Victor Hugo reflects the long history of scientific and technological progress that is part and parcel of French identity. For centuries, French thinkers, writers, artists, researchers, and scientists have helped to enrich humankind, bringing new wonders and emancipation in equal measure; and thanks to this tradition, Sonova's innovations are finding fertile ground in France. Customers in this sophisticated market are open to new products, services, and solutions for the world of tomorrow.

In 2018, turnover in France's hearing aid market grew some 10%, with the number of devices sold totaling around 800,000 – an impressive figure. Despite these high sales numbers, there is still significant market potential here. Nearly one in six of France's population of 67 million is over the age of 65; some 1.9 million people already wear a hearing aid. As a 2018 study on behalf of the European Hearing Instrument Manufacturer Association[1] has shown, both the number of hearing aids fitted and general willingness to wear a hearing instrument have risen over the last few years. About 7.5 million French citizens over the age of 18 are thought to be affected by hearing loss, but only a third of these have been fitted with a hearing aid. Given these circumstances, it is part of Sonova's strategy to raise awareness amongst those affected to ensure they seek professional help as early as possible. As the study makes clear, the chance for many patients to get comfortable with the idea of purchasing a hearing aid will generally still come during a hearing test conducted by an ENT specialist. However, researchers also found that some of these people are not willing to be fitted with hearing aids, despite their doctor's recommendations.

The study shows that having to live with hearing loss without the support of a hearing aid can result in depression, unemployment, insomnia, and dementia, which in turn increases follow-up costs for the healthcare system. This has led the French government to significantly expand its reimbursement program. Promoted to the public under the slogan "100% Santé" (100% Health) and passed at the end of 2018, the law has been in force since 1 January 2019 and ensures comprehensive cost coverage or reimbursement for hearing aids. It defines two categories of hearing aids, with full cost coverage guaranteed for the first (in which device and service costs are limited) and a sliding scale of prices with a fixed upper threshold for the second device category.

France
Facts & figures:

Area: 211,413 square miles

Population: 66.89 million (2018)

GDP:
- EUR 2,349 billion (2018)
- Growth: +1.5% (2018)
- Per capita: EUR 32,900 (2018)

France's audiological supply infrastructure is very highly developed, with a diverse market that encompasses everything from independent audiologists to chains. Independent audiologists form the largest group amongst these various providers, and a total of seven institutions throughout the country offer a three-year course leading to professional qualification in the field.

"Customers in France are sophisticated and appreciate the benefits of our ongoing technical innovations," explains Arnd Kaldowski, Sonova's CEO. As in other countries, it is the interplay between technology and innovation, digitalization and customer focus that has underpinned Sonova's success. "We will continue to drive growth by launching a succession of new and pioneering products." The Sonova Group is thus excellently positioned in France, one of its most important markets worldwide: its brands and its network of specialist audiology stores are firmly established and the Phonak brand enjoys a leading position.

Sonova France headquarters near Lyon, where around 160 staff work for the French market

Sonova has concentrated much of its hearing care expertise at its headquarters near Lyon – Phonak, Unitron, Hansaton, and Advanced Bionics thus run their business in France just a few kilometers outside the city. Some 160 staff work here, while the Hansaton brand has a facility in Sarreguemines near the Franco-German border. Sonova's Audiological Care business segment and its international service network of specialist audiology stores are represented in France by the Audition Santé brand, with a total of around 300 staff across the country providing their customers with professional in-store audiology services. Audition Santé is headquartered in Cahors in the south of France.

Sonova has maintained a presence and has been enjoying success in the country for more than forty years – a fact that is reflected in the expanding workforce at its France headquarters. Staff numbers almost doubled here between 2006 and 2018, and Sonova's modern site – with its attractive, all-glass atrium – offers more than 25,000 square feet of workspace. The meeting nooks in the open-plan offices within give employees plenty of opportunity to compare notes.

"We are very happy with the facilities, but we are running out of space. In August 2018, we began work on a new building that will double the floor space available to us," explains Vincent Lefèvre, Sonova's Managing Director for France. The new building is being erected on the same site and is due to be completed during 2019. The old and new structures will be linked with a bridge to facilitate communications and create a unified architectural impression.

Vincent Lefèvre, Managing Director Sonova France with his team members

Phonak has an excellent brand image in France. A market survey of French audiologists[2] commissioned by Sonova in 2017 shows that Phonak has a commanding lead over other providers when it comes to value-for-money, product performance, and innovation. The company's service hotline also got top marks, as did the outstanding reliability of its devices. Phonak's brand recognition has also improved amongst end users and audiologists. "We're very happy with the results. They confirm that our strategy is on the right track," adds Lefèvre.

Phonak's pioneering products and hearing solutions are proving extremely popular on the French market, where there has also been a very positive reaction to Phonak Audéo™ Marvel, the latest innovation in hearing technology. Launched at the end of November 2018, the hearing aid is based on Phonak's new product platform and provides exceptional sound quality from the very first second, setting new standards for rechargeable solutions and direct connectivity.

Phonak Audéo™ Marvel focuses on what customers expect from a first-class hearing aid – clear, rich sound. A combination of cutting-edge technologies has created a multi-functional hearing aid that customers are describing in reviews as "Love at first sound". Users such as fashion journalist Barbara Markert from Paris are enthusiastic: "Being able to link my hearing aid directly to my computer is essential for my job. It is also really cool that I can take a call on my mobile just by touching the hearing aid."

Marvel makes it easier for the wearer to understand speech[3] with less listening effort[4] in loud environments. The new hearing aid can link directly with iOS or Android™ smartphones and other Bluetooth®-enabled phones, allowing users to enjoy their favorite series and movies with the TV Connector, a simple plug-and-play solution. In addition, Marvel hearing aids enable genuinely hands-free phone calls and allow wearers to stream TV, music, videos, e-books, podcasts, and much more. Wearing Marvel hearing aids is like wearing wireless headphones – or perhaps even better, as they can distinguish between streamed speech and music signals and automatically adjust to ensure optimized sound quality. Thanks to powerful lithium-ion battery technology, they are quick to charge and provide a whole day of hearing enjoyment; no more hassle with having to switch batteries! And thanks to the myPhonak app, a hearing care professional can adjust a customer's Marvel hearing aid in real time.

Given its range of products, which set new standards for hearing solutions, Phonak has carved out a strong position for itself in France and maintains close relationships with independent audiologists. In addition to providing support and advice for successful hearing aid fittings, Phonak engages with its clients via a suite of marketing campaigns and a strong social media presence.

Sonova's Unitron hearing aid brand has also found success in France, and is now reaping the rewards of its efforts to build longstanding client relationships. "We have experienced very pleasing growth in recent years, both in terms of turnover and in terms of the number of devices sold," says Vincent Gaggero, General Manager Unitron France. The launch of the new Max™ hearing aids in October 2018 has been a success: the devices are available in two behind-the-ear models based on Unitron's Tempus™ product platform and are equipped with three Super Power pre-sets. Selecting from a range of possible combinations, the audiologist can personalize the solution – and this results in a better hearing experience and fewer and shorter follow-up appointments. The Super Power pre-sets make it easier to meet the expectations of people with severe-to-profound hearing loss.

The flexible fitting concept using Flex:trial™ technology, whereby audiologists can themselves upload the software for the required level of technology, is also in high demand in France. Many customers appreciate the opportunity to trial the devices with no obligation before committing to a purchase. The brand also provides support for the audiologists with whom Unitron works to acquire new clients. "We have consciously sought out new customers and have also succeeded in winning them over. In particular, we contacted a lot of young audiologists who had just opened their stores. They are excited about the possibilities offered by our Flex:trial™ technology, as it can be employed quickly and easily," adds Vincent Gaggero.

Business is also going well for Sonova's Hansaton hearing aid brand, and collaborations with the audiologists who stock the brand have proved very successful. Hansaton is exclusively retailed via independent audiologists in France, and for historical reasons has a particularly strong presence in the east of the country. "We take a very personal approach to client relations with audiologists, and of course they appreciate that," explains Yorick Hubert, General Manager Hansaton France.

Sonova's Advanced Bionics brand similarly builds on trust-based relationships and cooperation. It is strongly positioned in the French market and is represented in leading cochlear implant clinics. Providing patients with cochlear implant systems is a growth industry, and customer acceptance of the technology is improving thanks to targeted awareness-raising campaigns. Professor Thierry Van Den Abbeele, head of the ENT department at Paris' Robert Debré University Hospital, explains: "You have to understand that implants offer a solution not only when someone has lost their hearing completely but also in cases of significant hearing loss, and it's here in particular that we achieve our best results. So even an 85-year-old person in a good state of health can be a suitable candidate."

Advanced Bionics' business has performed gratifyingly over the last few years. "We have been able to increase our market share significantly," says Jean-Baptiste Delande, Area Director French Europe Advanced Bionics. The company has a total of 18 staff working in France and maintains contacts with ENT physicians and patients at hospitals specializing in cochlear implants across the country. One big advantage over other providers lies in the cutting-edge waterproof technology that Advanced Bionics deploys. Neptune™, the first and only sound processor you can wear while swimming, is ideal for young children. This is what tipped the balance in choosing a supplier for Marlène Corbin, the mother of four-year-old Léa, who wears implants on both sides. "We ultimately decided on an Advanced Bionics cochlear implant system because you can even swim underwater with it – that's ideal for kids."

Léa Corbin, cochlear implants patient

Jean-Baptiste Delande continues: “We are constantly comparing notes with the physicians at the clinics.” Innovations are also being introduced on the basis of these exchanges. “In future, we intend to switch on the cochlear implants earlier. Previously, we had been switching them on about a month after the operation, but now the aim is to activate the device the very next day, to give the patient an immediate hearing experience.”

Sonova wishes to continue growing in France with the help of its international network of audiology stores, and it has been pursuing this objective via its local brand Audition Santé. The company is constantly searching for new ways to further improve information provision, awareness campaigns, hearing screening, advice, and support – with the focus always squarely on the customer.

Lots of energy is being invested in marketing campaigns, as Stéphan Rosat, Audition Santé’s Managing Director in France, explains: “Things are working out very well with new customer acquisitions. Hearing tests are being advertised in mailshots, for example, and we are active on social media.” The company’s YouTube channel has been extraordinarily successful, garnering more than 1.6 million views in just two years. “While it’s certainly important to have an online presence these days, D-Cibel, our print magazine, has proved to be one of our best marketing tools.” The magazine, which runs to about 30 pages and appears twice yearly, explores an array of hearing-related topics. In addition to the print version, which has a circulation of 600,000, we have had an online edition for more than two years now, and a video version of many of the stories has also been posted to YouTube over the last year. The hardcopy magazine is mailed directly to customers and is also available in stores.

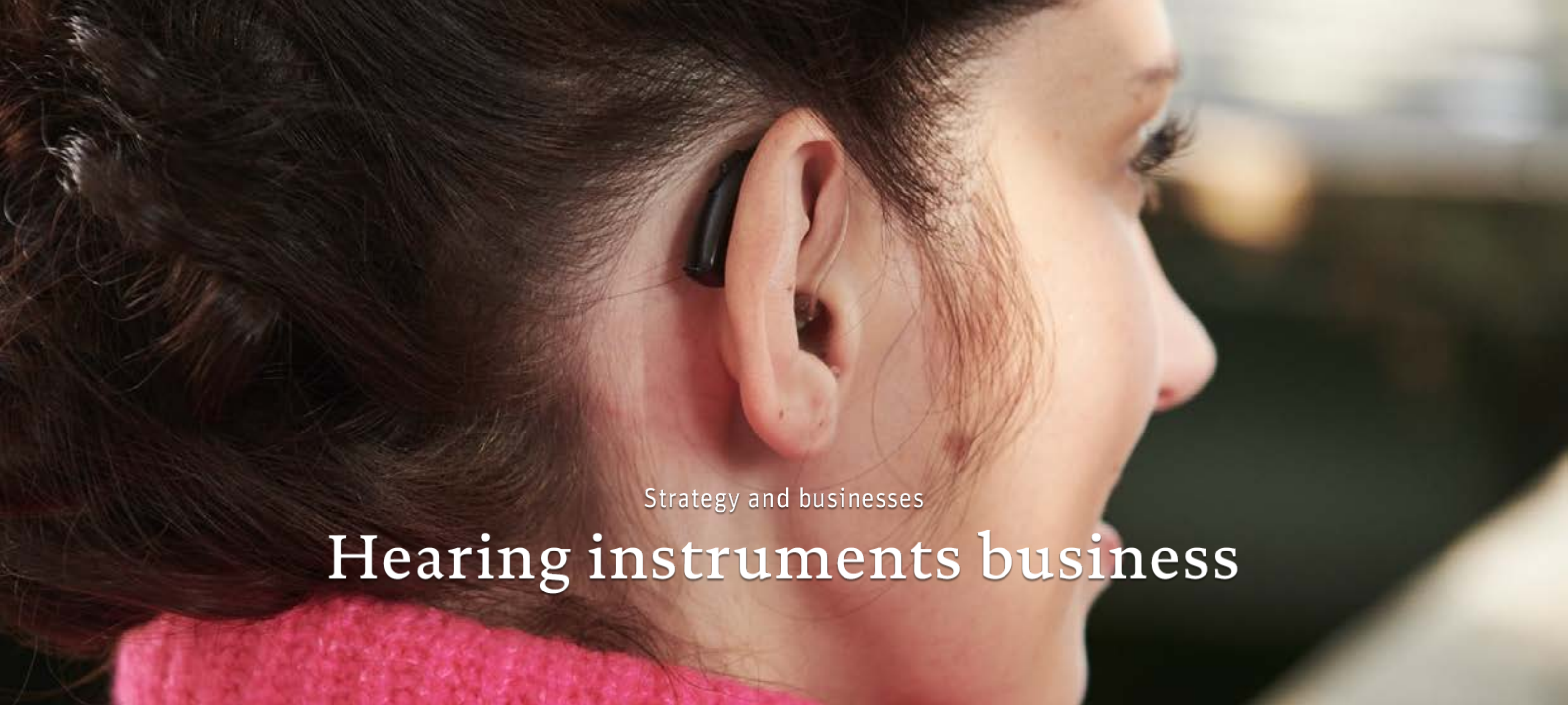
Audition Santé has 226 specialist audiology stores in France, almost twice as many as ten years ago. Their largest branch in France at the moment is in Versailles. A modern and attractive retail environment where the new audiological care store layout has already been installed, it is all geared to optimal customer service, both in terms of its design and the facilities on offer. 77-year-old customer Jacques Lollioz likes to drop in. “The staff here are all highly professional. I feel like I’m in good hands,” recounts the holder of the Order of the Legion of Honor, who served as mayor for many years.

Jacques Lollioz, Audition Santé customer

Barely a quarter of an hour's train ride away from Audition Santé in Versailles, we find Sophie Vouzelaud posing in front of the Eiffel Tower for Sonova's 2018/19 Annual Report photoshoot. This tall young lady with dark curls works as a model – and wears hearing aids made by Sonova brand Phonak. Sophie, who comes from a little town called Saint-Julien in the Limousin region, was born with profound hearing loss; thanks to being fitted with hearing aids since her earliest childhood, she has learned to speak and make her way in the world.

That Sophie has become a model is mainly due to the unstinting commitment of her mother, who entered her daughter into a regional beauty contest shortly after she left school in 2007. Exceeding all expectations, she took first place, thereby qualifying for the final selection of "Miss France". There may have been only about 70 spectators at her first competition, but this time there were to be no fewer than 12 million viewers watching Sophie hold her own against 37 other contenders. Having spoken just a few sentences in the final, the beauty queen, who is affected by near-complete hearing loss, won the hearts of millions in the TV audience and was crowned "Première Dauphine de Miss France 2007". Now 30 years old, she has since won supporting roles in feature films, has taken part in a range of popular TV shows in France, and is now even an ambassador for a Christian Dior perfume. The French model is also active in campaigning for greater acceptance of people with hearing loss. This work is close to Sophie Vouzelaud's heart: "I always had to struggle – but I have proved that I can achieve the same as anybody else."

1) https://www.ehima.com/wp-content/uploads/2018/07/EuroTrak_2018_FRANCE.pdf
2) © 2017 Gallileo Business Consulting, «Panorama 2017 du marché de l'audioprothèses». Survey conducted on behalf of Sonova, detailed results available free on request.
3) Stewart, E., Rakita, L. & Drexler, J. (2019). StereoZoom Part 1: The benefit of wirelessly connected narrow directionality in Phonak hearing aids for speech intelligibility. Phonak Compendium, retrieved from www.phonakpro.com/evidence, accessed February 5, 2019.
4) Winneke, A., Latzel, M. & Appleton-Huber (2018). Less listening- and memory effort in noisy situations with StereoZoom Phonak Field Study News, retrieved from www.phonakpro.com/evidence, accessed February 5, 2019.



Strategy and businesses

Hearing instruments business

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

It is a very exciting time to be in the hearing instruments business: the market is changing faster than ever before as the baby-boomer generation arrives at the age when hearing loss becomes common. These new consumers are more self-reliant and demanding, seeking optimal performance and connectivity, choice of sales channel, and excellent, flexible support. Developing countries such as China represent large untapped demand with a track record of rapidly adopting advanced technology. The digitalization of our solutions gives our consumers seamless contact with the media and experiences they enjoy, while our online eSolutions provide new opportunities for us to offer services and enhancements.

We are grasping the potential of this rapidly evolving market through our commitment to remain at the forefront of innovation and proven hearing performance. We have the industry’s broadest portfolio of hearing care products, providing a solution for every type of hearing loss. Our three hearing aid brands – Phonak, Unitron, and Hansaton – maintain their distinctiveness, but advance together by sharing R&D, improvements in processes, and new paths to the consumer.

At the center of our hearing instruments business stands the Phonak brand, available around the world through all our sales channels, including our own audiological care businesses. Phonak represents the leading edge of hearing aid technology, regularly setting new industry standards for hearing performance while introducing major advances in connectivity and remote support. Unitron, with its innovative Flex eco-system, supports the businesses of hearing care professionals, while Hansaton is positioned as an exclusive brand focused on independent audiologists.

Key areas of activity

Innovation

The highlight of this financial year was the launch of Phonak Audéo™ Marvel, powered by our new leading-edge technology, based on Sonova's proprietary SWORD™ Made For All wireless chip. It allows virtually all users, irrespective of the type of phone or other Bluetooth enabled device they own, to stream high quality stereo sound to both ears. This means genuinely hands-free phone conversations, access to all streamed music, voice, and video content, and hassle-free connection to wireless microphones. But Marvel's most important feature is a hearing experience so impressive, even at the initial fitting[1], that we call it *"Love at First Sound."* With Marvel, Phonak has once again taken a major step to significantly improve the audiological performance of hearing aids.

That is not all: Connection to a phone allows instant, easy access to a suite of eSolutions, from remote audiologist support and direct consumer feedback to real-time voice-to-text transcription of phone conversations. And thanks to the low power consumption of the SWORD chip, all of this performance is supported for a full day on a single charge for consumers who have chosen our proven lithium-ion rechargeable technology.

The market response to the Marvel technology has been very positive, further strengthening our market share and average selling price. As always with Sonova innovations, the new technology will be introduced in a phased way across our product portfolio.

1) Jansen, S., & Woodward, J. (2018). Love at first sound: the new Phonak precalculation. *Phonak Insight*, retrieved from www.phonakpro.com/evidence, accessed October 16, 2018.

Market and consumer access

Sonova has direct access to over 90% of the global hearing care market through its own wholesale companies, and reaches over 100 countries when partner distributors are added. Hearing care is a diverse market with individual, national, and regional variations, so we set our distribution strategy to reach consumers in their preferred way. We offer our brands through multiple sales channels – large store networks, independent audiologists, managed care providers, and government healthcare institutions – to assure each consumer the broadest access to optimal hearing solutions.

We have strengthened our strategic focus on two areas with the greatest potential for increased demand for innovative hearing solutions: the baby-boomer generation of consumers in developed countries and the under-served but quickly increasing middle class in developing, high-growth countries.

Success in these markets depends, not just on excellent performance and technological innovation, but on close engagement with each consumer, ensuring that our solutions make a strong contribution to a seamless hearing experience in everyday life. Here, eSolutions have an important role to play, maintaining the relationship between the consumer, the hearing care professional, and Sonova throughout the lifetime of the product. The consumer gains from continuously optimized performance, convenience, and support; we gain deeper market knowledge and a permanent presence on each user's hearing journey.

Continuous improvement

Market growth is one source of future success, but there are also opportunities to further increase productivity and profitability in our current business. Such a wide product portfolio distributed through so many channels offers many areas where processes and structures can be further streamlined. For example, we have optimized our operations structure in the US, folding three separate facilities into one. We are also consolidating the highly-skilled production of our custom products into fewer, advanced centers in each major region. Each of these operational improvements frees up capital for investment in growth opportunities, such as our new dedicated support organization for managed care providers.

We continually assess *how* we sell, not just *what* we sell, and are further optimizing our sales and marketing efforts. The marketing launch of our Marvel technology was the largest ever in the industry, and we are capitalizing on that effort through repeat campaigns (including television advertising) throughout the product life cycle. These campaigns are supported by claims from clinical and consumer studies that substantiate the real-life benefits of our solutions, and ensure that we sustain market awareness, fill gaps in distribution, and keep bringing in new customers throughout the innovation cycle. Targeted digital lead generation gives us the ability to pinpoint where we have the greatest potential to generate demand. All in all, we intend that our business processes should live up to our products in their sophistication and performance.

Hearing instruments business

Close connections

The launch of Phonak's Audéo™ Marvel has brought a hearing aid to the French market that sets new standards for rechargeable solutions and direct connectivity. Fashion journalist Barbara Markert from Paris is an enthusiastic wearer and has been writing about her experiences.

Three short text messages are all that is required to set up the appointment: "Is Thursday about 2pm OK for you? – Yes! – Great. I'll give you a call!" A few days later, a little push message appears at the agreed time on the myPhonak app on Barbara Markert's smartphone. The busy freelance journalist and mother of a 9-year-old boy clicks on the link and is directly connected to her audiologist.

The employee at a specialist audiology store works in the Paris suburb of Créteil, while Barbara Markert is based in the middle of Paris, not far from the Louvre and the Pompidou Center. The metro journey from her home office to Créteil would take over an hour, the return trip, two hours. The elegant 52-year-old can now save herself this time; thanks to remote support for her new Phonak Marvel aids, her audiologist can access her devices via the app and fine-tune them remotely. "The sound quality is super inside a room, but there is still a bit of an echo outdoors. Can you fix that?" asks his customer. The audiologist alters the settings from his computer and asks her to try out the adjustment over the next few days before getting back to him.

Barbara Markert, a German national who has settled in Paris, has been wearing Phonak's multi-functional Marvel hearing aid since January 2019. "I'm constantly amazed by all the things the new devices can do," says the lively journalist. She is especially taken with the option to link it with her computer via Bluetooth. "I often spend whole days working at the computer, typing up interviews I've done. In the past, I had to laboriously take my hearing aids off and plug in headphones, but that's no longer necessary, thanks to Marvel. Everything is transmitted to my ears via the hearing aids." Skype interviews and videos of fashion shows with lots of music, which she watches for research purposes, are transferred directly to the devices, no longer bothering her husband, who is also a freelancer and has his office right next door to her work room in the flat they share.

Barbara Markert, journalist

Being able to slot the device effortlessly into its charging dock at night is another bonus for the journalist. “Not having to change single-use batteries all the time is right up my street, as I’m particularly concerned about ecology and environmental protection,” says Barbara Markert. Despite its Bluetooth connectivity, the device uses very little power thanks to its powerful lithium-ion battery technology, and it only has to be recharged in the evenings before going to bed.

It took Barbara Markert a long time to come to terms with her hearing loss. A friend of hers who is an ENT physician discovered her hearing loss, originating from damage to her inner ear, not long after she had turned 30. It had probably been caused by a childhood illness. “After the diagnosis, I stubbornly refused to wear a hearing aid for the longest time; for aesthetic reasons in my career as a fashion journalist, I simply couldn’t imagine it. Back then – this was in the 1990s – I felt the devices were still too large and obtrusive.”

The journalist muddled through her daily life for almost 20 years. She had particular difficulty with high-pitched sounds, would set her cellphone’s ringer to maximum volume, and developed a predilection for foreign language films with subtitles. Eventually the time came when she had to ask someone to repeat themselves in a conversation once too often. “I was ready for a second hearing test.” The new diagnosis identified mild hearing loss in speech ranges and moderate hearing loss at high frequencies. Some very high and very low pitches had disappeared beyond her acoustic perception entirely. “She could have saved all of these facets of her hearing if she had taken the advice of my colleague back then. Indeed, her hearing would probably be better now than it was back then,” is the ENT doctor’s no-nonsense conclusion, adding that there is no longer any chance of repairing anything once a person has reached the end of their 40s; from that point on, he says, it is just a question of trying to preserve what is left.

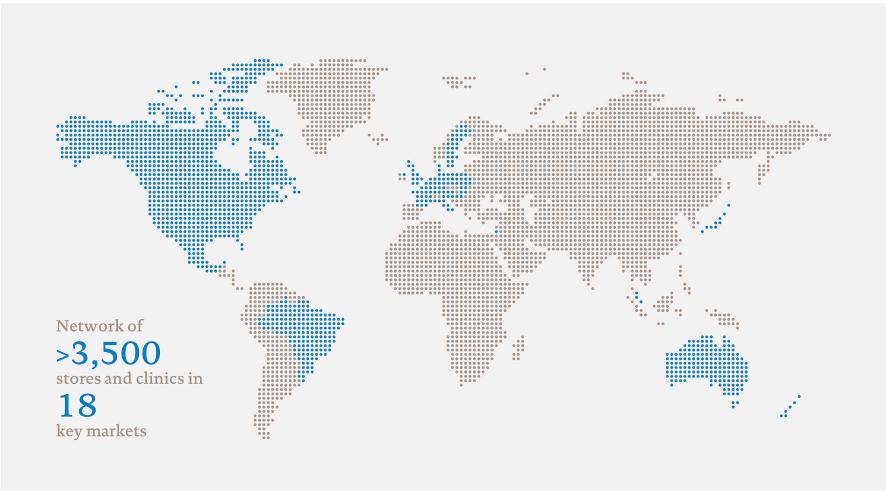
After such a clear wake-up call, Barbara Markert was finally ready. Her decision was made easier by the discreet design of new models such as Phonak’s Marvel. “Most of my acquaintances have no idea that I wear hearing aids,” she says. The 52-year-old is full of pride at having dared to take this step even though she is “still young”. “It was essential for me to do something,” she remembers, adding that while she had put up with hearing less over the years, she had also gotten used to hearing better very quickly. “I would never have imagined that a hearing aid could also be genuinely cool. Who else can make a call and leave their smartphone in their pocket? Or watch a film on their computer with no earphones in and their partner asleep in bed beside them?”

Strategy and businesses

Audiological care business

We deliver excellent service and expertise with the most technologically-advanced solutions for all types of hearing loss through one of the world's largest store networks.

Sonova's audiological care business is expanding through a combination of organic growth, new store openings, and acquisitions. We bring together respected local audiology networks and develop them through shared product lines, training, processes, and support functions into a lean, efficient, and capable global growth platform.



Our organic growth strategy calls for increased productivity through efficient lead generation and improved in-store conversion rates. We are also raising the pace of new store openings, using geo-targeting to identify the most suitable locations to fit with our existing operations. Today we have over 3,500 stores and clinics, employing more than 7,000 people across 18 key markets.

The consumer is at the center of all our activities. We draw on Sonova's deep expertise to offer the best audiological solution for each consumer need. We focus intensely on service to ensure the best consumer experience at every point of contact. And we spread the benefits of Sonova's uniquely broad product portfolio by offering the best value-to-price ratio at every technology level.

We changed the name of our business from "retail" to "audiological care" for one simple reason: care is what we deliver. By far the largest proportion of value we add, both for the consumer and for our business, comes from the dedicated work of our trained audiologists: diagnostics, fitting, counseling, after-care. The hearing instruments we sell are the means to establish life-long relationships based on service and expertise. This defines us far more than simply retail distribution.

Key areas of activity

Innovation

The launch of Phonak's industry-leading Marvel technology platform was the first to be rolled out globally under the Phonak brand in our audiological care business. Our network was deeply involved in the launch process from the first R&D presentations, allowing our audiologists to be fully trained in Marvel's capabilities and familiar with its suite of eSolutions before the surge in consumer demand. It was a vivid demonstration of the potential of our vertically integrated business model: consumers receive the most up-to-date solutions and services at the moment each new innovation appears on the market, and all of our hearing care professionals have full access to the well-respected Phonak brand.

We are also sharing our wealth of expertise with consumers by extending the range of services we offer from treating hearing loss to related areas like tinnitus, balance problems, and hearing protection. Our World of Hearing store concept, now being piloted in the Netherlands, presents us as the provider of comprehensive solutions for anything to do with the ear; we plan to expand this concept in other major markets during the coming year.

Market and consumer access

As a consumer-centered business, we are keenly aware of the broader social trends that affect our market. Most important is the technological sophistication and self-determination of the fast-growing baby boomer segment. They are internet-savvy, although many still prefer face-to-face in-store service to online selling. They are interested in performance and features more than brands, expect excellent sound quality and connectivity, and are willing to pay for superior services. Most of all, they want choice about how and when they have contact with their hearing care professional – so we offer an omni-channel experience right across our stores, call centers, and online presences. It means that we are accessible, with consistent services and messages, at all times and places: the consumer controls the choice of channels throughout the consumer journey.

We engage with this sophisticated consumer base through advanced lead generation systems and targeted marketing campaigns, including television advertising. As an example, we marked the launch of Phonak's Marvel technology by a television campaign specific to our network in Germany, highlighting the fact that our audiological care business is the place to find the latest hearing technology.

Our broad digital presence and suite of eSolutions, from eScreening to remote support, mean that our relationship with the consumer can go beyond simply selling a hearing instrument. We see this as life-long service: not only do we support the experience of using our solutions throughout the life of each product, but we gain familiarity with each consumer's individual situation; we can anticipate how that changes and be ready to assist through the next stage.

We also know, from in-depth research, how a consumer's family and friends influence the choice and successful use of hearing instruments. So we practice what we call "family-centered care," where we invite family members or friends to accompany consumers to every appointment. This helps to build mutual understanding about the consumer's needs and social environment and about the value of good hearing care. By involving the family throughout the consumer's hearing journey we realize higher uptake of our solutions, better adherence to treatment plans, and ultimately greater satisfaction, creating a win-win situation for the consumer and our business.

Continuous improvement

World of Hearing store in Dordrecht, Netherlands

As a business dedicated to providing outstanding care, we want to make optimal use of our hearing care professionals’ skills and time. This means matching each consumer’s need with the appropriate service. As we roll out our World of Hearing store concept, we will link each of these full-spectrum stores in a “hub-and-spoke” structure with a number of surrounding stores that are optimized for more routine business. This means that consumers have convenient access to more sophisticated services, while audiologists in both types of store have a full yet manageable workload. We are currently expanding this structure to the US with other major markets to follow.

Vertical integration with consistent, best-in-class consumer service depends on a solid shared IT backbone. Having grown by acquisitions over several years, we are determined to achieve the complete unification of our systems. We have begun development of a cloud-based IT platform that will streamline all our operations around the world, supporting our consumer-related digital tools and data, our business processes, and our customer relationship management, sales and marketing functions, including a global consumer database for enhanced lead generation. The pilot version is up and running in Italy and we expect to complete the global project within three years.

Audiological care business

A service almost fit for a king

Audition Santé's specialist audiology store in Versailles is a shining example of the success that has been achieved in the audiological care business in France. The secret? Bespoke service that offers customers comprehensive solutions.

There is never a dull moment at Audition Santé's specialist audiology store in Versailles, located in the middle of the Old Town in a small, bustling square lined with cafés and restaurants just a few hundred yards from the famous royal palace. Jacques Lillioz is leaning on the welcoming reception desk. Now 77, he spent more than two decades as mayor of a small town before volunteering in adult education and working in schools, where he teaches children about human rights. "I'm still active, so I need to be able to hear well." He has recently started to wear the latest generation of Phonak hearing aids.

Another customer strolls in. Walburg de Vernisy is 74 years old. Her hearing was damaged when a generator supplying electricity to pasture fences exploded near the budding showjumper and former horse-breeder. Her hearing had deteriorated over the years and eventually, she says, "I could no longer make out what they were saying on stage at the theater." She likes dropping by the Audition Santé branch: "I get very good advice here. Karin Beuchot, who looks after me, is patient, charming, and puts her heart and soul into her work. She really pulls out all the stops to ensure her customers hear better. She's a professional."

She has hit the nail on the head: Karin Beuchot has been working as a professional audiologist for more than 25 years and has managed the branch in this upmarket suburb of Paris since 2013, having previously spent many years working in other regions of France. "When I started in Versailles, I noticed that things are a little different here straight away." She doesn't just mean the area's rich history, which is woven around Louis XIV's world-famous chateau; the town has a high concentration of specialist audiology stores and there are many long-established and well-off families living here. "The clients have high expectations, so it's important for us to be able to address their wishes on an bespoke basis. Customers who have bought something from us once almost always come back again at some point in the future."

Walburg de Vernisy, customer and Karin Beuchot, audiologist at Audition Santé in Versailles

Eight staff work at Audition Santé in Versailles, and business is brisk. The key to this success is the consistent consultation and customer experience offered by Audition Santé in its network of specialist audiology stores across France. The reception area of each store houses the first surprise: as customers enter, they leave the noise of the street behind them completely. They are met with peace and quiet, not to mention a comfortable armchair to relax in until their turn is called.

With over 1,800 square feet of retail space spread over two levels, the audiology store on the rue Saint-Simon is currently Audition Santé’s largest branch in the country. There are three sound booths for hearing aid fittings, two repair desks, two waiting rooms for customers, and a spacious meeting room that is also used for the company’s regional in-house education and training sessions. Branch manager Karin Beuchot thinks that the secret to its professional customer support lies in generous opening times, cutting-edge technical equipment, and a strong team. She deals with some 50 appointments a week herself: “People once used to go to the audiologist that was around the corner from the doctor’s; nowadays most of them do some internet research first. They are really well-informed before they even arrive at the store.” And, ultimately, customers end up making purchases where they get the best service and special offers.

This is why the branch in Versailles is one of the few specialist audiology stores in France to offer Phonak’s Lyric™, the only 100% invisible hearing aid, which can be worn for several months at a time and provides a unique sound. “Lyric is especially popular with customers who are still actively involved in the world of work and want a discreet device.” Among other things, special fitting equipment had to be installed in order to be able to offer Lyric.

The branch has also been successful in acquiring new customers: “Some people find us through word of mouth. You can test new devices here on special open days. A lot of people turn up for these and then often buy a hearing aid on the spot. Accessories for the TV or for meetings, such as Phonak’s Roger™ external microphone, are also very popular,” explains Beuchot. Their in-house repair and cleaning service is likewise a key touchpoint for maintaining customer relations: “We check devices every three months and use the appointment to fine-tune the settings. This ensures we stay in constant contact with our clientele.”

Strategy and businesses

Cochlear implants business

At Advanced Bionics, we are committed to continuously developing our cochlear implant systems to improve the lives of those with the most significant hearing loss.

An Advanced Bionics cochlear implant is a life-long solution for significant or complete hearing loss. Unlike hearing aids which amplify sound, cochlear implants electrically stimulate the hearing nerve, bypassing the damaged part of the ear; a wearable processor captures sound and converts it into an electrical signal which is transmitted to the implant. We work to optimize each component of this sophisticated system, offering recipients excellent hearing performance and helping surgeons and audiologists with their vital work.

Our business operates in more than 50 countries and is based on close cooperation with the surgical clinics that perform implantation, the hearing care professionals who serve our recipients before and after surgery or throughout their whole patient journey, and the researchers who study hearing function and further advance our solutions. We also work with potential recipients and their families, not just by providing our technology, but through advice, information, support groups, and online communities.

Advanced Bionics began its close R&D collaboration with Phonak nearly a decade ago, and this has been very fruitful. Each significant advance in Phonak hearing aid technology – in sound quality, speech intelligibility and directionality, connectivity, and automatic adaptive sound programs – has been extended to our sound processors, giving recipients an ever-more natural experience of life's sounds, music, and conversations.

Key areas of activity

Innovation

It is increasingly required for health reasons that people should have an MRI (magnetic resonance imaging) scan at some time during their life, but this has long been a challenge for cochlear implant recipients: the implant contains a magnet, and the powerful magnetic fields generated by the scanner can cause pain if the implant magnet is not fully aligned with them. Bandaging the head to keep it still is not always possible and is particularly hard for children. Until now, it was often necessary to remove the magnet surgically to ensure a pain-free scan, which also meant that recipients were not able to hear until it was replaced. With the launch of Advanced Bionics' HiRes™ Ultra 3D implant this year, these challenging issues are a thing of the past: its magnet can rotate to orient itself in three dimensions, aligning perfectly with the surrounding magnetic field. Recipients can move in the scanner without pain or discomfort; the need for surgical removal or head bandaging is gone. What should be a routine procedure is now exactly that: routine.

Continuing the benefits of the close R&D relationship between Advanced Bionics and Phonak, the new Naída CI Connect accessory for our Naída CI Q90 sound processor incorporates Sonova's SWORD chip, providing direct Bluetooth connectivity with phones, tablets, laptops and MP3 players. From hands-free phone conversation to streaming media, Naída CI Connect offers a seamless experience of today's digital world.

Cochlear implants are advanced technology but they have now been available for many years, and we want to ensure that those who chose us in the past can still benefit from our innovations. We therefore introduced the Chorus™ sound processor, which provides several thousand recipients of our first generation implants the up-to-date benefits of all-day battery charge and integrated wireless reception, thus renewing our life-long connection with this established consumer base.

Market and consumer access

A significant growth area for cochlear implants is among adults whose hearing loss has gone beyond the point where hearing aids are effective. Here our collaboration with Sonova's hearing instruments and audiological care businesses is a highly valuable route to these potential recipients. One good example is provided by the events that audiological care's Vitakustik network in Germany hosted this year. They generated excellent ratings from participants, strongly positive feedback from clinics, and a more than 10% rate of direct sign-up for clinic appointments from those who attended.

When a child is born with severe hearing loss, there is generally a 12-month period before surgeons will consider a cochlear implant operation. This is not just a waiting time – it is an essential period for a child's sensory and social development, where family interaction can make a great difference to the eventual success of the hearing solution. Our Baby Beats™ app focuses on encouraging activities that engage babies in the sensory world – the vibration and breath-patterns of speech and singing, the sight of chimes and drums – and informs families about what our solutions can do for them.

Continuous improvement

A cochlear implant is a complex system whose production requires many advanced processes. We can achieve economies of scale as our market continues to grow, but there is also a wealth of opportunities to continuously improve the efficiency of our production process and reduce the costs of the goods we sell. As an example, we achieved significant cost savings in producing core electronic components for our sound processors by bringing their manufacture in-house and making use of Sonova's production expertise and efficiency. We are increasingly automating our manufacturing, designing to cost, optimizing our supplier base, and increasing yield.

We already benefited from such efficiency projects this year, and there are many more projects planned for the coming years. This has not just resulted in significant profitability improvement but also freed resources to invest further in innovation and expand our market and consumer access.

Cochlear implants business

“This way I can hear, that way I can’t!”

Little Léa Corbin has been wearing bilateral cochlear implants made by Sonova brand Advanced Bionics since she was a baby. Her language development has been impressive, and her parents and Sonova employee Adrian have been with her every step of the way.

Little Léa is running backwards and forwards between kitchen and sitting room in excitement. Visitors will be here any minute and she wants everything to look nice. “Have I got everything, mom? Where shall I put it all? Oh, I’ll put everything over there.” This bright little girl in a colorful floral blouse celebrated her fourth birthday in August 2018. She is now four-and-a-half and can already read a little. Her language development is also coming on in leaps and bounds. “She spoke very well at an early age, starting to formulate sentences at two. People on the street are always telling me how impressed they are with her speech,” explains Marlène Corbin, her mother, with justifiable pride, as Léa has had profound hearing loss since birth. That she has learned to speak so well is all down to the work her parents have put in – and to her Advanced Bionics cochlear implant system.

Adrian Travo, the visitor Léa has been awaiting in such excitement, is Advanced Bionics’ Clinical Engineering Manager in France. In October 2015, he personally activated the devices for the girl from the small town of Nogent-sur-Seine, about 60 miles southeast of Paris, and since this first meeting at the clinic, he has followed the little girl’s progress with great interest. He too is full of admiration: “Léa is extraordinary. She’s an excellent example of how a young person can develop when all the parameters mesh together perfectly.” The close, trust-based cooperation between her parents and Advanced Bionics has also been key. Adrian Travo says he has tremendous respect for Léa’s mother in particular: “Her commitment has been exemplary.”

Marlène Corbin, who has three children, discovered her youngest’s profound hearing loss herself. “Everything seemed OK at the newborn hearing screening, and they had told me at the birth that she could hear. I began to have my doubts as she turned four months, however; she didn’t react if the dog barked or I called her. She would only jump once she could see me.” Marlène Corbin went to several doctors, virtually all of whom told her she was mistaken. Her suspicions were not confirmed until they visited the pediatric hospital in Paris: Léa could hear nothing in either ear.

Marlène and Léa Corbin

After the diagnosis, her mother did some internet research, gathered information via special Facebook groups such as CISIC, contacted other similarly affected mothers, and learned games and listening exercises from a speech therapist to promote her daughter's language skills. The parents soon realized that Léa would need hearing implants: "We definitely wanted Léa to learn how to speak so she would also have the same opportunities in the future as other children."

In September 2015, Léa Corbin was finally operated on in Paris at the age of 13 months – initially, one ear was treated, followed by the other, four months later. The family met Adrian Travo at Léa's device activation, where she heard noises and sounds for the first time in her life. He himself wears Advanced Bionics cochlear implants that are clearly visible on a scalp he has shaved specially for the purpose. "We were extremely impressed the first time we saw an adult with a cochlear implant system. It gave us confidence and reassurance for Léa's future," recounts Madame Corbin, thinking back.

Travo got to know the family better at regular follow-up examinations, and took a close interest in Léa's aftercare over the next few years. This contact has developed into a strong bond of friendship with the Corbin family that is very special to Adrian, not least as he has monitored the little girl's progress since her very first experiences with hearing.

Léa goes to the normal kindergarten in her neighborhood, and the little girl puts on her mother-of-pearl-colored transmitter coils herself every morning. These devices, which look like little buttons, are fixed magnetically to the scalp, where they relay the digitized sounds from the sound processor to the implant's receiver. Léa self-confidently declares she has brought her classmates up to speed on her hearing equipment: "When I put these buttons on my head I can hear, when I take them off, I can't." Her cuddly toy, a monkey called Lulu gifted to her by Advanced Bionics, has the same buttons on his head as she does – only his are blue. "Lulu has already come to school with me. I showed him to everyone. Now my friend wants the same devices as Lulu and me!"

Business report

Corporate governance

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

Our shared values and beliefs of innovation, engagement and responsibility reflect the corporate governance that defines and unites us as a company across all brands and regions. Good corporate governance is essential for Sonova and we strive for high standards in this field. The meaning of “good corporate governance” is an evolving matter and we constantly monitor the latest changes to the requirements.

At Sonova, corporate governance is based upon, and structured to conform with, relevant standards and practices. The company meets its legal duties under the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. This report describes the principles of corporate governance for the Sonova Group and provides background information on the Group’s executive officers and bodies as of March 31, 2019. All relevant documents can be accessed at the corporate governance section of the Sonova website: www.sonova.com/en/commitments/corporategovernance. For clarity and transparency, the compensation report is presented as a separate chapter of the annual report.

Group structure

Operational group structure

The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 100 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving additional markets. Details of its business segments can be found in Note 2.2 to the consolidated financial statements.

Listed companies

Sonova Holding AG is listed on the SIX Swiss Exchange. Of all the companies in the Sonova Group, only the ultimate parent company of the consolidated Sonova Group, Sonova Holding AG, is listed on any stock exchange.

Key data for the shares of Sonova Holding AG as of March 31, 2019:

	2019	**2018**	**2017**
Market capitalization in CHF million	12,870	9,917	9,087
In % of equity	542%	401%	426%
Share price in CHF	197.00	151.80	138.90

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

Non-listed companies

Note 7.6 to the consolidated financial statements provides a list of the significant companies of the Sonova Group as of March 31, 2019.

Shareholders

Registered shareholders

As of March 31, 2019, the shareholdings of registered shareholders were distributed as follows:

Number of shares	Registered shareholders 31.3.2019	Registered shareholders 31.3.2018
1 – 100	7,538	7,387
101 – 1,000	8,223	9,729
1,001 – 10,000	1,138	1,277
10,001 – 100,000	211	214
100,001 – 1,000,000	42	35
> 1,000,000	6	6
Total registered shareholders	**17,158**	**18,648**

Significant shareholders

The following overview shows the registered shareholdings of significant shareholders as of March 31, 2019. Nominees are registered without voting rights. Significant shareholders may also hold non-registered shares which are reported under "Not registered":

	2019	2019	2018	2018
	No. of shares	In %	No. of shares	In %
Beda Diethelm[1)]	6,654,759	10.19	6,657,509	10.19
Chase Nominees Ltd.[2)]	5,906,307	9.04	5,610,620	8.59
Family of Hans-Ueli Rihs[1)3)]	3,704,307	5.67	3,733,000	5.71
Nortrust Nominees Ltd.[2)]	3,799,076	5.82	2,878,139	4.41
Bank of New York Mellon Nominee[2)]	2,724,420	4.17	n/a	<3.00
Fidelity Funds	2,241,202	3.43	n/a	<3.00
Andy Rihs[1)4)]	n/a	<3.00	2,009,979	3.08
Registered shareholders with less than 3% of shares	19,332,634	29.59	23,475,488	35.93
Not registered	20,968,182	32.10	20,966,152	32.09
Total shares	**65,330,887**	**100.00**	**65,330,887**	**100.00**

1) The founding shareholders Andy Rihs, Beda Diethelm and Hans-Ueli Rihs were already shareholders before the Initial Public Offering in November 1994. There are no shareholders' agreements among these individuals and they can trade freely.
2) Registered without voting rights.
3) Hans-Ulrich Rihs, Gabriela Rihs and Stefan Rihs as a group jointly control 3,704,307 registered shares (corresponding to 5.67% of total Sonova share capital) as of December 24, 2018. These shares were previously controlled by Hans-Ulrich Rihs as a single shareholder.
4) Andy Rihs deceased on April 18, 2018.

For information on shareholders of Sonova Holding AG that have reported shareholdings of over 3% or a reduction of shareholdings below 3% in the financial year (FY) 2018/19, please refer to the website of the Disclosure Office of the SIX Swiss Exchange www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

Cross-shareholdings

Sonova Holding AG has no cross-shareholdings with other companies.

Articles of Association

The Articles of Association of Sonova Holding AG remained unchanged in FY 2018/19 and are available at www.sonova.com/en/investors/articles-association.

Capital structure

Share capital

As of March 31, 2019, the ordinary share capital of Sonova Holding AG was CHF 3,266,544.35 fully paid up and divided into 65,330,887 registered shares with a par value of CHF 0.05 each.

Sonova Holding AG has issued neither participation certificates nor profit-sharing certificates.

With the exception of the treasury shares held by the company itself, each share represents one vote at the General Shareholders' Meeting and is entitled to dividend payments. As of March 31, 2019, the company held 966,324 treasury shares (3,622 in the previous year).

More information on the share capital can be found in Art. 3 of the Articles of Association available at www.sonova.com/en/investors/articles-association.

Authorized and conditional capital

Authorized capital

Sonova Holding AG has no authorized capital.

Conditional capital

The Annual General Shareholders' Meeting (AGM) 2005 approved the creation of conditional share capital of 3,301,120 registered shares with a par value of CHF 0.05 per share to improve the company's financial flexibility. This capital may be used for exercising option and conversion rights granted in connection with bonds or similar debt instruments issued by the company to finance the acquisition of companies, parts of companies or shareholdings.

The AGMs in 1994 and 2000 approved the creation of conditional share capital of 8,000,000 registered shares with a par value of CHF 0.05 per share for distribution to key employees of the Sonova Group through an equity participation program.

The conditional capital amounts to a maximum of CHF 266,107 which equates to 8.13% of the existing share capital.

More information on the conditional share capital can be found in Art. 4 of the Articles of Association available at www.sonova.com/en/investors/articles-association.

Options

In FY 2018/19, a total of 249,760 options and Stock Appreciation Rights (SARs) were granted as part of the Sonova Executive Equity Award Plan (EEAP). In FY 2017/18, the number of options (including performance options) and SARs granted totaled 389,358. As of March 31, 2019, there were 1,260,889 options, performance options and SARs outstanding (compared with 1,299,812 in the previous year). Each of the options entitles the holder to purchase one registered share in Sonova Holding AG with a par value of CHF 0.05 at the respective exercise price and upon meeting certain performance criteria, while the SAR entitles to receive a cash settlement equal to the option value. The EEAP is described in greater detail in the compensation report and in Note 7.4 to the consolidated financial statements.

Convertible bonds

Sonova Holding AG has not issued any convertible bonds.

Changes in capital

As of March 31, 2019, the capital of Sonova Holding AG comprised the following:

	2019	2018
Ordinary capital (in CHF)	3,266,544	3,266,544
Total shares	65,330,887	65,330,887
Conditional capital (in CHF)	266,107	266,107
Conditional shares	5,322,133	5,322,133

Of the 8,000,000 maximum approved conditional shares, a total of 5,978,987 shares with a par value of CHF 0.05 each was issued prior to FY 2018/19. Starting in FY 2014/15, Sonova decided to purchase shares on the market to fulfill its obligations under the long-term incentive plans and not to issue shares out of the conditional share capital. The maximum conditional share capital reserved for long-term incentive plans therefore remained unchanged at 2,021,013 shares.

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

Share buyback program

On August 31, 2018, Sonova announced a new share buyback program that started in October 2018. The program is targeted to buy back shares worth up to CHF 1.5 billion and runs up to 36 months. The buyback is conducted via a separate trading line on the SIX Swiss Exchange. The shares are repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings.

As of March 31, 2019, Sonova has repurchased a total of 932,750 registered shares through this buyback program (equivalent to 1.4277% of the share capital at the beginning of the program) for a total amount of CHF 157.8 million at an average purchase price of CHF 169.16 per share. Maintaining a conservative financial policy, Sonova expects to have sufficient funds to further invest in R&D and capital expenditure, to expand the Group's distribution network and market reach, and to undertake bolt-on acquisitions in addition to the new share buyback program. In the event of an attractive larger acquisition opportunity, the program can be suspended.

The transactions conducted as part of the share buyback program are available at www.sonova.com/en/investors/share-buyback-programs.

Limitations on transferability and nominee registrations

Limitations on transferability for each share category

To be recognized as a shareholder with full voting rights, the acquirer of shares must submit a written application for registration in the share register. The company may refuse registration in the share register if applicants do not explicitly declare that they have acquired and will hold the shares in their own name and for their own account. The company may further refuse entry of the acquirer as a shareholder or usufructuary with a voting right to the extent that the shares held would exceed 5% of the overall number of shares shown in the Commercial Register (Art. 8 para. 6 of the Articles of Association). Linked parties are considered as one person. This registration restriction does not apply to the founding shareholders. The Board of Directors may grant exceptions where there is justified cause, in which case no special quorum is required.

More information on the limitations on transferability and registrations can be found in Art. 8 of the Articles of Association available at www.sonova.com/en/investors/articles-association.

Exceptions granted in the year under review

No exceptions were granted by the Board of Directors during the reporting period.

Admissibility of nominee registrations

The Board of Directors can issue regulations specifying the conditions under which trustees/nominees are recognized as shareholders with voting rights (Art. 8 para. 5 of the Articles of Association, available at www.sonova.com/en/investors/articles-association).

Procedure and conditions for cancelling statutory privileges and limitations on transferability

A resolution of the General Shareholders' Meeting approved by a relative majority of the votes cast is sufficient for cancellation (Art. 15 para. 4 no. 3 of the Articles of Association, available at www.sonova.com/en/investors/articles-association).

Board of Directors

Introduction

The Board of Directors of Sonova Holding AG sets the overall direction and supervision of the management (see Art. 716a para. 1 of the Swiss Code of Obligations). Its organization is reflected in the Organizational Rules (available at www.sonova.com/en/investors/organizational-regulations) and the Board Committee Charters (available at www.sonova.com/en/investors/committee-charters).

Board of Directors independence

Members of the Board of Directors are considered to be independent, according to Art. 14 of the Swiss Code of Best Practice for Corporate Governance and Art. 6 lit. c of the Organizational Regulations, if they personally or in association with related persons have not been a member of the Management Board during the last three years, and have no or only comparatively minor business relations with the company. According to these rules all members of Sonova's Board of Directors are considered to be independent with the exception of Lukas Braunschweiler, former CEO and member of the Board of Directors since the 2018 AGM. He will for the time being not be a member of any board committees (for more details see section 3.1 of the compensation report).

Executive management positions

No member of the Board of Directors holds an executive management position with Sonova Holding AG or any of its subsidiaries.

Business connections of Board members with Sonova Holding AG or its subsidiaries

In the 2018/19 financial year, there were no business connections between individual Board members, including companies or organizations represented by them, and Sonova Holding AG.

Other activities and vested interests

Except as disclosed in the biographies of the members of the Board of Directors, no member of the Board of Directors holds any position in a governing or supervisory body of any important private or public sector organization, institution, or foundation; none holds any permanent management or consultancy position with an important interest group, or any public or political office.

Mandates outside Sonova Holding AG

No member of the Board of Directors may hold more than four additional mandates in listed companies and in total no more than six additional mandates. The following mandates are not subject to these limitations:

- Mandates in companies which are controlled by Sonova or in companies which control Sonova;
- Up to ten mandates held at the request of Sonova or companies controlled by Sonova;
- Up to six mandates in associations, charitable organizations, foundations, trusts, and employee welfare foundations.

For further details please see Art. 30 of the Articles of Association, available at www.sonova.com/en/investors/articles-association.

Board of Directors competence and Board evaluation

The Board of Directors evaluates current and prospective directors according to a skills and experience competency matrix to ensure that the Board has an appropriate mix of relevant skills and experience. The matrix includes criteria relating to executive management expertise, board experience, relevant industry know-how, strategic thinking (incl. M&A), international/regional experience, technology/product development experience (HW&SW), digital expertise, IT/SLC expertise, financial expertise, sales/marketing expertise, retail and service expertise, HR expertise, gender diversity, race diversity, and expertise in legal, regulatory, compliance, and corporate governance.

The Nomination and Compensation Committee/Board of Directors evaluates current and prospective members of the Board of Directors against the criteria matrix to ensure an appropriate mix of relevant skills and experience represented in the Board. The Nomination and Compensation Committee/Board of Directors uses this information, including when potential gaps are identified, to help inform profiles for new director searches.

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

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

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

Elections, terms of office and biographies

Election procedure and limits on the terms of office

Art. 16 para. 1 of the Articles of Association of Sonova Holding AG states that the Board of Directors must consist of a minimum of three and a maximum of nine members. The members of the Board of Directors are elected by the shareholders at the General Shareholders' Meeting (Art. 10 no. 2 of the Articles of Association, available at www.sonova.com/en/investors/articles-association).

Re-elections for successive terms are possible. Members of the Board of Directors shall retire automatically at the first General Shareholders' Meeting following their seventieth birthday. In exceptional cases, the Board of Directors may make an exemption. For further details please see Art. 16 of the Articles of Association, available at www.sonova.com/en/investors/articles-association and Art. 6 of the Organizational Regulations, available at www.sonova.com/en/investors/organizational-regulations.

First election and remaining term of office

The following table shows the date of first election for each member of the Board of Directors. The Articles of Association require that the term of office of a Board member ends after completion of the next ordinary General Shareholders' Meeting. As a consequence, each Board member will have to be re-elected annually at the General Shareholders' Meeting. All previous Board members were re-elected by the 2018 General Shareholders' Meeting (the Articles of Association are available at www.sonova.com/en/investors/articles-association). Lukas Braunschweiler was newly elected to the Board of Directors for the first time at the AGM in 2018 after he stepped down on March 31, 2018 as CEO of the Sonova Group.

Name	Position	First elected
Robert F. Spoerry	Chairman	2003
Beat Hess	Vice Chairman	2012
Lynn Dorsey Bleil	Member	2016
Lukas Braunschweiler	Member	2018
Michael Jacobi	Member	2003
Stacy Enxing Seng	Member	2014
Ronald van der Vis	Member	2009
Anssi Vanjoki	Member	2009
Jinlong Wang	Member	2013

Robert F. Spoerry

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

Robert F. Spoerry is also the non-executive Chairman of the Board of Mettler Toledo International Inc., a leading global manufacturer and marketer of precision instruments and related services for use in laboratory, manufacturing, and food retailing applications. He joined Mettler Toledo in 1983 and was CEO from 1993 to 2007. He led the buyout of Mettler-Toledo from Ciba-Geigy in 1996, and the company's subsequent Initial Public Offering on the New York Stock Exchange (NYSE) in 1997. In 1998, he was nominated as Chairman of the Board.

His long-standing experience in the technology sector, his deep knowledge of Sonova and his strong technical background with innovation-driven companies provides a substantial benefit to the Group and its shareholders. Robert F. Spoerry devotes a substantial amount of his time to his service as Chairman of the Board and Chairman of the Nomination and Compensation Committee.

Robert F. Spoerry graduated in mechanical engineering from the Swiss Federal Institute of Technology (ETH) in Zurich, Switzerland, and holds an MBA from the University of Chicago.

Outside mandates:

- Member of the Board of Conzzeta Holding AG
- Non-executive Chairman of the Board of Mettler Toledo International Inc.

Beat Hess

(born 1949, Swiss citizen) has been Vice Chairman and a non-executive member of the Board of Sonova Holding AG since June 19, 2012. He serves on the Nomination and Compensation Committee.

From 1988 to 2003, he served as General Counsel of ABB Group and, from 2003 to 2011, as Group Legal Director and member of the Group Executive Committee of Royal Dutch Shell plc.

With his broad international and legal experience, including in the areas of compensation, corporate governance, compliance and risk management, Dr. Beat Hess adds substantial insight into these topics.

Beat Hess studied at the Universities of Geneva, Freiburg, and Miami, is an attorney-at-law and holds a doctorate in Law.

Outside mandates:

- Member of the Board of Directors of Nestlé S.A.
- Chairman of the Board of Directors of LafargeHolcim Ltd. (since May 2016; previously Vice Chairman)

Lynn Dorsey Bleil

(born in 1963, US citizen) has been a non-executive member of the Board since 2016. She retired as Senior Partner (Director) from McKinsey&Company in the US in 2013 after more than 25 years of advising senior management and boards of leading healthcare companies on corporate and business unit strategy, mergers and acquisitions, and public policy across all segments of the healthcare value chain. She was also a member of the Board of Directors of Auspex Pharmaceuticals until its sale to Teva in March 2015, and DST Systems until its sale to SS&C in April 2018. Lynn Dorsey Bleil is also a member of the Board of Directors of Alcon Inc., a newly formed company spun off from Novartis AG.

With her extensive experience in advising North American healthcare companies across the entire value chain, she brings very valuable strategic perspectives to the Group.

Lynn Dorsey Bleil holds a Bachelor's Degree in Chemical Engineering from Princeton University and a Master's degree in Business Administration from the Stanford University Graduate School of Business.

Outside mandates:

- Member of the Board of Directors, the Audit Committee, and the Innovation Committee of Alcon Inc.
- Member of the Board of Directors, Nominating & Governance Committee, and Compensation Committee of Stericycle, Inc.
- Member of the Board of Directors, the Compensation Committee, and the Nominating & Governance Committee of Amicus Therapeutics, Inc.
- Vice Chairman of the Governing Board of Intermountain Healthcare Park City Hospital

Lukas Braunschweiler

(born 1956, Swiss citizen) was the CEO of the Sonova Group from November 2011 until March 31, 2018. During a transition period, he gradually transferred his duties to Arnd Kaldowski who joined the Sonova Group in October 2017 as Chief Operating Officer. Before joining the company, Lukas Braunschweiler was CEO of the Swiss technology group RUAG. From 2002 to 2009, as President and CEO, he headed the Dionex Corporation. The California-based company, active in the life sciences industry, was listed on the Nasdaq stock exchange. Previously, from 1995 to 2002, he held various group executive positions in Switzerland and the US, for Mettler Toledo, a precision instruments manufacturer.

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

Lukas Braunschweiler received a Master of Science in analytical chemistry (1982) and was awarded a Ph.D. in physical chemistry (1985) from the Swiss Federal Institute of Technology (ETH) in Zurich.

Outside mandates:

- Chairman of the Board of Directors of Tecan Group AG
- Member of the Board of Directors of the Schweiter Technology Group
- Member of the Board of Directors of Sulzer Ltd.
- Member of the Board of Directors of private, non-listed BURU Holding AG
- President of Swiss Management Association SMG

Michael Jacobi

(born 1953, Swiss and German citizen) has been a non-executive member of the Board since 2003 and serves as the Chairman of the Audit Committee. Michael Jacobi has been an independent consultant since 2007.

From 1996 to 2007, he was CFO and member of the Executive Committee of Ciba Specialty Chemicals Inc. Prior to this, since 1978, Michael Jacobi held various management positions in the area of finance at Ciba-Geigy Group in Brazil, the US, and in Switzerland.

With his wide management and financial background and his expertise as former CFO, Michael Jacobi is well qualified to serve as the Chairman of the Audit Committee as a financial expert.

Michael Jacobi studied economics and business administration at the University of St. Gallen, Switzerland, at the University of Washington in Seattle, and at the Harvard Business School in Boston. He earned a Ph.D. from the University of St. Gallen in 1979.

Outside mandates:

- Member of the Board of Trustees of Martin Hilti Family Trust

Michael Jacobi is proposed to be re-elected as a member of the Board, but is not designated to be Chairman of the Audit Committee for the upcoming 2019/2020 term.

Stacy Enxing Seng

(born 1964, US citizen) has been a non-executive member of the Board since 2014 and serves on the Nomination and Compensation Committee. She previously served as President of Covidien's Vascular Therapies division. Stacy Enxing Seng joined Covidien in July 2010 through its acquisition of ev3 where she was a founding member and executive officer responsible for leading ev3's Peripheral Vascular Division from inception. She has also held various positions at Boston Scientific, SCIMED Life Systems Inc., Baxter Healthcare, and American Hospital Supply.

With her broad experience in the medical technology sector and her strong track record in growing startups and leading multinational companies, she brings important perspectives to the Group. Her expertise in working with regulatory agencies around the globe brings valuable insight to the Board.

Stacy Enxing Seng received a Master of Business Administration from Harvard University and has a Bachelor of Arts in Public Policy from Michigan State University.

Outside mandates:

- Member of the Board of Directors of Hill-Rom Holdings, Inc.
- Member of the Board of Directors of PreCardia, Inc.
- Venture Partner, Lightstone Ventures

Ronald van der Vis

(born 1967, Dutch citizen) has been a non-executive member of the Board since 2009 and serves on the Audit Committee. Ronald van der Vis was Executive Director of the Board and Group CEO of Esprit Holdings Limited, a global fashion and lifestyle company listed on the Hong Kong Stock Exchange, from 2009 until November 2012. Prior to this, since 1998, he held various general management positions at Pearle Europe (now GrandVision NV), the world's leading optical retailer. He was CEO of the Pearle Europe group from 2004 to 2009.

With his extensive international experience in the retail sector, Ronald van der Vis provides valuable input to the Group's vertically integrated business strategy.

Ronald van der Vis graduated from the Nyenrode Business University in the Netherlands and received his Master's degree in business administration from the Alliance Manchester Business School in the UK. He has gained significant financial expertise both through his education and through his business experience as CEO and private equity partner.

Outside mandates:

- Operating Partner, Co-Investor and Industry Advisor
- Chairman of the Supervisory Board of European Dental Group Holding BV
- Member of the Supervisory Board of HEMA BV

The Board intends to change the Chairmanship of the Audit Committee after the AGM in June 2019 appoint Ronald van der Vis to the position for the upcoming 2019/2020 term.

Anssi Vanjoki

(born 1956, Finnish citizen) has been a non-executive member of the Board since 2009 and serves on the Audit Committee. Anssi Vanjoki is Professor at Lappeenranta University of Technology and Individual Multicontributor of RKBS Oy, a technology start-up investment company. He was Executive Vice President and General Manager of Nokia until March 2011 and member of the Nokia Group Executive Board from 1998 to 2011.

He has wide knowledge in the area of new technologies, digitalization including software, wireless communication and eSolutions. Together with his broad international management experience, he provides a valuable contribution to the Board.

Anssi Vanjoki has a Master's degree in business administration from the Helsinki School of Economics and Business Administration.

Outside mandates:

- Chairman of the Board of Oriola Corporation
- Chairman of the Board of Elisa Corporation
- Anchor investor and Chairman of small technology companies

Anssi Vanjoki will not to stand for re-election at the Annual General Shareholders' Meeting in June 2019 when his term of office expires.

Jinlong Wang

(born 1957, US citizen) has been a non-executive member of the Board since 2013. He currently serves as chairman and CEO at PizzaExpress Group Holdings Limited and as managing director/operating partner at Hony Capital. Previously, he held a number of senior positions at Starbucks including Senior Vice President of Starbucks Corp., President of Starbucks Asia Pacific Region, Chairman and President of Starbucks Greater China Region, Head of the Law & Corporate Affairs department and Vice President International Business Development. He started his career as a government official in the Ministry of Foreign Economic Relations and Trade in China.

With his broad business and legal background both in China and in the United States, Jinlong Wang brings valuable insights to the Board. Thanks to his extensive business development expertise he has made tangible contributions to the Group's strategy in Asia and in particular in China.

Jinlong Wang graduated with a Bachelor degree in International Economics and Trade from the University of International Economics and Trade in Beijing in 1982 and received his Juris Doctor degree at Columbia School of Law, Columbia University, in 1988.

Outside mandates:

- Chairman and CEO of PizzaExpress Group Holding Limited

Internal organizational structure

Allocation of tasks within the Board of Directors

As specified in Art. 17 para. 1 of the Articles of Association, the Board of Directors constitutes itself, except for the Chairman and the members of the Compensation Committee, who must be elected by the shareholders. If the office of the Chairman or a member of the Compensation Committee is vacant, pursuant to Art. 16 para. 4 of the Articles of Association the Board of Directors appoints a replacement from among its members for the remaining term of office (the Articles of Association are available at www.sonova.com/en/investors/articles-association).

In accordance with Art. 13 para. a) of the Organizational Regulations which supplement the Articles of Association, the Board appoints an Audit Committee (the Organizational Regulations are available at www.sonova.com/en/investors/organizational-regulations).

Tasks and areas of responsibility of Board of Directors' committees

The duties and authorities of the committees are defined in the Articles of Association (solely for the Compensation Committee), the Organizational Regulations, and the Committee Charters of the Board of Directors (all available at www.sonova.com/en/investors/articles-association). The committees usually meet before the Board of Directors meetings and report regularly to the Board on their activities and findings. The overall responsibility for duties delegated to the committees remains with the Board.

Audit Committee

The members of the Audit Committee are Michael Jacobi (Chairman), Ronald van der Vis, Anssi Vanjoki and Lynn Dorsey Bleil. The Board intends to change the Chairmanship of the Audit Committee after the AGM in June 2019 appoint Ronald van der Vis to the position for the upcoming 2019/2020 term.

The duties of the Audit Committee include reviewing the performance and effectiveness of external and internal audit on behalf of the entire Board of Directors; evaluating the company's financial control systems, financial structure, and risk management control mechanisms; and verifying the interim and annual accounts and financial statements of the Sonova Group. The Audit Committee is also kept regularly informed on the company's compliance program. The Audit Committee Charter is available at: www.sonova.com/en/investors/committee-charters.

The Audit Committee meets as often as required and no fewer than four times per year. During the reporting period, the committee met four times. The Chairman of the Board of Directors was invited to, and attended, every Audit Committee meeting as a guest.

Nomination and Compensation Committee

The members of the Nomination and Compensation Committee are Robert F. Spoerry (Chairman), Beat Hess and Stacy Enxing Seng.

The Nomination and Compensation Committee supports the mission of the Board of Directors to attract, retain, and motivate people with outstanding professional and human capabilities at the Board of Directors and top management levels. The Nomination and Compensation Committee also supports the Board of Directors in preparing the compensation report, establishing and reviewing the Company's compensation principles, guidelines, and performance metrics, and preparing proposals to the General Shareholders' Meeting on the compensation of the Board of Directors and Management Board. The committee may also submit proposals and recommendations to the Board of Directors on other compensation-related issues. The Nomination and Compensation Committee Charter is available at: www.sonova.com/en/investors/committee-charters.

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

Working methods of the Board of Directors and its committees

During the reporting period, the Board of Directors held six meetings. The table below shows the individual members' attendance at Board of Directors and committee meetings, as well as the average length of the meetings:

	BoD [1]	AC [2]	NCC [3]
No. of meetings in 2018/19	6	4	4
Robert F. Spoerry	6	4 [4]	4
Beat Hess	6	–	4
Lynn Dorsey Bleil	6	3 [5]	–
Michael Jacobi	6	4	–
Stacy Enxing Seng	6	–	4
Anssi Vanjoki	6	4	–
Ronald van der Vis	6	4	–
Jinlong Wang	6	–	–
Lukas Braunschweiler	6 [6]	1 [4]	1 [4]
Average meeting length	9 h [7]	3 h	3 h

1) Board of Directors
2) Audit Committee
3) Nomination and Compensation Committee
4) As guest
5) From Annual General Meeting 2018
6) 4 meetings as guest
7) Excluding telephone conferences

Urgent business matters were discussed in various telephone conferences. In addition to formal meetings at which minutes were taken, members of the Board of Directors or of the committees also frequently met informally for other topics and discussions that required additional time. These included, for example, preparations for formal meetings, interviews and nomination of key individuals, and reviewing M&A projects.

The agenda for a meeting of the Board of Directors or of a Board committee is set by its respective Chairman. Any member of the Board of Directors or a committee may request a meeting or ask that an item be put on the agenda. Members of the Board of Directors and the committees are provided in advance of meetings with all relevant documents that enable them to prepare for the discussion of the agenda items during the meeting. The Board of Directors and its committees constitute a quorum if at least half of the members are present. The Board of Directors and its committees approve resolutions by a majority of members present at the meeting. In the event of an equal number of votes, the Chairman has the casting vote.

The Board of Directors works closely with the Management Board. In general, the meetings of the Board of Directors and its committees are also attended by the CEO and the CFO and, depending on the agenda, other members of the Management Board. The Board of Directors and the committees meet in executive session after every Board and committee meeting, respectively. The Board of Directors consults external experts when necessary in connection with specific topics.

During the 2018/19 business year, the six meetings of the Board of Directors were attended by the CEO and the CFO. Other members of the Management Board were present during four meetings of the Board of Directors to review, amongst other topics, performance against plan, key initiatives, and strategic matters. If necessary, the Board of Directors also consults with other internal experts (such as the Group General Counsel) or external advisors, although no external party was invited to nor attended a Board meeting in the last business year.

The four meetings of the Nomination and Compensation Committee were held in the presence of the Chairman, the CEO, and the Group Vice President Corporate Human Resources. One meeting was partially attended by an external advisor.

All four meetings of the Audit Committee were attended by the Chairman, the CEO, the CFO, and the Head of Internal Audit and Risk. External advisors attended the Audit Committee meeting three times.

Definition of areas of responsibility

The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. The Board of Directors decides on all matters that have not been reserved for or conferred upon another governing body of the company by law, by the Articles of Association, or by the company's Organizational Regulations. The division of responsibility between the Board of Directors and the Management Board is set out in detail in the company's Organizational Regulations (available at www.sonova.com/en/investors/organizational-regulations).

Information and control instruments vis-à-vis the Management Board

The Management Board reports regularly to the Board of Directors and its committees. At each Board meeting, the Management Board informs the Board of Directors of the status of current business matters and financial results, presents relevant strategic initiatives as well as major business transactions such as M&A. Each year a Board of Directors meeting is reserved for presentation and discussion of the company's strategy and long term financial plan. The Board of Directors is provided with monthly consolidated sales reports providing data on revenue, average selling prices, and units for each major product, subsidiary, and market. The Board of Directors also receives on a monthly basis the financial report with the full profit and loss statement, the balance sheet, and the cash flow statement, as well as the CEO's report on business performance, the competitive situation, updates on various initiatives, and an outlook. Telephone conferences are held as required between Board members and the CEO or CFO. Furthermore, each member of the Board of Directors may request information on all matters concerning the company.

Internal audit, risk and compliance

The mandates of the Internal Audit and Risk Management functions, along with their reporting lines and scope of activities, are defined in the Internal Audit & Risk Charter approved by the Audit Committee and the Board of Directors. Internal Audit carries out compliance and operational audits and assists the business units in attaining their goals by providing assurance from independent evaluation of the effectiveness of internal control processes. Management is responsible for the control of business risks and for compliance with laws and regulations. The Audit Committee approves the annual work plans of Internal Audit and ensures that the relevant Group companies are adequately reviewed according to their risk scoring. The Audit Committee also reviews and discusses the reports on completed audits submitted by Internal Audit. Internal Audit, together with Business Controlling, monitors the implementation by Group companies of any measures necessary to address findings from previous audits, and regularly reports progress to the Audit Committee. The Head of Internal Audit & Risk reports to the Chairman of the Audit Committee. In addition, the Chairman of the Board of Directors is invited to the Audit Committee as a guest, and is thus kept fully informed.

The Group has implemented an efficient and comprehensive system to identify and assess strategic, operational, financial, legal, and compliance risks related to the Group's business activities. Risk management and mitigation proposals are prepared by the Management Board, reviewed by the Audit Committee and subsequently approved by the full Board of Directors. As a guest, the Chairman of the Board of Directors has no voting rights. The risk management function categorizes risks by severity and probability and supports the Management Board in determining the measures necessary to address or mitigate them.

The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis.

Risk Management also assumes responsibility for the internal control system (ICS) for financial reporting risks. The Board of Directors receives annual updates on the Group companies' compliance with the ICS guidelines.

The Group compliance program supports Sonova's core values of ethical behavior and unquestionable integrity. The program is administered by the Head Group Compliance Program and ultimately overseen by the Group General Counsel. Amongst other things, the program administers the Ethics Hotline and other reporting channels and ensures that reports are adequately addressed; structures the policy framework for ethical business conduct and trains the businesses on it; counsels and advises on proposed business approaches; and supports the businesses in their vetting of business partners. Quarterly compliance reports are provided to the Audit Committee and an annual compliance report is addressed to the Board of Directors. The Group General Counsel has an activity-specific or "dotted-line" reporting relationship to the Chairman of the Audit Committee with respect to Compliance responsibilities.

Corporate Responsibility

Corporate Responsibility is integrated into Sonova's core values and under constant oversight by the Board of Directors. Accordingly, the Management Board regularly proposes topics related to corporate responsibility, which are subject to consultation and review on a yearly basis by the full Board of Directors (see the comprehensive Corporate Responsibility Report).

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

Diversity

A comprehensive diversity report is prepared by Corporate Human Resource Management and reviewed annually by the full Board of Directors (see the relevant chapter in the Corporate Responsibility Report for more information).

Management Board

The Management Board is responsible for the business and affairs of the company and the preparation, implementation, and monitoring of the strategic roadmap, the management of the members' respective Group functions, and the preparation, implementation, and delivery of the annual plan and budget. The Management Board also prepares for and executes decisions made by the Board of Directors. According to the Organizational Regulations of Sonova Holding AG, the Management Board is chaired by the CEO and comprises at least the CFO, plus such additional members as appropriately reflect the company's structure and activities. The members of the Management Board are proposed by the CEO and are appointed by the Board of Directors on the request of the Nomination and Compensation Committee (NCC).

The yearly evaluation of the CEO is based on the input of each member of the Board of Directors addressed to the Chairman. The consolidated input is reviewed first by the NCC and subsequently finalized by the full Board. Finally, the results are reviewed and discussed between the Chairman and the CEO.

Arnd Kaldowski

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

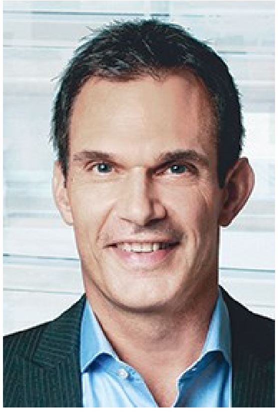
Arnd Kaldowski holds a Master of Science in Physics from the Technical University Darmstadt, Germany, and an MBA from INSEAD in Fontainebleau, France.

Hartwig Grevener

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

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

Claudio Bartesaghi



(born in 1973, Swiss citizen) was appointed Group Vice President Corporate Human Resources Management (HRM) & Communications of Sonova in October 2017. He gained international experience in his long-time career at Sonova, not least in his positions as Head of HRM of Sonova North America, based in the US, and as Head of HRM Sonova APAC, based in Singapore. Before joining Sonova in 2010, Claudio Bartesaghi was Deputy Head of HRM at Jelmoli Holding AG in Zürich.

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

Claude Diversi

(born 1964, French and Italian citizen) joined the Sonova Group in March 2005 as Managing Director of Phonak France. He was appointed Group Vice President Hearing Instruments Wholesale in April 2016. He was previously Vice President Hearing Instruments Phonak Wholesale for the Region Europe and South America from May 2012 until March 2016. Claude Diversi has an extensive track record as a sales executive with a broad experience in all disciplines of sales, including reporting, sales force management, and executing trade marketing strategies. Prior to joining Phonak, he worked in sales management positions in companies such as British American Tobacco, Dowbrands & Melitta Europe, Pillsbury, and Kraft Foods France.

Claude Diversi majored in international business at the University of Paris Descartes in France.

Hansjürg Emch

(born 1968, Swiss citizen) joined the Sonova Group as Group Vice President Cochlear Implants in March 2011. Before joining Sonova, he was President of the Global Spine division of Synthes, the implant manufacturer. During his time at Synthes he held various positions and gained broad specialist and management skills, including experience in general management, sales, product and business development, as well as clinical and regulatory affairs in the US and Europe.

Hansjürg Emch has a Master of Science and Engineering degree from the Swiss Federal Institute of Technology (ETH) in Zurich and completed the Program for Management Development at Harvard Business School.

Victoria E. Carr-Brendel took over the position as Group Vice President Cochlear Implants of Sonova and President of Advanced Bionics from Hansjürg Emch as of April 1, 2019. Victoria E. Carr-Brendel’s biography is available at www.sonova.com/en/investoren/management-board.

Christophe Fond

(born 1966, French citizen) joined the Sonova Group in February 2017 as Group Vice President Retail. Most recently he held the role of President Latin America and was a member of the Executive Board at GrandVision, a global leader in optical retailing. In the course of his career he gained extensive experience in global retail management, leading transformational growth of large-scale retail enterprises, including acquisitions, mergers, and integrations.

Prior to joining GrandVision he held various roles of international responsibility at Pearle, Bata, and FNAC.

Christophe Fond received a Master of Business Administration from IMD-Switzerland and graduated from the Superior School of Military Engineering (ESAG) in France.

Martin Grieder

(born 1965, Swiss and British citizen) has been Group Vice President Phonak since August 2014 and was appointed Group Vice President Hearing Instruments Marketing in September 2016. He joined Sonova from Nestlé, where he was Vice President and Global Head of Nestlé BabyNes. Martin Grieder joined Nestlé in 1992 and brings over 20 years of experience in senior management roles within the company. His diversified cross-functional work experience in 18 countries ranges from leading the global Nespresso professional division to managing Nestlé Nespresso North America. Further senior roles at Nestlé included Vice President, Head of Finance for the Americas and Head Nestlé Group Audit as well as R&D Head for Food & Beverage systems solutions for the Nestlé Group.

Martin Grieder received a Master of Business Administration degree from IMD-Switzerland and a Bachelor's degree in business and economics from the University of Applied Science and Arts (FHNW) in Basel.

Hans Mehl

(born 1959, German citizen) was appointed Group Vice President, Operations in April 2007. Before joining Sonova, he held various international leadership positions within the Siemens Group in the Netherlands, Singapore, USA, and Switzerland. In his last position, Hans Mehl acted as Co-Division Head of the Fire and Security business at Siemens Building Technologies in Zug, Switzerland.

Between 2000 and 2003, he was CFO of Global Health Services at Siemens Medical Group in Philadelphia, USA. Before that he was a member of the executive management of Siemens Audiology Group.

Hans Mehl completed his education in business administration in Germany.

Ludger Althoff succeeded Hans Mehl as Group Vice President Operations as per April 1, 2019. Ludger Althoff's biography is available at www.sonova.com/en/investoren/management-board.

Andi Vonlanthen

(born 1961, Swiss citizen) has been Group Vice President Research & Development since April 2012. He started his professional career at Phonak in 1984 in the area of product development, where he contributed significantly to a large number of technological innovations and product launches. As one of many innovations, he developed the first ever multi-microphone system for hearing instruments, which revolutionized the entire industry. From 2002 to 2004, he was Vice President R&D at Unitron. As of 2004 he was responsible for the Group System Integration function.

Andi Vonlanthen received a degree in electronic engineering at the School of Engineering (HTL) Brugg Windisch, Switzerland in 1984.

Other activities and vested interests

Except as disclosed in the biographies of the members of the Management Board, no member of the Management Board holds any position in a governing or supervisory body of any important private or public sector organization, institution, or foundation; none holds any permanent management or consulting position with an important interest group, or any public or political office.

Mandates outside Sonova Holding AG

According to Art. 30 of the Articles of Association, no member of the Management Board may hold more than one additional mandate in a listed company and in total no more than five additional mandates (all such mandates are subject to approval by the Board of Directors). Just as stipulated for the Board of Directors, some mandates are not subject to these limitations. The Articles of Association are available at www.sonova.com/en/investors/articles-association.

Management contracts

The Board of Directors and the Management Board conduct business directly and have not delegated any management tasks to companies outside the Group.

Compensation, shareholdings and loans

Details of Board and Management compensation are contained in the compensation report.

Shareholders' participation rights

Voting rights and representation restrictions

Voting rights restrictions

When exercising voting rights, no shareholder can combine, with their own and represented shares, more than 10% of the total number of shares as shown in the Commercial Register (Art. 14 para. 2 of the Articles of Association, available at www.sonova.com/en/investors/articles-association). Linked parties are considered as one person. This voting right restriction does not apply to founding shareholders. The Board of Directors may approve other exceptions if it has good reason to do so, in which case no special quorum is required.

Exceptions granted in the year under review

During the reporting period, no exceptions to the above-listed rules were granted.

Statutory rules on participation in the General Shareholders' Meeting

According to Art. 14 para. 4 of the Articles of Association, every shareholder entered in the share register with voting rights may have his shares represented by a person with written authorization from him who does not need to be a shareholder, or by the Independent Proxy. All the shares owned by a shareholder can only be represented by one person.

The Articles of Association are available at www.sonova.com/en/investors/articles-association.

Independent Proxy and electronic voting

Andreas G. Keller was elected as the Independent Proxy by the AGM 2018 for the period until completion of the AGM 2019.

Sonova Holding AG offers shareholders the option of using an online platform and of granting proxy and providing voting instructions to the Independent Proxy electronically.

Statutory quorums

According to Art. 15 of the Articles of Association, resolutions and elections by the General Shareholders' Meeting require the approval of a relative majority of the votes cast, taking voting right restrictions into account, except as otherwise provided by law or the Articles of Association (available at www.sonova.com/en/investors/articles-association).

Convocation of the General Shareholders' Meeting

The ordinary AGM is held within six months following the close of the financial year.

Extraordinary General Shareholders' Meetings may be called as often as necessary, especially if required by law.

General Shareholders' Meetings are convened by the Board of Directors and, if necessary, by the auditors. Shareholders with voting rights, who together represent at least 10% of the share capital, may request that the Board of Directors convene an Extraordinary General Shareholders' Meeting, provided that they do so in writing and set forth the reason for the meeting (Art. 11 of the Articles of Association; http://www.sonova.com/en/investors/articles-association).

Inclusion of items on the agenda

According to Art. 12 para. 3 of the Articles of Association (available at www.sonova.com/en/investors/articles-association) Shareholders with voting rights who represent at least 1% of the share capital may request that an item be put on the agenda for discussion by indicating the proposal or motion. Such requests must be addressed in writing to the Chairman of the Board of Directors no later than 60 days before the meeting.

Registration in the share register

For administrative reasons, the share register is closed approximately one week prior to the date of the General Shareholders' Meeting (the exact date is communicated in the invitation to the General Shareholders' Meeting). Admission cards and voting forms are sent to shareholders during this period. The shares can be traded at any time and are not blocked.

Changes of control and defense measures

Duty to make an offer

The Articles of Association of Sonova Holding AG do not contain provisions for opting out or opting up. The result is that an investor who directly, indirectly, or in concert with third parties acquires shares in the company and, together with the shares he already possesses, thereby exceeds the 33 ⅓% threshold of voting rights in the company is required to submit an offer for all shares outstanding, according to Swiss stock exchange law. The Articles of Association are available at www.sonova.com/en/investors/articles-association.

Clauses on changes of control

In case of a change of control and a related termination of employment (double trigger), unvested equity instruments granted under the EEAP vest on a pro-rata basis only.

Securities trading policy

The Board of Directors maintains a policy that prohibits the use of confidential information by corporate insiders. It institutes blocking periods to prevent insiders from trading in securities of Sonova Holding AG during sensitive time periods and requires pre-trading clearance for members of the Board of Directors, the Management Board, and selected employees.

Auditors

Duration of the mandate and term of office of the lead auditor

At the AGM on July 5, 2001, PricewaterhouseCoopers AG was elected auditor for Sonova Holding AG and the Sonova Group. At the AGM 2018, PricewaterhouseCoopers AG was re-elected for another one-year term. Sandra Boehm has served as lead auditor for the existing auditing mandate since June 18, 2013. At its February 2019 meeting the Audit Committee discussed the relationship with external auditors and agreed to issue tenders to newly assign the audit mandate for the 2020/21 financial year, permitting PricewaterhouseCoopers AG to participate in the process.

Fees

PricewaterhouseCoopers charged the following fees during FY 2018/19 and 2017/18:

1,000 CHF	2018/19	2017/18
Audit services	1,848	1,974
Audit-related services	4	6
Tax services	39	59
Non-audit services	9	25
Total	**1,900**	**2,064**

Audit services are defined as the standard audit work performed each year in order to issue an audit opinion on the parent company and consolidated financial statements of the Sonova Group, as well as opinions on the local statutory financial accounts or statements. Also included is extra work within the audit that can only be provided by the Sonova Group auditor, such as auditing of non-recurring transactions or the implementation of new accounting policies, as well as consents and comfort letters in relation to regulatory filings.

Audit-related services consist of support to the audit, such as providing advice on new accounting rules; this could be provided by sources other than the auditor who signs the audit report.

Tax services consist of services in connection with compliance with tax laws.

Non-audit services mainly consisted of consulting fees in connection with local regulatory requirements.

The values of audit, audit-related, tax, and non-audit services are in line with ratios suggested by commonly applied good practice standards that relate to the independence of auditors. A formal policy issued by the Audit Committee is in place that regulates all non-audit assignments of the auditors.

Informational instruments pertaining to the external audit

The external auditors report their findings semi-annually directly to the Audit Committee of the Board of Directors. In FY 2018/19, the external auditors attended 3 out of 4 Audit Committee meetings physically or by telephone conference. The Audit Committee of the Board of Directors reviews the performance, compensation, and independence of the external auditors on a regular basis. The Audit Committee reports its findings to the Board of Directors quarterly.

Information policy

The Sonova Group pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time. It is our aim to inform our shareholders, employees, and business partners in the most direct, open, and transparent way possible about our strategy, our global activities, and the current state of the company.

All publications are made available to all shareholders, the media, and the stock exchange at the same time. All shareholders entered in the share register automatically receive the summary report and an invitation to the AGM of Sonova Holding AG. Sonova uses a news service that delivers press releases to interested stakeholders.

The website of the Sonova Group, www.sonova.com, contains information on the company results and the financial calendar as well as current investor presentations. The Investor Relations function includes presentations of annual and interim results, investor presentations, and presentations held at other events.

On the www.sonova.com/en/registration website, it is possible to subscribe to news alerts about Sonova via email. Messages are sent in English and German, and it is possible to state theme preferences for the alerts received. All Sonova media releases can be found at www.sonova.com/en/media/news.

More information tools, permanent sources of information, and contact addresses are shown at the end of this annual report.

Compensation report

Sonova is all about people: we strive to be a strong team working together, with and for our customers, to succeed in the market. This is why we need to be able to attract and retain skilled, dedicated, and ambitious colleagues to 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 process 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 2019 Annual General Shareholders' Meeting (AGM). It has the following structure:

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,

I am pleased to present to you the 2018/19 compensation report, which describes how our compensation system links to the company strategy and business results, and how it aligns with the interests of our shareholders, rewarding performance in the context of the business and the market. It also explains how we in the Nomination and Compensation Committee (NCC) carried out our objectives and responsibilities in the financial year.

All efforts of employees, the Management Board, and the Board of Directors during the financial year have again been focused on achieving the ambitious targets we set ourselves.

Our compensation framework is continuously reviewed, with adaptations made as and when deemed appropriate, taking into consideration our ongoing dialog 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 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.

During the reporting year, following last years' amendments to the Executive Equity Award Plan (EEAP), the previous introduction of claw-back and forfeiture provisions on the Variable Cash Compensation (VCC), as well as the update of the share ownership guidelines, the NCC focused on overseeing implementation and execution. It also conducted a compensation benchmark review for both the Board of Directors and the Management Board, as well as deciding on the following changes:

- Board of Directors: Disclosure of the restricted shares based on their tax value is discontinued with this compensation report, and future overall Board of Directors compensation will be reduced to approximately offset this change in reporting.
- Management Board: We pursue a pragmatic, moderate course in our compensation approach, making changes only if and when they are deemed necessary and appropriate. Such changes are generally in line with those across the organization, with exceptions in cases such as a change to a position. There were therefore no major changes made to the Management Board compensation components beyond those disclosed in the 2017/18 compensation report, including the one-time transition arrangement in February 2019 under the EEAP.

Further details are provided below in this compensation report.

As announced on February 15, 2019, Anssi Vanjoki does not stand for re-election at the AGM 2019. At the beginning of the 2018/19 financial year, and as outlined in the last compensation report, Arnd Kaldowski took over as Chief Executive Officer (CEO) from Lukas Braunschweiler, who in turn became a member of the Board of Directors. Other changes at the Management Board level were announced but will only be effective for the 2019/20 financial year.

The NCC continued to perform its regular activities throughout the year, such as 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 the term of office is expected to be within the limit approved by the AGM 2018. The compensation awarded to the members of the Management Board is also within the limit approved by the AGM 2017.

At the AGM 2019, 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 on the maximum aggregate compensation amounts for the Board of Directors for the next term of office and for the Management Board for the 2020/21 financial year.

Transparency remains high on our agenda and building further on prior year improvements we continue to enhance disclosure of targets and achievements under the VCC and the EEAP.

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 and to meeting you at the AGM.

Yours sincerely,

Robert Spoerry
Chairman of the Nomination
and Compensation Committee

2. Compensation policy and principles

To support the objective of engaging the best talent needed to ensure our success and to maintain our position as globally leading manufacturer and provider of innovative hearing care solutions and services, Sonova's 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 the company's values of innovation, engagement and responsibility as well as our high standards of integrity.

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

The compensation of the Management Board consists of fixed and variable, performance-based compensation components. The base salary and benefits form the fixed components and are determined based on current market practice. Targets for the short-term and long-term incentives are defined at the beginning of each financial year and assessed at the end of the term, and not revisited during the respective incentive period.

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 on the VCC. Finally, 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 61 years and the average length of service is 8 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 over the last three years, and have no or only comparatively minor business relations with the Company.

Lukas Braunschweiler, former CEO and member of the Board of Directors since the AGM 2018, is not considered as independent according to these rules. For the time being, he will not be a member of any board committees.

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

Board of Directors fees are structured for consistency with principles 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 2018/19 financial year, it held four meetings covering, among others, the following pre-defined recurring agenda items:

Item	May Beginning of the financial year	August	November	February End of the financial year
Compensation policy & process		– Review of compensation policy and programs	– Preview 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
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	– Review of MB compensation benchmarks	– Review of Sonova's succession planning at MB level as covered in the full BoD – Diversity at Sonova	– Equity valuation (options and Performance Share Units/PSU) – Target compensation (including the EEAP grant) review for the following financial year
Board of Directors (BoD) matters		– Review of BoD compensation benchmarks		
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 self-assessment		– Review 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.

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

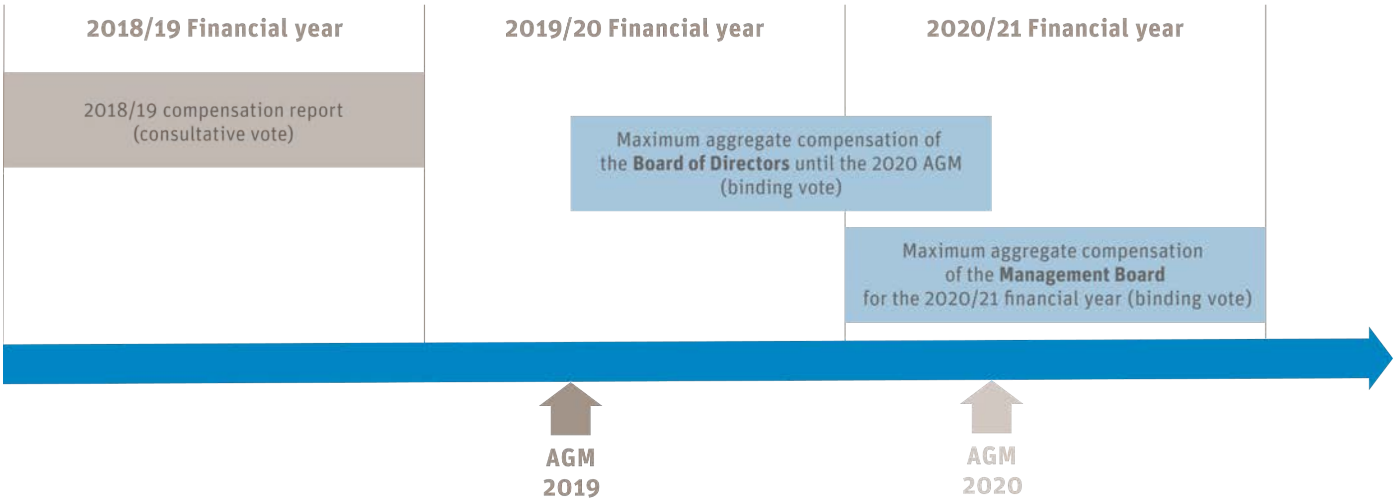
The NCC may decide to consult external advisors for specific compensation matters. In the reporting year, Willis Towers Watson was mandated to conduct the above mentioned two compensation benchmarking analyses. Aon Hewitt is tasked with the PSU valuation and performance measurement under the EEAP and Algofin performs the option valuation. In addition, support and expertise is provided by internal compensation experts such as the GVP HRM and the VP Compensation & Benefits.

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 dialog 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 2019 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 into 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).

Therefore, the maximum aggregate compensation amount submitted to shareholders' vote is potentially 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 AGM 2014. The Articles of Association include the following provisions on compensation:

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

The Articles of Association are available in their entirety online: www.sonova.com/en/investors/articles-association

3.4 Process of determining compensation

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 in this reporting year to help determinate 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 (also incorporating input of shareholders and proxy advisors) revealed the preference to change the historic disclosure practice of the restricted shares at tax value; it also showed that, although the overall fees paid to members of the Board of Directors are in line with the market, they should be re-aligned in terms of the structure of board retainer and committee fees (see section 4.2 for more information).

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. A balanced peer group of companies was considered for the review, consisting 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.

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

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 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, and they 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), a meeting attendance fee, and a travel allowance.

Compensation structure AGM 2018 to AGM 2019

Annual fees in cash in CHF	Chairman[1]	Board members excl. Chairman
Cash retainer	500,000	100,000
Vice-Chairman	n.a.	15,000
Chairman of Audit Committee (AC)	n.a.	25,000
Chairman of NCC	Included in cash retainer	15,000
Member of NCC/AC	n.a.	7,500
Meeting attendance fee[2]	Included in cash retainer	500
Travel allowance[2]	500	500

Restricted shares in CHF	Chairman	Board members excl. Chairman
Market value at grant[3]	400,000	200,000

1) Including work and attendance in the NCC and AC
2) Multiplied by the number of meetings attended
3) 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. The discount, which reflects the practice of the Swiss tax authorities, considers further the circumstances that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period.

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 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.

Changes in compensation

As mentioned, the structure and level of compensation of the Board of Directors was reviewed in the reporting year, and the following amendments were approved:

2018/19 compensation report: The restricted shares were historically disclosed based on their tax value; they are now disclosed based on their market value as at the date of grant. The compensation of the Board of Directors was significantly reduced in 2011 and no changes have been made since. The aforementioned disclosure change could lead to the conclusion that the compensation was increased. However, this is not the case, as changes are purely a result of the combination from the change in reporting as well as the additional member of the Board of Directors (see also section 5.1).

Fees for the next term of office from the AGM 2019 to the AGM 2020 (subject to AGM approval): The meeting attendance fee will be discontinued and the overall compensation will be reduced to approximately offset the higher value due to the change in reporting: The cash retainer for the Chairman as well as the restricted shares for both the Chairman and the other Board members are reduced. The committee fees are increased in alignment with ever increasing requirements and the market.

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

Further information regarding the planned total compensation amounts of the Board of Directors for the period from the AGM 2019 to the AGM 2020 is provided in the invitation to the AGM 2019.

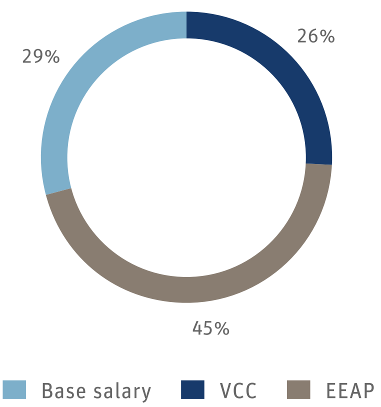
4.3 Management Board compensation system

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

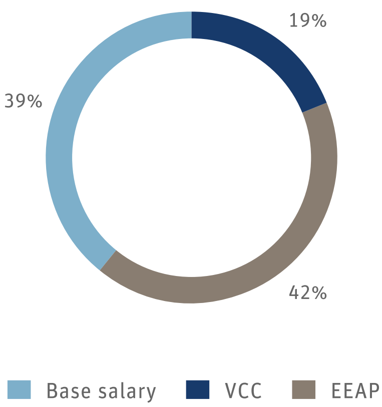
- A fixed base salary
- A short-term cash incentive award (VCC)
- A long-term equity incentive award (EEAP); and
- Employee benefits, such as pension benefits, flat rate cash car allowance, expense allowance, relocation benefits for certain affected members, as well as social security contributions.

The charts below illustrate the compensation mix excluding employee benefits at target for the CEO, Arnd Kaldowski, and the Management Board in the 2018/19 financial year:

Compensation mix of the CEO, Arnd Kaldowski



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



[1] average mix

The table below provides an overview of the compensation components of the Management Board, with more details on the following pages:

	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: **153%** Range of fixed base salary: **0%–210%**	
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 **132%** Range of fixed base salary: **0%–198%**	

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.

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 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 are sales, EBITA, FCF, and EPS. Business unit performance objectives 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 referenced 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 between 60% and 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 five 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)
Group objectives					
Sales	20%	10%–20%	0%	100%[1]	200%
EBITA		10%–20%			
FCF	10%–20%	10%–20%			
EPS	30%–40%				
Business objectives[2]					
Sales		20%–30%	0%	100%	200%
EBITA		20%			
OPEX		10%–20%			
ASP		10%			
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)

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

As part of last years' EEAP review it was decided to continue with a split award with a portion 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 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 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 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. The target is ambitious, representing a multiple of the weighted average cost of capital. Payout levels on ROCE performance between the threshold and the target are determined by linear interpolation. There is no provision for over-achievement in the EEAP; the proportion of options that can vest ranges from 0% to 100%.

Performance Share Units

From February 2018 onwards, the EEAP comprises of options and PSUs (the latter replacing the previous Restricted Share Units). 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.

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

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. Furthermore, in the event that 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.

One-time transition arrangement under the previous EEAP

As approved by the AGM 2017, a one-time RSU transition grant was awarded to members of the Management Board in February 2019. The purpose of this transition grant was to compensate affected members of the Management Board in office as of April 1, 2017 for the reduction in total target earning opportunity that will occur in 2019 and 2020 as a result of the longer vesting periods by changing from RSUs to PSUs.

Summary of the EEAP instruments

EEAP 2019			
Equity	**Options**	**PSUs** [1]	**RSUs (one-time transition arrangement)** [2]
Grant Date	February 1, 2019	February 1, 2019	February 1, 2019
Fair Value (to derive number of instruments granted)	Based on Enhanced American Model valuation	Based on Monte Carlo Model valuation	Sonova closing SIX share price on February 1, 2019 adjusted for expected dividends and interest rate
Exercise/Strike Price	**CHF 182.40** (Sonova closing SIX share price on February 1, 2019)	n.a.	n.a.
Vesting Date	25% vests on June 1, 2020 25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023	3 years + 4 months cliff vesting 100% vest on June 1, 2022	25% vests on June 1, 2020 25% vests on June 1, 2021 25% vests on June 1, 2022 25% vests on June 1, 2023
Vesting multiple	0%–100% of grant (ROCE)	0%–200% of grant (capped at 100% if the absolute TSR is negative) Floor: 20%tile TSR (multiple = 0) Target: 50%tile TSR (multiple = 1.0) Cap: 80%tile TSR (multiple = 2.0) linear interpolation in between	0%–100% of grant (ROCE)
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)	Number of RSUs which vest depends on the achievement level of the ROCE target
Exercise Period	After vesting until expiry of the options	n.a.	n.a.
Maturity/Expiry Date	Total 10 years (January 31, 2029)	No restriction after vesting	No restriction after vesting

1) PSUs applicable to all members of the Management Board
2) RSU's applicable as one-time transition arrangement for MB members in office as of April 1, 2017 only

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

In the event of termination of employment, vested options can be exercised within a 60-day period. Unvested awards (options, RSUs, PSUs) are forfeited on termination, with the following exceptions:

- In case of death or disability, unvested options and RSUs vest immediately and unvested PSUs according to the regular vesting schedule. 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 vested options are exercisable for a period of 12 months. 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 April 1st, 2017 whose date of termination occurs between the grant date 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. 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 the strategy of Sonova and therefore could create a competitive disadvantage to Sonova.

Therefore, 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 clearly comment on the different target achievements and respective payout at the end of the relevant period. The overall target achievement for VCC and EEAP as well as the target achievement of rTSR will be disclosed (see section 5.2 for more information related to the overall quantitative achievements).

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.

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 fixed value in shares.

The members of the Management Board are required to maintain a minimum shareholding 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 and 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.

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 2018/19 financial year (9 members from the AGM 2018) and for the 2017/18 financial year (8 members). The total compensation in the 2018/19 financial year was CHF 3.4 million based on the grant value of the restricted shares (2017/18: CHF 3.1 million).

Board of Directors compensation

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 and the tax value of options exercised and restricted shares granted during the financial year. The total compensation including the employer social security contributions in the financial year, amounts to CHF 3,321,011 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).

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).

in CHF						2017/18
	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	402,769	905,269	54,572
Beat Hess Vice-Chairman of the Board of Directors Member of the Nomination and Compensation Committee	122,500	8,000	130,500	201,310	331,810	16,912
Lynn Dorsey Bleil	100,000	5,500	105,500	201,310	306,810	18,434
Stacy Enxing Seng Member of the Nomination and Compensation Committee	107,500	8,000	115,500	201,310	316,810	19,076
Michael Jacobi Chairman of the Audit Committee	125,000	8,000	133,000	201,310	334,310	42,408
Ronald van der Vis Member of the Audit Committee	107,500	7,500	115,000	201,310	316,310	39,245
Anssi Vanjoki Member of the Audit Committee	107,500	8,000	115,500	201,310	316,810	19,076
Jinlong Wang	100,000	6,000	106,000	201,310	307,310	18,434
Total (active members)	**1,270,000**	**53,500**	**1,323,500**	**1,811,939**[4]	**3,135,438**[4]	**228,157**

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 and restricted shares granted during the financial year. The total compensation including the employer social security contributions in the financial year, amounts to CHF 2,941,711 based on the tax value of the restricted shares (approach applied for the purposes of the AGM 2017 vote).

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

4) Equals CHF 1,390,054 for the value of the shares and CHF 2,713,554 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. The discount, which reflects the practice of the Swiss tax authorities, also takes account of the fact that restricted shares are not tradable and cannot be pledged and are therefore subject to the full share volatility during the blocking period. In addition, for tax purposes the volume-weighted average price on grant date was used whereas the market value per share corresponds to the closing price at grant date. Calculation of the value of restricted shares: The tax discounted value per restricted share at grant date for the Chairman of the Board of Directors was CHF 109.14, and for the other members of the Board of Directors CHF 115.68 (approach applied for the purposes of the AGM 2017 vote).

Explanatory comments to the compensation tables

After the compensation reduction in 2011 no structural Board compensation changes have been made. The restricted shares were historically disclosed based on their tax value. As outlined before, this practice is now aligned with market practice to a disclosure based on the grant market value as at the date of allocation. The data is disclosed on a comparable basis in the tables above for both the financial year 2017/18 (including restatement) and for the financial year 2018/19 using the grant market value for the restricted shares with the tax value provided in the footnotes.

Note that the Board of Directors amounts reported in the tables do not necessarily correspond to the amounts voted as the reporting period follows the Sonova financial year, whereas the voting follows the term of office and hence 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 AGM 2018 to the AGM 2019 is expected to be CHF 3.4 million at grant value and CHF 3.0 million at tax value; this is based on the approach described in the AGM invitation of using the tax value for the restricted shares, which comes to CHF 3.0 million. The total compensation is within the limit of CHF 3.13 million as approved by the AGM 2018.

in CHF 1,000	Approved for AGM 2017 – AGM 2018[1]	Effective for AGM 2017 – AGM 2018[1]	Approved for AGM 2018 – AGM 2019[1]	Expected for AGM 2018 – AGM 2019[1]
AGM approval year		**2017**		**2018**
Total compensation	**3,000**[2]	**2,934**[2]	**3,130**[3]	**2,991**[3]
Breakdown total compensation:				
Fixed fees including meeting attendance and expenses	1,453	1,324	1,518	1,440
Mandatory employer's social security contributions	185	219	n/a	n/a
Tax value of restricted shares	1,362	1,391	1,612	1,551
Number of members of the Board of Directors	**8**	**8**	**9**	**9**

1) Based on tax value for restricted shares (approach applied for the purposes of the AGM 2018 and the AGM 2017 vote).
2) Including social security contributions (approach applied for the purposes of the AGM 2017 vote).
3) Excluding social security contributions (approach applied for the purposes of the AGM 2018 vote forward).

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

No other compensation was paid for additional services 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 former or current member of the Board of Directors.

No loans were granted by Sonova or any other Group company to present or former members of the Board of Directors in the 2018/19 financial year, and no such loans were outstanding as of March 31, 2019. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present 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 management: at the Group level, sales, EBITA, EPS and FCF; and additionally at the business level, ASP and OPEX.

Group sales were above target. While the hearing instruments and audiological care business exceeded their growth target, the cochlear implants business was slightly below, held back by slow growth in upgrades and lower sales related to government tenders in a number of markets. All regions contributed to organic growth, with EMEA growing the strongest.

EBITA achievement in the hearing instruments segment did not fully meet target, as a result of adverse developments against the currencies as budgeted. Partly due to exchange rate impacts and despite efficiency measures, the EBITA in the cochlear implants segment was below target. However, the results were significantly above the previous year.

As a result of these adverse currency developments, both Group EBITA and EPS fell slightly short of the respective target. For the assessment of these targets, the restructuring costs related to further improvements of the local operating structure in the UK, Germany, and Canada were excluded.

Driven by an increased level of trade receivables and inventory as a result of the strong sales acceleration towards the end of the fiscal year, FCF fell short of target, which is fully reflected in the VCC.

On average, individual qualitative targets for management were slightly over-achieved.

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%.

In the 2018/19 financial year and mainly driven by the outlined adverse currency impact, the overall weighted VCC achievement level was 95.5% for the CEO (2017/18: 104.2% for the previous CEO) and between 91.7% –100.4% (2017/18: 99.6%–112.1%) for the other members of the Management Board. This resulted in an average variable cash payout to Management Board members, including the CEO, of 89.2%, whereas the respective average overall payout ratio was 119.3% in the previous year.

The highest total compensation for a member of the Management Board in the 2018/19 financial year was paid to Arnd Kaldowski, who took on the role of CEO on April 1, 2018 (the beginning of the financial year). A one-time replacement award for forfeited deferred compensation entitlement awards granted by his former employer was awarded in February 2018 and disclosed in the 2017/18 compensation report.

Two new members of the Management Board were announced on November 16, 2018 and have taken on their roles as of April 1, 2019. Their compensation will be included in next year’s compensation report.

The following tables show the compensation of the CEO and of the other members of the Management Board for the 2018/19 financial year (9 members) and for the 2017/18 financial year (10 members).

Only modest changes to current levels of compensation are foreseen for the 2019/20 financial year. As a basic principle, any changes are kept small and specific, and aligned with those across the organization, as well as with data from executive compensation surveys and published benchmarks from companies of similar size.

Management Board compensation

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

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

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

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

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

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

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

in CHF									2017/18
	Fixed base salary	Variable compensation 1)	Fringe benefits	Employer's pension contribution	Total cash compensation	Value of PSUs (RSUs) 2)	Value of options 3)	Total compensation	Employer's social security contribution 4)
Lukas Braunschweiler, CEO	600,000	472,293	60,630	123,712	1,256,635	393,736	656,236	2,306,607	109,159
Arnd Kaldowski, COO 5)	447,092	499,488	61,886	56,363	1,064,829	487,451	1,812,475	3,364,755	62,511
Other members of the MB 6)	3,486,080	2,137,192	397,152	703,281	6,723,705	1,648,008	1,648,390	10,020,103	975,336
Total	**4,533,172**	**3,108,973**	**519,668**	**883,356**	**9,045,169**	**2,529,195**	**4,117,101**	**15,691,465**	**1,147,006**

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

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

2) Fair value per PSU at grant date CHF 118.63. Fair Value on PSUs is based on 100% target achievement; this is an appropriately balanced approach, taking account of the possibility of either over- or under-achievement. RSUs granted only to Lukas Braunschweiler. Fair value per RSU at grant date CHF 140.62.

3) Fair value per option at grant date CHF 20.77. For Arnd Kaldowski this also includes the one-time, non-recurring performance option grant with a value of CHF 21.09.

4) Employer social security contributions including the tax value of 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 16,838,471 (approach applied for the purposes of the 2017 Annual General Shareholder Meeting vote).

5) Member of the Management Board since October 1, 2017 in the role of COO and to transition to the role of CEO as of April 1, 2018. Total compensation for the period from October 1, 2017 until March 31, 2018.

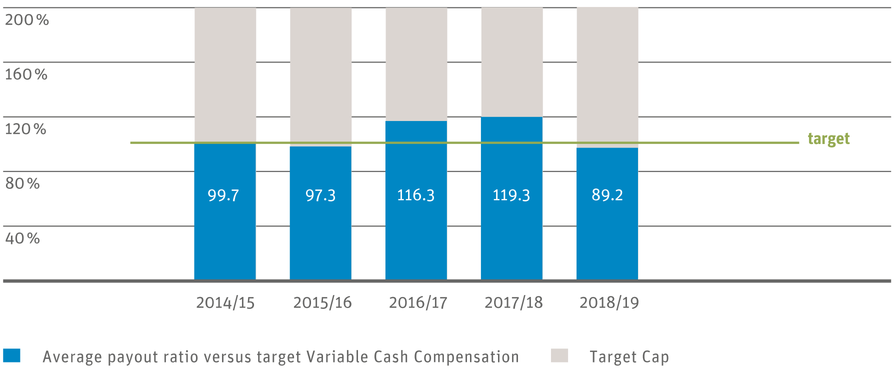
6) Including Sarah Kreienbühl and Franz Petermann for the full 2017/18 until contractual end date.

Explanatory comments to the compensation tables:

- The total compensation of CHF 13.1 million for the 2018/19 financial year is below the total of CHF 16.8 million for the previous year.
- The financial year 2017/18 included reduced compensation for the previous CEO to reflect his reduced responsibilities during transition period, the total compensation of the new CEO in his previous role as COO, and his one-time replacement grant of performance options for forfeited deferred compensation entitlements from his previous employer.

- The fixed compensation has decreased by 10% compared to the previous year. This is also due to the different composition of the Management Board, as mentioned above.
- The lower VCC payout based on the Group, business, and individual objective achievements is outlined in the paragraphs above the tables.
- The total EEAP grant value awarded decreased, due to a combination from the different composition of the Management Board, the one-time replacement award for the new CEO in the previous year as well as the one-time transitional RSU arrangement as a result of changing from RSU to PSU.
- The fringe benefits, the employer's pension contributions as well as the social security contributions decreased in line with the changes mentioned above.

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 2018/19 financial year, CHF 13.1 million (including social security contributions as per historical practice), is below the maximum aggregate compensation amount of CHF 16.9 million approved at the AGM 2017 for the 2018/19 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 the 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 AGM 2019.

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

No other compensation was paid 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 former or current member of the Management Board.

No loans were granted by Sonova or any other Group company to present or former members of the Management Board in the 2018/19 financial year, and no such loans were outstanding as of March 31, 2019. Furthermore, neither Sonova nor any other Group company has granted any loans to related parties of present 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 tables show the equity of the individual members of the Board of Directors and persons closely linked to them.

				31.03.2019			31.03.2018
	Shares	Restricted Shares[1]	RSUs	Options	Shares	Restricted Shares[2]	Options
Robert F. Spoerry, Chairman	34,446	17,498			29,780	18,972	
Beat Hess, Vice-Chairman	3,438	7,140			1,833	7,649	
Lynn Dorsey Bleil, Member		3,961				2,865	
Lukas Braunschweiler, Member[3]	19,862	1,096	7,152	165,577	n/a	n/a	n/a
Stacy Enxing Seng, Member		7,140				6,044	
Michael Jacobi, Member	2,481	7,140			4,876	7,649	
Ronald van der Vis, Member		7,140			2,355	7,649	
Anssi Vanjoki, Member	5,481	7,140			3,876	7,649	2,558
Jinlong Wang, Member	1,605	7,140				7,649	
Total (active members)	**67,313**	**65,395**	**7,152**	**165,577**	**42,720**	**66,126**	**2,558**

1) These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.
3) New member of the Board of Directors since June 2018.
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.

The following table shows a detailed breakdown of the outstanding options of the members of the Board of Directors of the previous option plan for members of the Board of Directors which has been phased-out in the meantime.

	31.3.2019	31.3.2018
	Options EEAP 12[1]	Options EEAP 12[1]
Anssi Vanjoki		2,558
Total (active members)	**–**	**2,558**

EEAP 2017 and 2018, no options or warrants were granted for members of the Board of Directors as of the applicable grant dates – 100 % restricted shares. The outstanding options granted to the former CEO, Lukas Braunschweiler, are not included in the option table above but summarized in the overall equity table.

1) Exercise price CHF 95.85, vesting period 1.2.2012 – 1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013 – 31.1.2019.

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.

	31.03.2019				31.03.2018			
	Shares[1]	PSUs	RSUs	Options	Shares[1]	PSUs	RSUs	Options
Arnd Kaldowski[2]	6,599	6,406		119,444	6,599	4,109		86,543
Hartwig Grevener	6,991	2,834	3,280	36,603	5,209	1,854	4,431	61,680
Claudio Bartesaghi[3]	325	1,440	425	13,542[5]	1,032	872	718	8,661[5]
Claude Diversi	3,000	2,856	3,080	35,665	2,250	1,854	3,971	36,207
Hansjürg Emch	7,696	1,854	2,649	57,680	8,544	1,854	4,431	62,710
Christophe Fond	0	2,943	1,989	29,764	0	1,896	1,790	24,078
Martin Grieder	3,000	2,834	3,280	45,136	2,000	1,854	3,980	36,714
Hans Mehl	3,118	1,854	3,280	28,181	5,036	1,854	4,431	39,464
Andi Vonlanthen	16,943	2,856	3,280	70,294	15,161	1,854	4,431	66,231
Total (active members)	**47,672**	**25,877**	**21,263**	**436,309**	**45,831**	**18,001**	**28,183**	**422,288**
Lukas Braunschweiler[4]					17,061		9,953	191,152
Total (including former members)	**47,672**	**25,877**	**21,263**	**436,309**	**62,892**	**18,001**	**38,136**	**613,440**

1) Shares are dividend entitled with full voting rights.
2) Member of the Management Board since October 1, 2017.
3) Member of the Management Board since October 1, 2017.
4) Member of the Management Board until March 31, 2018.
5) 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	1,292,744	129	1.4
Other members of the MB[3]	397,735	200,000	903,662	452	2.3

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 29, 2019.
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.

31.03.2019	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).

								31.3.2018
	Options EEAP 18[1]	Options EEAP 17[2]	Options EEAP 16[3]	Options EEAP 15[4]	Options EEAP 14[5]	Options EEAP 13[6]	Options EEAP 12[7]	Total options
Lukas Braunschweiler	31,603	38,625	25,788	27,173	21,719	20,669	25,575	191,152
Arnd Kaldowski	86,543[9]							86,543
Hartwig Grevener	10,594	12,948	10,315	10,869	8,687	8,267		61,680
Claudio Bartesaghi[8]	4,984	2,148[10]	1,529					8,661
Claude Diversi	10,594	12,507	7,737	3,836	1,533			36,207
Hansjürg Emch	10,594	12,948	10,315	10,869	8,687	8,267	1,030	62,710
Christophe Fond	10,835	13,243						24,078
Martin Grieder	10,594	12,948	7,737	5,435				36,714
Hans Mehl	10,594	12,948	8,315	5,435	2,172			39,464
Andi Vonlanthen	10,594	12,948	10,315	10,869	8,687	8,267	4,551	66,231
Total	**197,529**	**131,263**	**82,051**	**74,486**	**51,485**	**45,470**	**31,156**	**613,440**

1) 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.
2) 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.
3) 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.
4) 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.
5) 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.
6) 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.
7) Exercise price CHF 95.85, vesting period 1.2.2012–1.6.2016 whereas one tranche being vested each year, exercise period 1.6.2013–31.1.2019.
8) Member of the Management Board since October 1, 2017.
9) 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 – 30.9.2017.
10) 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
COO Chief Operating Officer
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
SLI Swiss Leaders Index
SMIM Swiss Market Index Mid
VCC Variable Cash Compensation

pwc

Report of the statutory auditor on the compensation report

We have audited the accompanying remuneration report of Sonova Holding AG for the year ended 31 March 2019. 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.

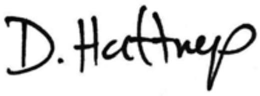
An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of 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 2019 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, 17 May 2019

Enclosure:

- Compensation report

Financial reporting

In the 2018/19 financial year, Sonova generated sales of CHF 2,763.2 million, an increase of 4.4% in Swiss francs and 4.1% in local currencies. Adjusted Group EBITA reached CHF 594.0 million, up 7.7% in Swiss francs or 6.7% in local currencies.

Sales driven by organic growth – Momentum accelerating

In the 2018/19 financial year Sonova Group sales reached CHF 2,763.2 million, an increase of 4.4% in Swiss francs. In local currencies, sales increased by 4.1%, representing an organic growth of 4.9%, while the net impact of acquisitions and divestments reduced growth by 0.8%. Disposals consisted of the sale of the US hearing service plan business as well as the streamlining of the US store network. Exchange rate fluctuations had a small positive impact, and contributed 0.3% to the reported growth in Swiss francs, due to the strength of the Euro and US dollar.

Sales driven by strong performance in the EMEA region

Europe, Middle East and Africa (EMEA), the Group's largest region, achieved a strong increase in sales of 8.3% in local currencies. This was driven by the successful introduction of Phonak Marvel in November 2018, generating double-digit growth in the hearing instruments business since the launch, in particular in Germany and France. The audiological care business in the region grew by mid-single digits and benefited from strengthened operational execution after the AudioNova acquisition and the completion of streamlining activities in the Netherlands. Sales in the cochlear implants business were mainly driven by strong upgrade sales. The EMEA share of Group sales increased from 53% in 2017/18 to 55% in the period under review.

As a result of previously announced divestments, sales in the United States declined by 3.7% in local currency but were up 2.3% excluding these divestitures. In the hearing instruments business, the successful introduction of Phonak Marvel to independent customers and a next generation Phonak Brio product at Costco drove strong growth in their respective channels in the second half. Sales to the US Department of Veterans Affairs (VA) declined ahead of the upcoming launch of Phonak Marvel in this channel in May 2019. The streamlining and strategic repositioning of the audiological care store network was completed mid-year and sales on a same-store basis accelerated strongly compared to the prior year. Following the launch of the HiRes™ Ultra 3D implant in September, growth in the cochlear implants business accelerated. The region accounted for 27% of Group sales in 2018/19, versus 28%

in the prior year. The rest of the Americas (excluding the US) posted a 2.7% sales increase in local currencies; this reflects, in the cochlear implants business, reduced tender activity compared to the previous year in Latin America and, in the hearing instruments business, pricing pressures in the public channel affecting sales in Canada.

Sales in the Asia/Pacific (APAC) region rose by 5.4% in local currencies, with both the hearing instruments and the audiological care business growing in the high single digits. Geographically, results were mixed, with a double digit growth in New Zealand compensating for weaker growth in Australia, Japan, and China. This was partly due to lower demand ahead of the upcoming Phonak Marvel launch in China and Japan. Sales in the cochlear implants business grew in the high teens excluding the impact of lower deliveries under central government tenders in China.

Sales by regions

in CHF m			2018/19		2017/18
	Sales	Share	Growth in local currencies	Sales	Share
EMEA	1,521.0	55%	8.3%	1,398.8	53%
USA	746.7	27%	-3.7%[1]	759.6	28%
Americas (excl. USA)	228.5	8%	2.7%	230.8	9%
Asia/Pacific	267.0	10%	5.4%	256.7	10%
Total sales	**2,763.2**	**100%**	**4.1%**	**2,645.9**	**100%**

1) Excluding divestments: +2.3%

Solid margin development

Reported gross profit reached CHF 1,966.2 million. This included restructuring costs of CHF 8.8 million for the streamlining of operations in the UK, Germany, and Canada. Adjusted for these costs, gross profit reached CHF 1,975.1 million, an increase of 5.7% in Swiss Francs and 5.3% in local currencies. The adjusted gross profit margin was 71.5%, up from 70.6% in the prior year. The improvement was driven by an increased share of the audiological care business, overall higher unit volumes, and a rise in average sales price (ASP) in the hearing instruments business during the second half year. In the cochlear implants segment, the gross margin improved significantly due to manufacturing cost improvements, the higher ASP of the new HiRes Ultra 3D implant, and a reduction in deliveries under lower margin China central government tenders.

Excluding acquisition-related amortization, operating expenses were CHF 1,383.7 million (2017/18: CHF 1,335.7 million). These included restructuring costs of CHF 2.6 million (2017/18: AudioNova integration costs of CHF 19.2 million). In the following, we refer to the operating expenses adjusted for these items. Adjusted operating expenses before acquisition-related amortization rose by 4.9% in Swiss francs or by 4.7% in local currencies to CHF 1,381.1 million, reflecting the sales growth and continued investment in research and development, sales, and marketing.

Adjusted research and development (R&D) expenses before acquisition-related amortization were CHF 147.8 million, an increase of 3.2% in local currencies, underpinning Sonova's continued commitment to innovation. Technology developments in the field of eSolutions, wireless connectivity, rechargeability, and audiological performance again represented an important share of R&D efforts. R&D spending as a percentage of sales was stable at 5.4%.

Adjusted sales and marketing costs before acquisition-related amortization were up 4.2% in local currencies to CHF 969.1 million. The increase reflects continued investment in expanding the audiological care store footprint and expansion of the sales force in the hearing instruments and cochlear implants businesses.

Adjusted general and administrative costs increased by 6.0% in local currencies to CHF 268.6 million, representing 9.7% of sales, up from 9.5% in the prior year. The increase includes patent litigation cost in the cochlear implants business and investment in a new integrated IT platform for our audiological care business; together, these account for more than half of the increase.

Other income for the current period was CHF 4.4 million, down from CHF 7.2 million in the prior year. The bulk of this income related to a provision release for cochlear implant product liabilities that resulted from better-than-expected development in related claims. Within the cochlear implants business, this provision release was broadly offset by the above mentioned litigation cost.

Adjusted operating profit before acquisition-related amortization (EBITA) was CHF 594.0 million (2017/18: CHF 551.6 million), an increase of 7.7% in Swiss francs or 6.7% in local currencies. The adjusted EBITA margin rose to 21.5% (2017/18: 20.8%), mainly reflecting the solid gross margin development. The reported EBITA increased by 9.4% in Swiss francs or 8.4% in local currencies to CHF 582.5 million, corresponding to a margin of 21.1%. Acquisition-related amortization amounted to CHF 46.3 million (2017/18: CHF 49.5 million). Reported operating profit (EBIT) reached CHF 536.2 million (2017/18: CHF 483.0 million), up by 11.0% in Swiss francs.

Sonova Group key figures

in CHF m unless otherwise specified	2018/19	2017/18	Change in Swiss francs	Change in local currencies
Sales	2,763.2	2,645.9	4.4%	4.1%
Gross profit	1,966.2	1,868.2	5.2%	4.8%
EBITA[1]	582.5	532.5	9.4%	8.4%
EBIT[1]	536.2	483.0	11.0%	10.0%
Basic earnings per share (CHF)	6.98	6.13	13.9%	
Operating free cash flow[1]	411.8	419.2	(1.8%)	
ROCE[1]	20.6%	18.4%		
Gross profit (adjusted)[1]	1,975.1	1,868.2	5.7%	5.3%
EBITA (adjusted)[1]	594.0	551.6	7.7%	6.7%
EBITA margin (adjusted)	21.5%	20.8%		
Basic earnings per share (CHF) (adjusted)[1]	7.11	6.36	11.7%	

1) For detailed definitions, please refer to “5 year key figures”.

Double-digit increase in earnings per share

Reflecting the growth in EBIT, basic earnings per share (EPS) reached CHF 6.98 (2017/18: CHF 6.13), a significant increase of 13.9% from the prior year. The adjusted EPS increased 11.7% to CHF 7.11. Net financial expenses, including the result from associates, increased from CHF 4.0 million to CHF 6.6 million. The effective tax rate was 13.1% (2017/18: 14.9%); the lower tax rate reflects the completed integration of AudioNova. Income after taxes was CHF 460.2 million (2017/18: CHF 407.4 million).

Headcount

The Group's total workforce at the end of the 2018/19 financial year was 14,740 full-time equivalents, an increase of 498 due to an increase in manufacturing capacity in Asia as well as customer facing staff in the audiological care and hearing instruments business. The expected reduction of the workforce by about 250 employees resulting from the restructuring program announced in March 2019 is not yet reflected in the year-end workforce number. Good progress was made in directing new hires to lower-cost locations.

Hearing instruments segment – New products and improved execution driving growth

Sales in the hearing instruments segment grew by 4.2% in Swiss francs and 3.9% in local currencies to CHF 2,524.8 million. Organic growth was 4.8%, while the contribution from acquisitions in the reporting period and the full-year effect of prior year acquisitions was 1.0%. Growth was reduced by 1.8% through the previously mentioned disposals. Exchange rate fluctuations, primarily a stronger Euro and US dollar, contributed 0.3% to growth in Swiss francs.

After a more moderate start to the year, the hearing instruments business, which includes sales to independent audiologists, retail chains, multinational and government customers, but excludes our own audiological care business, had an excellent last four months of the year following the launch of the Phonak Marvel platform in November 2018. Sales reached CHF 1,474.7 million, an increase of 2.0% in local currencies. Organic growth was 4.5%, in part offset by the disposal of the US hearing service plan business, reducing sales by 2.5%. Both Europe and Asia/Pacific achieved high single digit growth rates. The performance in the United States was held back by the upcoming product transition in the government channel (VA).

The audiological care business increased sales by 6.7% in local currencies to CHF 1,050.1 million; the increase was driven by organic growth of 5.2% along with bolt-on acquisitions, and partially offset by the disposal of a number of stores in the US. Many of the key markets, including Germany, New Zealand, Canada, and Italy, achieved above market growth rates. The streamlining and strategic repositioning of the business in the US and the Netherlands were successfully completed and the growth momentum in both countries accelerated significantly on a same store basis. France exhibited a slow-down in the second half of the year as a result of a reimbursement change in 2019 and the general economic environment. The roll-out is underway of a new integrated IT platform enabling better lead generation, consumer database management and store front and back office processes. This roll-out is global and will take three years to complete.

Sales by business – Hearing instruments segment

in CHF m			**2018/19**		**2017/18**
	Sales	Share	Growth in local currencies	Sales	Share
Hearing instruments business	1,474.7	58%	2.0%	1,441.6	59%
Audiological care business	1,050.1	42%	6.7%	981.5	41%
Total hearing instruments segment	**2,524.8**	**100%**	**3.9%**	**2,423.1**	**100%**

Reported EBITA for the hearing instruments segment amounted to CHF 563.1 million, up 7.1% in local currencies. The adjusted EBITA increased by 5.4% in local currencies to CHF 574.6 million, corresponding to an EBITA margin of 22.8% (2017/18: 22.3%). The segment achieved strong margin expansion through the sale of the low margin US hearing service plan business, tight cost controls, and a positive product and business mix.

Cochlear implants segment – Growth driven by new product introductions

The cochlear implants segment achieved sales of CHF 238.4 million, up 7.0% in Swiss francs and 6.3% in local currencies. The business achieved double-digit growth adjusted for the decreased level of sales under government tenders. Systems sales grew in high single digits, supported by the successful launch of the HiRes Ultra 3D implant. Upgrade revenue growth was moderate at 2.4% against a challenging prior year comparison, particularly in the US, but accelerated in the second half. The segment also benefited from an improved position in the private market in China resulting from the roll-out of the Naída CI processor.

Sales by product groups – Cochlear implants segment

in CHF m			2018/19		2017/18
	Sales	Share	Growth in local currencies	Sales	Share
Cochlear implant systems	178.9	75%	7.7%	165.1	74%
Upgrades and accessories	59.5	25%	2.4%	57.8	26%
Total cochlear implants segment	**238.4**	**100%**	**6.3%**	**222.9**	**100%**

Improved pricing, driven by a better business mix and new product introductions, as well as by structural and productivity improvements, led to a step-up in profitability. The effects of increased litigation costs and a provision release for product liabilities broadly offset each other. EBITA for the year was CHF 19.7 million versus CHF 11.9 million in the prior year, resulting in a margin of 8.2% (2017/18: 5.3%).

Stable cash flow

Cash flow from operating activities was CHF 533.2 million, compared to CHF 523.4 million in the prior year; higher profitability was offset by adverse changes in working capital and higher income tax payments. The accelerated growth of the hearing instruments business in the second half led to higher receivables and inventory balances.

Net investments in tangible and intangible assets increased to CHF 117.3 million from CHF 95.5 million in the prior year, mainly as a result of investments in site expansion in the hearing instruments business, as well as in IT systems and store improvements in the audiological care business.

This resulted in an operating free cash flow of CHF 411.8 million, down by 1.8%. Cash consideration for acquisitions net of disposals amounted to CHF 64.9 million, compared to 59.2 million in the prior year. In summary, this resulted in a free cash flow of CHF 346.9 million, compared to CHF 360.0 million in the prior year.

Cash outflow from financing activities was CHF 522.1 million, compared to CHF 186.2 million in the prior year. This reflects the repayment of a bond of CHF 150.0 million, which was part of the financing of the AudioNova acquisition, and net share repurchases of CHF 194.6 million, mainly related to the share buyback program. Cash outflow from financing also includes dividend payments of CHF 169.8 million.

Balance sheet remains strong

Reported net working capital was CHF 163.0 million, compared to CHF 190.5 million at the end of the prior year. This reflects higher current liabilities in the amount of CHF 77.6 million related to the implementation of IFRS 15, partly offset by higher inventory and receivables due to the accelerated growth of the hearing instruments business in the last quarter of the year. The implementation of IFRS 15 reduced both the capital employed and the company's equity position by CHF 127.2 million. Capital employed was CHF 2,630.0 million, a slight reduction from CHF 2,702.9 million in the prior year. The Group's equity position amounted to CHF 2,376.1 million, down from CHF 2,474.9 million in the previous year, partly as a result of the share buyback program, resulting in a solid equity ratio of 55.4%. The net debt position stood at CHF 253.9 million, compared to CHF 228.0 million at the end of the prior year. The return on capital employed (ROCE) increased to 20.6% from 18.4% in the prior year. Excluding the impact of the implementation of IFRS 15, the ROCE increased to 19.6%.

In light of the solid profitable growth and a healthy financial position, the Board of Directors will propose a dividend of CHF 2.90 to the Annual General Shareholders' Meeting on June 13, 2019. This proposed distribution is up 11.5% over the prior year, and represents a stable adjusted payout ratio of 41% (reported: 42%).

Outlook 2019/20

The global hearing care market offers both general and specific opportunities for continued growth. Our strategy is tuned to capture these benefits while delivering further advances in commercial excellence and operational efficiency. We therefore expect to increase consolidated sales in 2019/20 by 6-8% in local currencies, while further expanding profitability.

Reconciliation of non-GAAP financial measures

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

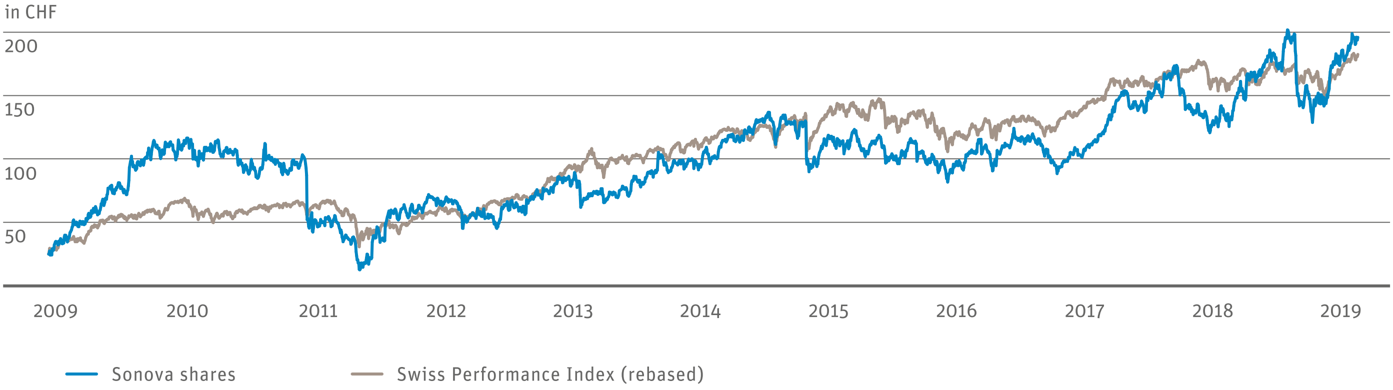
April 1 to March 31, CHF million					2017/18
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**	Adjustments[3]	**Income statement adjusted**
Sales	**2,645.9**		**2,645.9**		**2,645.9**
Cost of sales	(777.7)		(777.7)		(777.7)
Gross profit	**1,868.2**		**1,868.2**		**1,868.2**
Research and development	(144.0)	1.1	(142.9)		(142.9)
Sales and marketing	(982.8)	48.3	(934.5)	6.3	(928.2)
General and administration	(265.5)		(265.5)	12.9	(252.7)
Other income/(expenses), net	7.2		7.2		7.2
Operating profit before acquisition-related amortization (EBITA)[1]			**532.5**	**19.2**	**551.6**
Acquisition-related amortization		(49.5)	(49.5)		(49.5)
Operating profit (EBIT)[2]	**483.0**		**483.0**	**19.2**	**502.1**
Basic earnings per share (CHF)	**6.13**		**6.13**	**0.23**	**6.36**

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

2) Earnings before financial result, share of profit/(loss) in associates/joint ventures and taxes (EBIT).

3) Excluding restructuring costs of CHF 11.5 million in 2018/19 to optimize local operations in selected markets and integration costs of CHF 19.2 million in 2017/18 in connection with the acquisition of AudioNova.

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



Share price performance history[1]

	10 years	5 years	3 years	2 years	1 year
Sonova shares	186.3%	52.5%	60.4%	41.8%	29.8%
Swiss Performance Index (SPI)[2]	171.7%	37.1%	35.2%	16.6%	10.3%
Sonova shares relative to the SPI	+14.6%	+15.4%	+25.3%	+25.2%	+19.5%

1) Performance of the Sonova shares and SPI refers to the respective period prior to the last trading day of the 2018/19 financial year.

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

5 year key figures

April 1 to March 31, in CHF million unless otherwise specified	2018/19	2017/18	2016/17	2015/16	2014/15
Sales	**2,763.2**	**2,645.9**	**2,395.7**	**2,071.9**	**2,035.1**
change compared to previous year (%)	4.4	10.4	15.6	1.8	4.3
Gross profit	**1,966.2**	**1,868.2**	**1,651.8**	**1,375.5**	**1,387.5**
in % of sales	71.2	70.6	68.9	66.4	68.2
Gross profit (adjusted)[1]	**1,975.1**	**1,868.2**	**1,651.8**	**1,375.5**	**1,387.5**
in % of sales	71.5	70.6	68.9	66.4	68.2
Research & development costs	**148.4**	**142.9**	**137.1**	**130.3**	**130.9**
in % of sales	5.4	5.4	5.7	6.3	6.4
Sales & marketing costs	**970.3**	**934.5**	**815.0**	**638.2**	**613.2**
in % of sales	35.1	35.3	34.0	30.8	30.1
Operating profit before acquisition-related amortization (EBITA)	**582.5**	**532.5**	**463.0**	**430.6**	**455.6**
in % of sales	21.1	20.1	19.3	20.8	22.4
Operating profit before acquisition-related amortization (EBITA) (adjusted)[2]	**594.0**	**551.6**	**481.4**	**430.6**	**455.6**
in % of sales	21.5	20.8	20.1	20.8	22.4
Operating profit (EBIT)	**536.2**	**483.0**	**423.7**	**403.4**	**429.1**
in % of sales	19.4	18.3	17.7	19.5	21.1
Income after taxes	**460.2**	**407.4**	**356.2**	**345.8**	**368.3**
in % of sales	16.7	15.4	14.9	16.7	18.1
Basic earnings per share (CHF)	**6.98**	**6.13**	**5.35**	**5.11**	**5.37**
Basic earnings per share (CHF) (adjusted)[3]	**7.11**	**6.36**	**5.58**	**5.11**	**5.37**
Dividend/distribution per share (CHF)	**2.90**[12]	**2.60**	**2.30**	**2.10**	**2.05**
Net cash/(debt)[4]	**(253.9)**	**(228.0)**	**(404.6)**	**298.3**	**382.3**
Net working capital[5]	163.0	190.5	169.7	185.5	181.4
Capital expenditure (tangible and intangible assets)[6]	117.9	96.3	97.1	83.1	88.7
Capital employed[7]	2,630.0	2,702.9	2,535.9	1,608.0	1,489.5
Total assets	4,292.5	4,302.0	3,935.7	2,751.6	2,691.6
Equity	2,376.1	2,474.9	2,131.3	1,906.3	1,871.8
Equity financing ratio (%)[8]	55.4	57.5	54.2	69.3	69.5
Free cash flow[9]	346.9	360.0	(232.6)	252.6	308.7
Operating free cash flow[10]	**411.8**	**419.2**	**424.8**	**344.2**	**366.4**
in % of sales	14.9	15.8	17.7	16.6	18.0
Return on capital employed (%)[11]	**20.6**	**18.4**	**20.4**	**26.0**	**29.1**
Number of employees (average)	**14,418**	**14,073**	**12,802**	**10,697**	**9,960**
Number of employees (end of period)	**14,740**	**14,242**	**14,089**	**10,894**	**10,184**

1) Excluding restructuring costs of CHF 8.8 million in 2018/19 to optimize local operations in selected markets.
2) Excluding restructuring costs of CHF 11.5 million in 2018/19 to optimize local operations in selected markets. In 2017/18 (CHF 19.2 million) and 2016/17 (CHF 18.4 million) consisting of transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova.
3) Excluding the effects (incl. tax impact) from the restructuring costs in 2018/19 as well as transaction cost and integration related restructuring costs in connection with the acquisition of AudioNova (2017/18 and 2016/17).
4) Cash and cash equivalents + other current financial assets (without loans) – current financial liabilities – non-current financial liabilities.
5) Receivables (incl. loans) + inventories – trade payables – current income tax liabilities – short-term contract liabilities – other short-term liabilities – short-term provisions.
6) Excluding goodwill and intangibles relating to acquisitions.
7) Equity – net cash/(debt).
8) Equity in % of total assets.
9) Cash flow from operating activities + cash flow from investing activities.
10) Free cash flow – cash consideration for acquisitions and from divestments, net of cash acquired/divested.
11) EBIT in % of capital employed (average).
12) Proposal to the Annual General Shareholders' Meeting of June 13, 2019.

Consolidated financial statements

Consolidated income statements

April 1 to March 31, in CHF million	Notes	2018/19	2017/18[1]
Sales	**2.2,2.3**	**2,763.2**	**2,645.9**
Cost of sales		(797.0)	(777.7)
Gross profit		**1,966.2**	**1,868.2**
Research and development[2]		(149.4)	(144.0)
Sales and marketing[2]		(1,015.7)	(982.8)
General and administration		(269.3)	(265.5)
Other income/(expenses), net	**2.4**	4.4	7.2
Operating profit (EBIT)[3]		**536.2**	**483.0**
Financial income	**4.2**	3.4	2.1
Financial expenses	**4.2**	(12.1)	(9.4)
Share of profit/(loss) in associates/joint ventures, net	**6.2**	2.1	3.2
Income before taxes		**529.6**	**478.9**
Income taxes	**5.1**	(69.4)	(71.5)
Income after taxes		**460.2**	**407.4**
Attributable to:			
Equity holders of the parent		454.1	400.1
Non-controlling interests		6.1	7.3
Basic earnings per share (CHF)	**2.5**	6.98	6.13
Diluted earnings per share (CHF)	**2.5**	6.95	6.11

1) The disclosure of the 2017/18 figures was adjusted to include acquisition-related amortization in the functions "Research and development" and "Sales and marketing" as disclosed in Note 2.1.

2) Includes acquisition-related amortization of CHF 1.0 million (previous year: 1.1 million) in "Research and development" and CHF 45.4 million (previous year: 48.3 million) in "Sales and marketing". EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) amounts to CHF 582.5 million (previous year: CHF 532.5 million). Refer to Note 2.1

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

Consolidated statements of comprehensive income

April 1 to March 31, in CHF million	Notes	2018/19	2017/18
Income after taxes		**460.2**	**407.4**
Other comprehensive income			
Actuarial (loss)/gain from defined benefit plans, net	7.3	(16.9)	15.0
Tax effect on actuarial result from defined benefit plans, net		2.3	(2.1)
Total items not to be reclassified to income statement in subsequent periods		**(14.6)**	**12.9**
Currency translation differences		(58.0)	93.2
Tax effect on currency translation items		1.3	(0.4)
Total items to be reclassified to income statement in subsequent periods		**(56.7)**	**92.8**
Other comprehensive income, net of tax		**(71.3)**	**105.7**
Total comprehensive income		**388.9**	**513.1**
Attributable to:			
Equity holders of the parent		383.6	504.0
Non-controlling interests		5.3	9.1

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

Consolidated balance sheets

Assets CHF million	Notes	31.3.2019	31.3.2018
Cash and cash equivalents	4.1	374.8	552.1
Other current financial assets	4.4	11.0	4.4
Trade receivables	3.1	520.6	449.5
Current income tax receivables		9.2	6.7
Inventories	3.2	282.1	264.5
Other current operating assets	3.5	114.3	90.6
Total current assets		**1,311.9**	**1,367.8**
Property, plant and equipment	3.3	324.9	315.5
Intangible assets	3.4	2,463.2	2,466.4
Investments in associates/joint ventures	6.2	12.8	13.7
Other non-current financial assets	4.4	29.0	23.9
Other non-current operating assets[1)]	3.5	6.5	
Deferred tax assets	5.1	144.2	114.6
Total non-current assets		**2,980.6**	**2,934.1**
Total assets		**4,292.5**	**4,302.0**

Liabilities and equity CHF million	Notes	31.3.2019	31.3.2018
Current financial liabilities	4.5	256.4	161.6
Trade payables		102.8	89.2
Current income tax liabilities		139.2	141.8
Short-term contract liabilities[1)]	2.3	106.5	
Other short-term operating liabilities	3.7	296.0	275.7
Short-term provisions	3.6	129.2	117.9
Total current liabilities		**1,030.1**	**786.3**
Non-current financial liabilities	4.5	372.6	619.1
Long-term provisions	3.6	122.9	166.5
Long-term contract liabilities[1)]	2.3	226.1	
Other long-term operating liabilities	3.7	26.0	113.9
Deferred tax liabilities	5.1	138.6	141.3
Total non-current liabilities		**886.3**	**1,040.8**
Total liabilities		**1,916.3**	**1,827.1**
Share capital	4.6	3.3	3.3
Treasury shares		(166.9)	(0.5)
Retained earnings and reserves		2,517.5	2,449.0
Equity attributable to equity holders of the parent		**2,353.8**	**2,451.7**
Non-controlling interests		22.3	23.2
Equity		**2,376.1**	**2,474.9**
Total liabilities and equity		**4,292.5**	**4,302.0**

1) New balance sheet line item due to the implementation of IFRS 15 (refer to Note 2.3 and Note 7.8).
The Notes are an integral part of the consolidated financial statements.

Consolidated cash flow statements

April 1 to March 31, in CHF million	Notes		2018/19		2017/18
Income before taxes			**529.6**		**478.9**
Depreciation and amortization of tangible and intangible assets	3.3,3.4	127.6		134.8	
Loss on sale of tangible and intangible assets, net		0.4		0.5	
Share of gain in associates/joint ventures, net	6.2	(2.1)		(3.2)	
Decrease in long-term provisions and long-term contract liabilities		(16.3)		(29.0)	
Financial (income)/expense, net	4.2	8.7		7.2	
Share based payments		19.3		18.3	
Other non-cash items		(19.4)		3.0	
Income taxes paid		(64.4)	53.8	(46.8)	84.8
Cash flow before changes in net working capital			**583.5**		**563.7**
Increase in trade receivables		(84.5)		(31.2)	
(Increase)/decrease in other receivables and prepaid expenses		(20.7)		10.4	
(Increase)/decrease in inventories		(15.2)		2.2	
Increase/(decrease) in trade payables		12.2		(8.3)	
Increase/(decrease) in other payables, accruals, short-term provisions and short-term contract liabilities		57.9	(50.3)	(13.4)	(40.3)
Cash flow from operating activities			**533.2**		**523.4**
Purchase of tangible and intangible assets	3.3,3.4	(117.9)		(96.3)	
Proceeds from sale of tangible and intangible assets		0.6		0.8	
Cash consideration for acquisitions, net of cash acquired	6.1	(66.4)		(82.5)	
Cash consideration from divestments, net of cash divested	6.1	1.5		23.3	
Changes in other financial assets		(5.2)		(10.1)	
Interest received		1.1		1.4	
Cash flow from investing activities			**(186.3)**		**(163.4)**
Repayment of borrowings	4.5	(150.6)		(0.1)	
Share buyback program	4.6	(157.8)			
Sale of treasury shares	4.6	27.9		24.2	
Purchase of treasury shares	4.6	(64.7)		(50.5)	
Dividends paid by Sonova Holding AG		(169.8)		(150.3)	
Dividends to non-controlling interests		(6.1)		(8.8)	
Interest paid		(1.2)		(0.7)	
Cash flow from financing activities			**(522.1)**		**(186.2)**
Exchange (losses)/gains on cash and cash equivalents			(2.2)		3.9
(Decrease)/increase in cash and cash equivalents			**(177.4)**		**177.6**
Cash and cash equivalents at the beginning of the financial year			552.1		374.5
Cash and cash equivalents at the end of the financial year			**374.8**		**552.1**

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

Consolidated changes in equity

CHF million

	Attributable to equity holders of Sonova Holding AG					
	Share capital	Retained earnings and other reserves	Translation adjustment	Treasury shares	Non-controlling interests	Total equity
Balance April 1, 2017	**3.3**	**2,419.2**	**(301.9)**	**(12.1)**[1]	**22.9**	**2,131.3**
Income for the period		400.1			7.3	407.4
Actuarial gain from defined benefit plans, net		15.0				15.0
Tax effect on actuarial result		(2.1)				(2.1)
Currency translation differences			91.4		1.8	93.2
Tax effect on currency translation			(0.4)			(0.4)
Total comprehensive income		**413.0**	**91.0**		**9.1**	**513.1**
Capital decrease – share buyback program[3]		(11.8)		11.8		
Share-based payments		4.5		11.3		15.8
Sale of treasury shares		(14.8)		39.0		24.2
Purchase of treasury shares				(50.5)		(50.5)
Dividend paid		(150.3)			(8.8)	(159.0)
Balance March 31, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Balance April 1, 2018	**3.3**	**2,659.9**	**(210.9)**	**(0.5)**	**23.2**	**2,474.9**
Effect on initial application of IFRS 15 and IFRS 9[2]		(132.9)			(0.1)	(133.1)
Adjusted balance April 1, 2018	**3.3**	**2,527.0**	**(210.9)**	**(0.5)**	**23.1**	**2,341.9**
Income for the period		454.1			6.1	460.2
Actuarial loss from defined benefit plans, net		(16.9)				(16.9)
Tax effect on actuarial result		2.3				2.3
Currency translation differences			(57.2)		(0.8)	(58.0)
Tax effect on currency translation			1.3			1.3
Total comprehensive income		**439.5**	**(56.0)**		**5.3**	**388.9**
Share-based payments		4.9		13.9		18.8
Sale of treasury shares		(17.3)		45.2		27.9
Purchase of treasury shares[3]				(225.5)		(225.5)
Dividend paid		(169.8)			(6.1)	(175.8)
Balance March 31, 2019	**3.3**	**2,784.3**	**(266.8)**	**(166.9)**	**22.3**	**2,376.1**

1) Includes derivative financial instruments on treasury shares.
2) Further information on the effect of new accounting standards are disclosed in Note 7.8.
3) Further information on the share buyback program are disclosed in Note 4.6.
The Notes are an integral part of the consolidated financial statements.

Notes to the consolidated financial statements as of March 31, 2019

1. Basis for preparation

1.1 About this report

Compared to the prior year, the structure of the notes to the consolidated financial statements are redesigned in order to enhance transparency and relevance of the financial reporting information to the various stakeholders. These amendments include the following:

- Rearrangement of the structure of the notes.
- Reduction of complexity by including the respective accounting policies in the notes and highlighting important judgements and estimates.
- Presentation of the figures in millions instead of thousands.

In addition, the following changes with regard to the disclosure of Non-GAAP measures were made:

- Acquisition-related amortization, previously disclosed as a separate line item in the "Consolidated income statements" has been allocated to the functions "Research and development" and "Sales and marketing". The prior year amounts were restated as disclosed in Note 2.1.
- The Group refrains from disclosing EBITA (Earnings before financial result, share of profit/(loss) in associates/joint ventures, taxes and acquisition-related amortization) in the "Consolidated income statements". However, due to its relevance as key profit metric for internal as well as external purposes, EBITA is still included in the segment reporting (refer to Note 2.2). A reconciliation to the reported figures is provided in Note 2.1.

1.2 Corporate information

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

1.3 Basis of consolidated financial statements

The consolidated financial statements of the Group are based on the financial statements of the individual Group companies at March 31, which are prepared in accordance with uniform accounting policies. The consolidated financial statements were prepared under the historical cost convention except for the revaluation of certain financial assets at market value, which were prepared in accordance with International Financial Reporting Standards (IFRS), including International Accounting Standards (IAS) and Interpretations issued by the International Accounting Standards Board (IASB). The consolidated financial statements were approved by the Board of Directors of Sonova Holding AG on May 17, 2019, and are subject to approval by the Annual General Shareholders' Meeting on June 13, 2019.

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

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

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

1.4 Significant accounting judgments and estimates

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

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

Description	**Further information**
Allocation of the transaction price to performance obligations	Note 2.3: Revenue
Capitalization of development costs	Note 3.4: Intangible assets
Impairment test	Note 3.4: Intangible assets
Provisions for warranty, returns and product liabilities	Note 3.6: Provisions
Deferred tax assets	Note 5.1: Taxes
Business combinations	Note 6.1: Acquisitions/disposals of subsidiaries
Defined benefit plans	Note 7.3: Employee benefits

1.5 Changes in accounting policies

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” and IFRS 9 “Financial instruments” beginning April 1, 2018 as described in Note 7.8.

In addition, in 2018/19 the Group adopted the following minor amendments to existing standards and interpretations, without having a significant impact on the Group’s result and financial position:

- Classification and Measurement of Share-based Payment Transactions – Amendments to IFRS 2
- Annual Improvements to IFRS Standards 2014 – 2016 Cycle
- Transfers to Investment Property – Amendments to IAS 40
- Interpretation 22 Foreign Currency Transactions and Advance Consideration

The Group has assessed the expected impacts of the various new and revised standards and interpretations that will be effective for the financial year starting April 1, 2019 and beyond. Of those standards that are not yet effective, only IFRS 16 is expected to have a material impact on the Group’s financial statements in the period of initial application, as summarized below.

IFRS 16 “Leasing”:
The standard will replace IAS 17 and sets out new principles for recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model that requires lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The main impact for the Group will be on the recognition of new assets and liabilities, primarily for its property and car lease agreements. In addition, the nature of the expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expenses with a depreciation charge for right-of-use assets and interest expenses on lease liabilities. With the transition, the Group will recognize additional lease liabilities and right-of-use of assets for an estimated amount of around CHF 282 million as per April 1, 2019. The impact on EBIT will not be material.

The Group chose the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings and will implement the new standard on April 1, 2019.

2. Operating result

2.1 Income statement reconciliation

The Group presents the "Consolidated income statement" based on a classification of costs by function and is continuously amending its business portfolio with acquisitions, resulting in acquisition-related intangibles (see section "Intangible assets" in Note 3.4) and related amortization charges. To calculate EBITA[1], which is the key profit metric for internal (refer to Note 2.2) as well as external purposes, acquisition-related amortization is separated from the individual functions as disclosed below.

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

April 1 to March 31, CHF million			2017/18
	Income statement as reported	Acquis. related amortization	**Income statement EBITA separation**
Sales	**2,645.9**		**2,645.9**
Cost of sales	(777.7)		(777.7)
Gross profit	**1,868.2**		**1,868.2**
Research and development	(144.0)	1.1	(142.9)
Sales and marketing	(982.8)	48.3	(934.5)
General and administration	(265.5)		(265.5)
Other income/(expenses), net	7.2		7.2
Operating profit before acquisition-related amortization (EBITA)[1]			**532.5**
Acquisition-related amortization		(49.5)	(49.5)
Operating profit (EBIT)[2]	**483.0**		**483.0**

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

2.2 Segment information

Information by business segments

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

Hearing instruments:

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

Cochlear implants:

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

CHF million	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	Hearing instruments		Cochlear implants		Corporate/ Eliminations		Total	
Segment sales	2,527.2	2,425.2	241.1	225.8			2,768.3	2,651.0
Intersegment sales	(2.4)	(2.1)	(2.7)	(3.0)			(5.0)	(5.1)
Sales	**2,524.8**	**2,423.1**	**238.4**	**222.9**			**2,763.2**	**2,645.9**
Timing of revenue recognition								
At point in time	2,361.1		230.6				2,591.8	
Over time	163.7		7.8				171.5	
Total sales	**2,524.8**		**238.4**				**2,763.2**	
Operating profit before acquisition-related amortization (EBITA)	**563.1**	**520.6**	**19.7**	**11.9**	**(0.2)**		**582.5**	**532.5**
Depreciation, amortization and impairment	(107.2)	(112.8)	(20.4)	(22.0)			(127.6)	(134.8)
Segment assets	**3,921.0**	**3,780.7**	**632.3**	**608.3**	**(792.6)**	**(767.4)**	**3,760.7**	**3,621.5**
Unallocated assets[1)]							531.8	680.5
Total assets							**4,292.5**	**4,302.0**

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

Reconciliation of reportable segment profit CHF million	2018/19	2017/18
EBITA	582.5	532.5
Acquisition-related amortization	(46.3)	(49.5)
Financial costs, net	(8.7)	(7.2)
Share of gain in associates/joint ventures, net	2.1	3.2
Income before taxes	**529.6**	**478.9**

Entity-wide disclosures

Sales by business CHF million	2018/19	2017/18
Hearing instruments business	1,474.7	1,441.6
Audiological care business	1,050.1	981.5
Total hearing instruments segment	**2,524.8**	**2,423.1**
Cochlear implant systems	178.9	165.1
Upgrades and accessories	59.5	57.8
Total cochlear implants segment	**238.4**	**222.9**
Total sales	**2,763.2**	**2,645.9**

Sales and selected non-current assets by regions CHF million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Country/region	Sales[1]		Selected non-current assets[2]	
Switzerland	31.5	29.6	274.1	251.4
EMEA (excl. Switzerland)	1,489.5	1,369.2	1,585.7	1,650.6
USA	746.7	759.6	674.3	655.2
Americas (excl. USA)	228.5	230.8	150.4	129.1
Asia/Pacific	267.0	256.7	116.5	109.3
Total Group	**2,763.2**	**2,645.9**	**2,800.9**	**2,795.6**

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

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

2.3 Revenue

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

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

Contract balances CHF million	**31.3.2019**	**1.4.2018**
Contract assets	9.4	8.9
Contract liabilities	332.7	335.0

Contract liabilities relate to advance consideration received from customers for the Group’s various services, such as extended warranties, loss and damage and battery plans. In addition to the contract liabilities, the Group also recognizes contract assets that relate to loss and damage services. Contract assets are presented within other operating assets (refer to Note 3.5) in the consolidated balance sheets.

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

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

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

Accounting policies

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

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

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

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

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

Accounting judgements and estimates

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

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

2.4 Other income/expenses, net

"Other income/expenses, net" in the 2018/19 financial year amounts to CHF 4.4 million (previous year CHF 7.2 million). The regular and systematic assessment of the provision for product liabilities in the cochlear implants segment led to a release of CHF 4.1 million (previous year CHF 1.8 million). In addition, the divestment of audiological care stores in the USA led to a gain of CHF 0.3 million (previous year other income from divestments CHF 5.4 million). For further information refer to Note 3.6 "Provisions" and Note 6.1 "Acquisitions/ disposals of subsidiaries".

2.5 Earnings per share

Basic earnings per share	2018/19	2017/18
Income after taxes (CHF million)	454.1	400.1
Weighted average number of outstanding shares	65,066,736	65,319,359
Basic earnings per share (CHF)	**6.98**	**6.13**

Diluted earnings per share	2018/19	2017/18
Income after taxes (CHF million)	454.1	400.1
Weighted average number of outstanding shares	65,066,736	65,319,359
Adjustment for dilutive share options	268,205	216,787
Adjusted weighted average number of outstanding shares	65,334,941	65,536,146
Diluted earnings per share (CHF)	**6.95**	**6.11**

Accounting policies

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

In the case of diluted earnings per share, the weighted average number of shares outstanding is adjusted assuming all outstanding dilutive options will be exercised. The weighted average number of shares is adjusted for all dilutive options issued under the stock option plans which have been granted in 2012 through to 2019 and which have not yet been exercised. Options that are out-of-the-money (compared to average share price) are not considered. The calculation of diluted earnings per share is based on the same income after taxes for the period as is used in calculating basic earnings per share.

3. Operating assets and liabilities

3.1 Trade receivables

CHF million	31.3.2019	31.3.2018
Trade receivables	559.6	481.5
Provision for doubtful receivables	(39.0)	(31.9)
Total	**520.6**	**449.5**

As is common in this industry, the Sonova Group has a large number of customers. There is no significant concentration of credit risk. The aging of trade receivables and related provisions is disclosed in Note 4.7.

During 2018/19, the Group utilized CHF 2.2 million (previous year CHF 9.7 million) of the provision for doubtful receivables to write-off receivables.

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

CHF million	31.3.2019	31.3.2018
BRL	18.2	18.8
CAD	22.4	21.5
CHF	20.9	14.6
EUR	203.3	177.6
GBP	22.0	17.8
USD	164.2	131.9
Other	69.8	67.3
Total trade receivables, net	**520.6**	**449.5**

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

3.2 Inventories

CHF million	31.3.2019	31.3.2018
Raw materials and components	49.6	45.0
Work-in-process	96.6	90.0
Finished products	172.6	168.9
Allowances	(36.8)	(39.5)
Total	**282.1**	**264.5**

The “cost of sales” corresponding to the carrying value of inventory (which excludes freight, packaging, logistics as well as certain overhead cost) amounted in 2018/19 to CHF 666.0 million (previous year CHF 672.3 million). The Group recognized write-downs of CHF 29.4 million (previous year CHF 18.2 million) on inventories in cost of sales.

Accounting policies

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

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

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

3.3 Property, plant and equipment

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

CHF million					2017/18
	Land & buildings	Machinery & technical equipment	Room installations & other equipment	Advance payments & assets under construction	Total
Cost					
Balance April 1	195.0	277.3	313.3	5.4	791.1
Changes through business combinations	0.0	0.1	2.3		2.4
Additions	1.4	22.3	26.7	10.9	61.2
Disposals	(0.1)	(11.2)	(19.5)		(30.7)
Transfers	(3.1)	3.0	5.7	(5.6)	
Exchange differences	2.2	2.9	15.2	(0.1)	20.3
Balance March 31	**195.5**	**294.3**	**343.8**	**10.6**	**844.2**
Accumulated depreciation					
Balance April 1	(69.2)	(203.1)	(208.5)		(480.8)
Additions	(5.6)	(25.9)	(31.3)		(62.8)
Disposals	0.0	10.6	17.8		28.5
Transfers	1.7	0.3	(2.0)		
Exchange differences	(1.0)	(1.9)	(10.8)		(13.7)
Balance March 31	**(74.0)**	**(220.0)**	**(234.7)**		**(528.7)**
Net book value					
Balance April 1	125.8	74.2	104.9	5.4	310.3
Balance March 31	**121.5**	**74.3**	**109.1**	**10.6**	**315.5**

Pledged fixed assets amounted to CHF 0.0 million (previous year CHF 0.1 million).

There are no assets held under finance leases.

Accounting policies

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

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

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

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

3.4 Intangible assets

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

1) Intangibles relating to acquisitions include primarily customer relationships and trademarks.
2) Relates to research and development (CHF 1.0 million) and sales and marketing (CHF 45.4 million).

CHF million					2017/18
	Goodwill	Intangibles relating to acquisitions[1]	Capitalized development costs	Software and other intangibles	Total
Cost					
Balance April 1	1,969.2	607.0	135.1	87.5	2,798.7
Changes through business combinations	77.9	26.7		0.1	104.6
Additions			30.1	5.0	35.1
Disposals	(18.2)	(18.6)		(8.1)	(44.9)
Exchange differences	65.6	30.3	(0.1)	0.5	96.2
Balance March 31	**2,094.4**	**645.3**	**165.1**	**84.9**	**2,989.7**
Accumulated amortization and impairments					
Balance April 1	(154.1)	(224.9)	(34.5)	(62.2)	(475.7)
Additions		(49.5)[2]	(12.5)	(10.1)	(72.0)
Disposals		11.1		8.3	19.4
Exchange differences	6.8	(1.0)		(0.9)	4.9
Balance March 31	**(147.2)**	**(264.2)**	**(47.0)**	**(64.9)**	**(523.3)**
Net book value					
Balance April 1	1,815.2	382.0	100.6	25.3	2,323.1
Balance March 31	**1,947.2**	**381.1**	**118.1**	**20.0**	**2,466.4**

1) Intangibles relating to acquisitions include primarily customer relationships and trademarks.
2) Relates to research and development (CHF 1.1 million) and sales and marketing (CHF 48.3 million).

Based on the impairment tests performed, there was no need for the recognition of any impairment of goodwill for the 2018/19 and 2017/18 financial years.

Hearing instruments

As of March 31, 2019, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 1,642.4 million (prior year CHF 1,639.0 million).

The cash flow projections were based on the most recent business plan. The business plan for the hearing instruments business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.2% (prior year 2.2%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.4% (prior year 8.4%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

Cochlear implants

As of March 31, 2019, the carrying amount of the goodwill, expressed in various currencies, amounted to an equivalent of CHF 320.9 million (prior year CHF 308.2 million).

The cash flow projections were based on the most recent business. The business plan for the cochlear implants business was projected over a five year period. Cash flows beyond the projection period were extrapolated with a long-term growth rate of 2.4% (prior year 2.4%) representing the projected inflation rate. For the calculation, a pre-tax weighted average discount rate of 8.7% (prior year 8.6%) was used. The Group performed a sensitivity analysis, which shows that changes to the main input parameters (increase of discount rate +1%, or long-term growth rate –1%) would not result in an impairment of goodwill.

The capitalized development costs are reviewed on a regular basis. In the current financial year 2018/19, this review did not lead to any valuation adjustments. The capitalized development costs are included in the reportable segment “cochlear implants” disclosed in Note 2.2.

Accounting policies

Goodwill

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

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

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

Accounting judgements and estimates

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

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

3.5 Other operating assets

Other current operating assets CHF million	**31.3.2019**	**31.3.2018**
Other receivables	69.0	64.5
Prepaid expenses	32.0	26.1
Contract assets	2.9	
Right to recover products	10.4	
Total	**114.3**	**90.6**

Other non-current operating assets CHF million	**31.3.2019**	**31.3.2018**
Contract assets	6.5	
Total	**6.5**	

The largest individual items included in other receivables are recoverable value added taxes and deposits. Prepaid expenses mainly consist of advances to suppliers. On adoption of IFRS 15, contract assets were recognized in relation to reinsurance of loss and damage services and rights to recover returned goods were recognized in relation to hearing instrument sales with a right of return (refer to Note 2.3).

3.6 Provisions

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

CHF million					2017/18
	Warranty and returns	Reimbursement to customers	Product liabilities	Other provisions	Total
Balance April 1	117.5	11.2	132.5	37.0	298.2
Changes through business combinations	7.4	0.0		0.4	7.9
Amounts used	(64.8)	(6.4)	(7.2)	(18.2)	(96.7)
Reversals	(8.2)	0.0	(1.8)	(4.2)	(14.2)
Increases	71.5	4.7		15.6	91.8
Disposals				(0.3)	(0.3)
Present value adjustments	0.0		0.7	(0.2)	0.5
Exchange differences	2.2	(0.3)	(5.7)	1.2	(2.7)
Balance March 31	**125.6**	**9.2**	**118.4**	**31.3**	**284.5**
thereof short-term	79.7	9.2	15.4	13.6	117.9
thereof long-term	45.9		103.0	17.7	166.5

Warranty and returns

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

Reimbursement to customers

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

Product liabilities

The provision for product liabilities considers the expected cost for claims in relation to the voluntary recall of cochlear implant products of Advanced Bionics LLC in 2006. The calculation of this provision is based on past experience regarding the number and cost of current and future claims. The provision is estimated based on a financial model. Generally, the model used to calculate the provision for the end of the 2018/19 financial year is consistent to the prior year. It covers the cost of replacement products, medical expenses, compensation for actual damages as well as legal fees. The provision is reassessed on a regular and systematic basis. Further improvements in the expected number and cost of current and future claims led to a reduction of CHF 4.1 million (previous year CHF 1.8 million) in “other income/(expense), net”. The timing of the cash outflows corresponding to the said provision for product liabilities is uncertain since it will largely depend on the outcome of administrative and legal proceedings. Considering periods of limitation, claims will have to be filed until 2026 in most jurisdictions. However, depending on the length of proceedings and negotiations, further years may pass until all claims are settled. We expect the main cash outflow relating to this provision to occur within the next 8 years, depending on the outcome of individual legal proceedings.

Other provisions

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

Accounting policies

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

Accounting judgements and estimates

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

3.7 Other operating liabilities

Other short-term operating liabilities CHF million	**31.3.2019**	**31.3.2018**
Other payables	74.2	53.3
Accrued expenses	221.7	192.6
Deferred income	0.1	29.8
Total	**296.0**	**275.7**

Other long-term operating liabilities CHF million	**31.3.2019**	**31.3.2018**
Long-term deferred income	0.0	106.5
Retirement benefit obligations	26.0	7.4
Total	**26.0**	**113.9**

Other payables include amounts to be remitted for withholding taxes, value added taxes, social security payments, employees' income taxes deducted at source, and customer prepayments. Accrued expenses include salaries, social expenses, vacation pay, bonus and incentive compensation as well as accruals for outstanding invoices from suppliers. The decrease in short- and long-term deferred income is due to the implementation of IFRS 15. As of April 1, 2018, revenue related deferred income is included in contract liabilities (refer to Note 2.3).

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

3.8 Leasing commitments

Lease obligations CHF million	**31.3.2019**	**31.3.2018**
Due less than 1 year	76.6	77.6
Due 1 year to 5 years	137.0	141.7
Due more than 5 years	21.0	27.7
Total	**234.6**	**247.0**

The operating lease commitments relate primarily to long-term property lease agreements, which are, in general, renewable.

In the 2018/19 financial year, CHF 102.6 million was recognized as expenses for leases in the consolidated income statement (previous year CHF 101.2 million).

As of March 31, 2019 and 2018, the Group had no financial lease obligations.

Accounting policies
There are no assets that are held under leases, which effectively transfer to the Group the risks and rewards of ownership (finance leases). Therefore, all leases are classified as operating leases, and payments are recognized as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the Group's benefit.

3.9 Contingent assets and liabilities

Guarantees

At March 31, 2019 and 2018, there were no pledges given to third parties other than in relation to bank loans and mortgages.

Deposits in the amount of CHF 5.1 million (previous year CHF 3.7 million) have been pledged in relation to bank guarantees. Mortgages are secured by properties in the amount of CHF 0.1 million (previous year CHF 0.1 million). The net book value of these properties amounts to CHF 0.8 million at March 31, 2019 (previous year CHF 0.9 million). Open purchase orders as of March 31, 2019 and 2018, were related to recurring business activities.

Lawsuits and disputes

In 2007, the Alfred E. Mann Foundation for Scientific Research (AMF) initiated a lawsuit claiming patent infringement by Cochlear Ltd. on two patents. Advanced Bionics LLC had exclusively licensed the patents in question from AMF and joined AMF as a plaintiff. On November 4, 2018, a U.S. District Court reinstated a jury judgment from 2014 and awarded damages of USD 268 million. Advanced Bionics will be entitled to a portion of any damages awarded once the verdict is final. Cochlear has appealed the verdict and notice was filed on November 12, 2018. We expect it could take two years before a final judgement is rendered.

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

4. Capital structure and financial management

4.1 Cash and cash equivalents

CHF million	31.3.2019	31.3.2018
Cash on hand	1.2	1.3
Current bank accounts	312.2	413.6
Term deposits	61.4	137.2
Total	**374.8**	**552.1**

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

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

4.2 Financial income/expenses, net

CHF million	2018/19	2017/18
Interest income	1.6	1.6
Other financial income	1.8	0.5
Total financial income	**3.4**	**2.1**
Interest expenses	(1.7)	(1.3)
Unwinding of the discount on provisions	(0.7)	(0.5)
Foreign exchange hedge costs	(6.3)	(5.3)
Other financial expenses	(3.4)	(2.3)
Total financial expenses	**(12.1)**	**(9.4)**
Total financial income/expenses, net	**(8.7)**	**(7.2)**

Other financial expenses in 2018/19 include, amongst other items, primarily the fair value adjustments of financial instruments.

4.3 Dividend per share

The Board of Directors of Sonova Holding AG proposes to the Annual General Shareholders' Meeting, to be held on June 13, 2019, that a dividend of CHF 2.90 shall be distributed (previous year CHF 2.60).

4.4 Other financial assets

Other current financial assets

CHF million			31.3.2019			31.3.2018
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Loans and receivables	Financial assets at fair value through profit or loss	Total
Marketable securities		0.0	0.0		0.1	0.1
Positive replacement value of forward foreign exchange contracts		0.3	0.3		0.5	0.5
Loans to third parties	10.6		10.6	3.8		3.8
Total	**10.6**	**0.3**	**11.0**	**3.8**	**0.6**	**4.4**

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

Other non-current financial assets

CHF million			31.3.2019			31.3.2018
	Financial assets at amortized cost	Financial assets at fair value through profit or loss	Total	Loans and receivables	Financial assets at fair value through profit or loss	Total
Loans to associates	9.3		9.3	6.7		6.7
Loans to third parties	14.2		14.2	12.1		12.1
Rent deposits	3.7		3.7	3.3		3.3
Other non-current financial assets		1.8	1.8		1.8	1.8
Total	**27.2**	**1.8**	**29.0**	**22.1**	**1.8**	**23.9**

The loans are primarily denominated in CAD, CHF, EUR, GBP, JPY and USD. Loans to third parties consist mainly of loans to customers. As of March 31, 2019, the respective repayment periods vary between one and nine years and the interest rates vary generally between 1% and 5%.

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

Accounting policies
Financial assets are classified into the following three categories:

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

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

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

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

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

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

Previous accounting policies for financial assets
In the prior year, financial assets were classified and measured based on the IAS 39 requirements. The Group reviewed its financial assets as of March 31, 2018 considering the new measurement categories provided under IFRS 9. Other financial assets classified as "Loans and receivables" are now classified as "Financial assets at amortized cost".

4.5 Financial liabilities

In connection with the financing of the acquisition of AudioNova in the 2016/17 financial year, on October 11, 2016 the Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40% with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan paid an interest between 0.00% p.a. (floor) and 0.05% p.a. (cap) and was repaid on October 11, 2018.
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with a 0.00% interest rate and maturity on October 11, 2019 (disclosed as current financial liabilities).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021 (disclosed as non-current financial liabilities). Interests will be paid on an annual basis.

Current financial liabilities

CHF million			**31.3.2019**			**31.3.2018**
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.3		0.3	0.0		0.0
Bond	250.0		250.0	150.1		150.1
Deferred payments and contingent considerations	0.5	5.5	6.0	0.1	9.5	9.6
Other current financial liabilities		0.1	0.1		1.9	1.9
Total	**250.7**	**5.6**	**256.4**	**150.1**	**11.5**	**161.6**
Unused borrowing facilities			36.2			187.2

Non-current financial liabilities

CHF million			**31.3.2019**			**31.3.2018**
	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total	Financial liabilities at amortized cost	Financial liabilities at fair value through profit or loss	Total
Bank debt	0.0		0.0	0.1		0.1
Bonds	359.5		359.5	609.2		609.2
Deferred payments and contingent considerations	7.4	1.4	8.8	3.2	4.4	7.6
Other non-current financial liabilities	0.2	4.1	4.2	0.2	2.0	2.2
Total	**367.1**	**5.5**	**372.6**	**612.7**	**6.4**	**619.1**

Besides the bond, financial liabilities mainly consist of earn-out agreements related to contingent considerations and deferred payments from acquisition.

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

Analysis of non-current financial liabilities by currency

Analysis by currency CHF million				**31.3.2019**				**31.3.2018**
	Bank debt	Bonds	Other non-current financial liabilities	Total	Bank debt	Bonds	Other non-current financial liabilities	Total
CHF		359.5	10.0	369.5		609.2	8.7	617.9
USD			0.5	0.5			0.0	0.0
EUR			0.1	0.1			0.1	0.1
Other	0.0		2.5	2.6	0.1		1.0	1.0
Total	**0.0**	**359.5**	**13.1**	**372.6**	**0.1**	**609.2**	**9.8**	**619.1**

Reconciliation of financial liabilities arising from financing activities

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

Reconciliation of financial liabilities CHF million					**2017/18**
	Bank debt	Bonds	Deferred payments and contingent considerations	Other financial liabilities	Total
Balance April 1	0.1	759.2	18.3	2.7	780.3
Repayments	(0.0)		(0.1)	(0.0)	(0.1)
Exchange differences	0.0		0.2	(0.4)	(0.3)
Other		0.1	(1.2)	1.9	0.8
Balance March 31	**0.1**	**759.3**	**17.2**	**4.1**	**780.7**
thereof short-term	0.0	150.1	9.6	1.9	161.6
thereof long-term	0.1	609.2	7.6	2.2	619.1

Accounting policies

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

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

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

4.6 Movement in share capital

Issued registered shares	Issued registered shares	Treasury shares[1]	Outstanding shares
Balance April 1, 2017	65,422,887	(100,190)	65,322,697
Capital decrease – share buyback program	(92,000)	92,000	
Purchase of treasury shares		(318,675)	(318,675)
Sale/transfer of treasury shares		323,243	323,243
Balance March 31, 2018	**65,330,887**	**(3,622)**	**65,327,265**
Purchase of treasury shares		(368,000)	(368,000)
Sale/transfer of treasury shares		338,048	338,048
Purchase of shares intended to be cancelled[2]		(932,750)	(932,750)
Balance March 31, 2019	**65,330,887**	**(966,324)**	**64,364,563**

Nominal value of share capital CHF million	Share Capital	Treasury shares[1]	Outstanding share capital
Balance March 31, 2019	**3.3**	**(0.0)**	**3.2**

Each share has a nominal value of CHF 0.05.

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

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

On August 31, 2018, Sonova Holding AG announced that its Board of Directors approved a new share buyback program of up to CHF 1.5 billion (but for a maximum of 11,759,560 registered shares). The shares will be repurchased for the purpose of a capital reduction, subject to approval by future Annual General Shareholders' Meetings. The new program started in October 2018 and will run up to 36 months. As of March 31, 2019 932,750 shares were purchased as part of the share buyback program.

At the Annual General Shareholder's Meeting on July 7, 2005, the conditional share capital of CHF 264,270 (5,285,400 shares) has been increased by CHF 165,056 (3,301,120 shares) to CHF 429,326 (8,586,520 shares). Consistent with the prior year, 5,322,133 shares remain unissued as of March 31, 2019. These shares are reserved for long-term incentive plans (2,021,013 shares) as well as for initiatives to increase the company's financial flexibility (3,301,120 shares).

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

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

4.7 Risk management

Group risk management

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

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

Financial risk management

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

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

Market risk

Exchange rate risk

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

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

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

As of March 31, 2019, the Group engaged in forward currency contracts amounting to CHF 271.4 million (previous year CHF 329.4 million). The open contracts on March 31, 2019 as well as on March 31, 2018 were all due within one year.

Notional amount of forward contracts CHF million		**31.3.2019**		**31.3.2018**
	Total	Fair value	Total	Fair value
Positive replacement values	132.2	0.3	61.0	0.5
Negative replacement values	139.2	(0.1)	268.3	(1.7)
Total	**271.4**	**0.2**	**329.4**	**(1.2)**

Foreign currency sensitivity analysis

CHF million	**2018/19**	**2017/18**	**2018/19**	**2017/18**
	Impact on income after taxes[1]		Impact on equity	
Change in USD/CHF +5%	4.4	4.3	13.8	14.3
Change in USD/CHF –5%	(4.4)	(4.3)	(13.8)	(14.3)
Change in EUR/CHF +5%	3.6	5.2	16.1	19.6
Change in EUR/CHF –5%	(3.6)	(5.2)	(16.1)	(19.6)

1) Excluding the impact of forward currency contracts.

Interest rate risk

The Group has only limited exposure to interest rate changes. The most substantial interest exposure on assets relates to cash and cash equivalents with an average interest-bearing amount for the 2018/19 financial year of CHF 402 million (previous year CHF 372 million). On liabilities the most significant risk related to the two year variable rate bond (see Note 4.5), which was repaid on October 11, 2018. If interest rates during the 2018/19 financial year had been 1% higher, the positive impact on income before taxes would have been CHF 3.4 million. If interest rates had been 1% lower, the income before taxes would have been negatively impacted by CHF 2.9 million.

Other market risks

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

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

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

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

Credit risk

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

Core banking relations are maintained with at least "BBB+" rated (S & P) financial institutions. As of March 31, 2019, the largest balance with a single counterparty amounted to 27% (previous year 24%) of total cash and cash equivalents.

The Group performs continuous credit checks on its receivables. Due to the customer diversity, there is no single credit limit for all customers, however, the Group assesses its customers taking into account their financial position, past experience, and other factors. Due to the fragmented customer base (no single customer balance is greater than 10% of total trade accounts receivable), the Group is not exposed to any significant concentration risk. The same applies to loans to third and related parties.

The Group does not expect any significant losses either from receivables or from other financial assets.

Impairment of financial assets

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

Accounting policies

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

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

CHF million				31.3.2019	31.3.2018
State customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Net carrying amount**
Not overdue	0.4%	81.4	(0.3)	81.1	69.7
Overdue 1–90 days	0.7%	28.4	(0.2)	28.2	23.4
Overdue 91–180 days	6.7%	3.0	(0.2)	2.8	3.2
Overdue 181–360 days	9.1%	2.2	(0.2)	2.0	3.2
Overdue more than 360 days	86.5%	5.2	(4.5)	0.7	2.9
Total	**4.5%**	**120.2**	**(5.4)**	**114.8**	**102.3**

CHF million				31.3.2019	31.3.2018
Non-state customers	**Expected loss rate**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Net carrying amount**
Not overdue	0.8%	314.2	(2.6)	311.6	254.2
Overdue 1–90 days	4.2%	77.9	(3.3)	74.6	74.8
Overdue 91–180 days	25.9%	13.5	(3.5)	10.0	9.9
Overdue 181–360 days	49.7%	14.9	(7.4)	7.5	6.9
Overdue more than 360 days	88.9%	19.0	(16.9)	2.1	1.4
Total	**7.7%**	**439.5**	**(33.7)**	**405.8**	**347.3**

The closing loss allowances for trade receivables as at March 31, 2018 (IAS 39) reconcile to the opening loss allowance on April 1, 2018 (IFRS 9) and the closing loss allowance as at March 31, 2019 as follows:

CHF million	2018/19	2017/18
Provision for doubtful receivables, April 1 (IAS 39)	**(31.9)**	**(26.1)**
Adjustment on initial application of IFRS 9	(5.1)	
Provision for doubtful receivables, April 1 (IFRS 9)	**(37.0)**	
Changes through business combinations	(0.2)	(0.0)
Utilization	2.2	9.7
Reversal	4.2	1.0
Additions	(8.9)	(16.4)
Disposal		0.1
Exchange differences	0.6	(0.2)
Provision for doubtful receivables, March 31	**(39.0)**	**(31.9)**

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

Previous accounting policy for impairment of trade receivables
In the prior year, a provision for doubtful accounts was recorded when there was objective evidence that the Group will not be able to collect all amounts due according to the original terms of the invoice. The amount of the provision was the difference between the carrying amount and the recoverable amount with the latter being the present value of expected cash flows.

Liquidity risk

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

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

The following table summarizes the contractual maturities of financial liabilities as of March 31, 2019 and 2018:

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

CHF million					**31.3.2018**
	Due less than 3 months	Due 3 months to 1 year	Due 1 year to 5 years	Due more than 5 years	Total
Bonds		150.1			150.1
Other current financial liabilities	3.9	7.6			11.5
Trade payables and other short-term liabilities	218.7	146.2			364.9
Total current financial liabilities	**222.6**	**303.9**			**526.5**
Bonds			609.2		609.2
Other non-current financial liabilities			9.8		9.8
Total non-current financial liabilities			**619.1**		**619.1**
Total financial liabilities	**222.6**	**303.9**	**619.1**		**1,145.6**

Capital risk management

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

The company aims to return excess cash to shareholders as far as not required for organic and acquisition related growth, and amortization of debt.

4.8 Financial instruments

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

Accounting policies

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

Level 1:

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

Level 2:

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

Level 3:

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

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

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

CHF million						31.3.2019
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	374.8				
Other financial assets	4.4	37.8				
Trade receivables	3.1	520.6				
Other receivables	3.5	69.0				
Total		**1,002.2**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.1	2.1			2.1
Total		**2.1**	**2.1**			**2.1**
Financial liabilities at amortized cost						
Bank debt	4.5	0.3				
Bond	4.5	609.5	613.3	613.3		
Deferred payments	4.5	7.9				
Other financial liabilities	4.5	0.2				
Trade payables		102.8				
Other short-term operating liabilities	3.7	296.0				
Total		**1,016.7**	**613.3**	**613.3**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	6.9	6.9			6.9
Negative replacement value of forward foreign exchange contracts	4.5	0.1	0.1			0.1
Other financial liabilities	4.5	4.2	4.2			4.2
Total		**11.2**	**11.2**			**11.2**

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

CHF million						31.3.2018
	Notes	Carrying amount	Fair value[1]	Level 1	Level 2	Level 3
Financial assets at amortized cost						
Cash and cash equivalents	4.1	552.1				
Other financial assets	4.4	25.9				
Trade receivables	3.1	449.5				
Other receivables	3.5	64.5				
Total		**1,092.1**				
Financial assets at fair value through profit or loss						
Other financial assets	4.4	2.4	2.4	0.1		2.3
Total		**2.4**	**2.4**	**0.1**		**2.3**
Financial liabilities at amortized cost						
Bank debt	4.5	0.1				
Bond	4.5	759.3	762.9	762.9		
Deferred payments	4.5	3.2				
Other financial liabilities	4.5	0.2				
Trade payables		89.2				
Other short-term operating liabilities	3.7	275.7				
Total		**1,127.7**	**762.9**	**762.9**		
Financial liabilities at fair value through profit or loss						
Contingent considerations	4.5	14.0	14.0			14.0
Negative replacement value of forward foreign exchange contracts	4.5	1.7	1.7			1.7
Other financial liabilities	4.5	2.2	2.2			2.2
Total		**17.9**	**17.9**			**17.9**

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

The following table presents the changes in level 3 financial instruments for the year ended March 31, 2019 and 2018:

Financial assets at fair value through profit or loss CHF million	2018/19	2017/18
Balance April 1	2.3	1.5
Additions/(disposals), net	0.5	0.8
Losses recognized in profit or loss	(0.7)	(0.1)
Balance March 31	**2.1**	**2.3**

Financial liabilities at fair value through profit or loss CHF million	2018/19	2017/18
Balance April 1	(17.9)	(20.6)
(Additions)/disposals, net	7.9	2.4
Losses recognized in profit or loss	(1.2)	0.3
Balance March 31	**(11.2)**	**(17.9)**

4.9 Exchange rates

The following main exchange rates were used for currency translation:

	31.3.2019	31.3.2018	2018/19	2017/18
	Year-end rates		Average rates for the year	
AUD 1	0.71	0.73	0.72	0.75
BRL 1	0.26	0.29	0.26	0.30
CAD 1	0.74	0.74	0.75	0.76
CNY 1	0.15	0.15	0.15	0.15
EUR 1	1.12	1.18	1.15	1.14
GBP 1	1.30	1.35	1.30	1.29
JPY 100	0.90	0.90	0.89	0.88
USD 1	1.00	0.96	0.99	0.97

Accounting policies

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

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

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

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

5. Taxes

5.1 Taxes

CHF million	2018/19	2017/18
Current taxes	67.3	60.4
Deferred taxes	2.1	11.1
Total income taxes	**69.4**	**71.5**
Reconciliation of tax expense		
Income before taxes	529.6	478.9
Group's expected average tax rate	13.5%	14.6%
Tax at expected average rate	**71.7**	**69.9**
+/– Effects of		
Expenses not subject to tax, net	5.6	4.0
Changes of unrecognized loss carryforwards/deferred tax assets	12.5	(0.0)
Local actual tax rate different to Group's expected average tax rate	(25.6)	(24.3)
Change in tax rates on deferred tax balances[1]	3.0	20.0
Prior year adjustments and other items, net	2.3	1.9
Total income taxes	**69.4**	**71.5**
Weighted average effective tax rate	13.1%	14.9%

[1] 2017/18 change mainly relates to a reduction for US corporate income tax rates.

The Group's expected average tax rate is the aggregate rate obtained by applying the expected tax rate for each individual jurisdiction to its respective result before taxes. The decrease in tax rate compared to the prior year mainly relates to the completion of the integration of AudioNova.

Deferred tax assets and (liabilities) CHF million			**31.3.2019**			**31.3.2018**
	Assets	Liabilities	Net amount	Assets	Liabilities	Net amount
Inventories	34.8	(2.8)	32.0	31.9	(3.8)	28.2
Property, plant & equipment	1.4	(8.6)	(7.2)	1.0	(8.1)	(7.1)
Intangible assets		(104.9)	(104.9)		(104.0)	(104.0)
Other assets and liabilities[1]	98.6	(55.0)	43.6	38.1	(34.4)	3.6
Tax loss carryforwards	42.1		42.1	52.6		52.6
Total tax assets (liabilities)	**176.9**	**(171.3)**	**5.6**	**123.6**	**(150.3)**	**(26.7)**
Offset of assets and liabilities	(32.7)	32.7		(9.0)	9.0	
Amounts in the balance sheet						
Deferred tax assets	144.2		144.2	114.6		114.6
Deferred tax liabilities		(138.6)	(138.6)		(141.3)	(141.3)
Total deferred taxes, net			**5.6**			**(26.7)**

[1] Deferred tax assets manly relate to provisions and contract liabilities, deferred tax liabilities mainly relate to provisions, contract assets and trade and other receivables.

Movement of deferred tax assets and (liabilities) CHF million — **2018/19**

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

1) Other comprehensive income.

Movement of deferred tax assets and (liabilities) CHF million — **2017/18**

	Inventories	Property, plant & equipment	Intangible assets	Other assets and liabilities	Tax loss carryforwards	Total
Balance April 1	25.1	(7.1)	(99.7)	10.2	64.7	(6.8)
Changes through business combinations			(1.9)	6.0		4.1
Deferred taxes recognized in the income statement	(2.5)	0.3	5.3	(1.7)	(12.5)	(11.1)
Deferred taxes recognized in OCI[1]				(2.1)		(2.1)
Exchange differences	5.6	(0.3)	(7.6)	(8.8)	0.4	(10.7)
Balance March 31	**28.2**	**(7.1)**	**(104.0)**	**3.6**	**52.6**	**(26.7)**

1) Other comprehensive income.

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

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

CHF million	**31.3.2019**	**31.3.2018**
Within 1 year	29.0	46.0
Within 2–5 years	96.0	90.6
More than 5 years or without expiration	479.9	449.4
Total	**604.9**	**586.0**

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

Accounting policies

Income taxes include current and deferred income taxes. The Group is subject to income taxes in numerous jurisdictions and significant judgment is required in determining the worldwide provision for income taxes. The multitude of transactions and calculations implies estimates and assumptions. The Group recognizes liabilities based on estimates of whether additional taxes will be due.

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

Accounting judgements and estimates

The consolidated balance sheet includes deferred tax assets of CHF 144.2 million (previous year CHF 114.6 million) related to deductible differences and, in certain cases, tax loss carry forwards, provided that their utilization appears probable. The recoverable value is based on forecasts of the corresponding taxable Group company over a period of several years. As actual results may differ from these forecasts, the deferred tax assets may need to be adjusted accordingly.

6. Changes in Group structure

6.1 Acquisitions/disposals of subsidiaries

In the financial year 2018/19, the Group acquired several small companies in Europe, Americas and Asia/Pacific. Furthermore, the Group divested several audiological care stores in the US region. All of these companies acquired/divested are in the business of producing and/or distributing and servicing hearing instruments. Due to the size of these transactions, they had no material impact on the financial statements. During the financial year 2017/18, the Group acquired several small companies in Europe, North America and Asia/Pacific.

All of the acquired companies are engaged in the business of selling hearing instruments and have been accounted for applying the acquisition method of accounting. Assets and liabilities resulting from the acquisitions are as follows:

CHF million	2018/19	2017/18
	Total	Total
Trade receivables	1.9	2.3
Other current assets	9.0	17.4
Property, plant & equipment	2.0	2.4
Intangible assets	22.4	26.7
Other non-current assets	0.7	0.6
Current liabilities	(10.7)	(14.6)
Non-current liabilities	(10.7)	(28.0)
Net assets	**14.7**	**6.8**
Goodwill	55.4	77.9
Purchase consideration	**70.1**	**84.7**
Fair value of previously held stake before the business combination	(2.4)	
Liabilities for contingent considerations and deferred payments[1)]	(7.7)	(5.8)
Cash and cash equivalents acquired	(4.5)	(3.4)
Cash outflow for investments in associates, contingent considerations and deferred payments	8.6	7.0
Cash consideration for acquisitions, net of cash acquired	**64.1**	**82.5**
Settlement of pre-existing financing relationships	2.3	
Total consideration paid, net of cash acquired	**66.4**	**82.5**

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

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

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

In the 2018/19 and 2017/18 reporting period, recognized acquisition-related intangible assets mainly relate to customer relationships. For acquisition-related intangibles, the lifetimes assigned range between 10 and 20 years. On these intangibles, deferred taxes have been considered.

Acquisition-related transaction costs in the amount of CHF 0.5 million (prior year period CHF 0.5 million) have been expensed and are included in the line "General and administration".

April 1 to March 31, CHF million	2018/19	2017/18
	Total	Total
Contribution of acquired companies from date of acquisition		
Sales	10.6	17.7
Net income	2.9	1.7
Contribution, if the acquisitions occurred on April 1		
Sales	32.8	34.8
Net income	6.4	6.3

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

On March 30, 2018, Sonova Holding AG signed an agreement to divest Ear Professional International Corporation ("EPIC"), representing the Group's US insurance subcontracting business. Further in the 2017/18 reporting period, the Group divested two minor Group companies in the EMEA region. The total purchase price consideration for the divestments amounted to CHF 23.2 million. The carrying amount of the disposed net assets amounted to CHF 17.8 million including cash and cash equivalents of CHF 0.8 million. The net gain from these transactions of CHF 5.4 million has been recognized in the income statement and is included in "other income/(expense), net". These transactions have no material impact on the financial statements.

Accounting policies

Business combinations are accounted for using the acquisition method of accounting. The cost of a business combination is equal to the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Sonova Group, in exchange for control over the acquired company. Any difference between the cost of the business combination and the net fair value of the identifiable assets, liabilities, and contingent liabilities recognized is treated as goodwill. Goodwill is not amortized, but is assessed for impairment annually, or more frequently if events or changes in circumstances indicate that its value might be impaired (Refer to Note 3.4). Acquisition-related costs are expensed. For each business combination, the Group recognizes the non-controlling interests in the acquiree at fair value or at the non-controlling interests proportionate share in the recognized amounts of the acquiree's identifiable net assets.

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

Accounting judgements and estimates

Business combinations

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

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

Cost of business combinations
A business combination agreement may provide for an adjustment to the cost of the combination contingent on future events. If the future events do not occur or the estimate needs to be revised, the cost of a business combination is revised accordingly, with a resulting change in the income statement. At the end of the 2018/19 financial year, such liabilities contingent on future events amount to CHF 6.9 million (previous year CHF 14.0 million) and are disclosed under other financial liabilities (Note 4.5).

6.2 Investments in associates/joint ventures

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

CHF million	**2018/19**	**2017/18**
Current assets	1.2	1.6
Non-current assets	1.5	2.2
Total assets	**2.6**	**3.8**
Current liabilities	(0.4)	(0.8)
Non-current liabilities	(0.0)	(0.0)
Total liabilities	**(0.4)**	**(0.8)**
Net assets	**2.2**	**2.9**
Income for the year	5.2	5.8
Expenses for the year	(3.1)	(2.6)
Profit for the year	**2.1**	**3.2**
Net book value at year-end	12.8	13.7
Share of gain/(loss) recognized by the Group	2.1	3.2

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

In the 2017/18 financial year, the Group acquired one associate and disposed a majority share (51%) of a previously fully consolidated company (resulting in a minority share and a reclassification to associates). Both transactions were for companies which are in the business of selling hearing instruments but had no significant effect on the financial statements for the Group. The net consideration for the two transactions above amounted to CHF 1.2 million.

Sales to associates/joint ventures in the 2018/19 financial year amounted to CHF 9.1 million (previous year CHF 10.0 million). At March 31, 2019, trade receivables towards associates/ joint ventures amounted to CHF 2.2 million (previous year CHF 2.3 million).

At the end of the 2018/19 and 2017/18 financial years, no unrecognized losses existed.

Investments with a net book value of CHF 12.8 million (previous year CHF 13.7 million) have a business year different than the Sonova Group. The latest available information for the respective companies are as per December 2018.

Accounting policies

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

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

7. Other disclosures

7.1 Number of employees

On March 31, 2019, the Sonova Group employed the full time equivalent of 14,740 people (previous year 14,242). They were engaged in the following regions and activities:

By region	31.3.2019	31.3.2018
Switzerland	1,224	1,219
EMEA (excl. Switzerland)	6,748	6,471
Americas	3,443	3,539
Asia/Pacific	3,325	3,013
Total	**14,740**	**14,242**
By activity		
Research and development	778	774
Operations	4,665	4,391
Sales and marketing, general and administration	9,297	9,077
Total	**14,740**	**14,242**

The average number of employees (full time equivalents) of the Sonova Group for the year was 14,418 (previous year 14,073). Total personnel expenses for the 2018/19 financial year amounted to CHF 1,010.9 million (previous year CHF 939.5 million).

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

CHF million	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	Management Board		Board of Directors		Total	
Short-term employee benefits	7.8	9.3	1.8	1.6	9.6	10.9
Post-employment benefits	0.7	0.9			0.7	0.9
Share based payments	4.5	6.6	2.0	1.8	6.5	8.5
Total	**13.1**	**16.8**	**3.8**	**3.4**	**16.8**	**20.2**

The total compensation to the Management Board for the 2018/19 reporting period, as shown above, relates to 9 members of the Management Board. The total compensation to the Management Board for the 2017/18 reporting period, as shown above, related to 10 members (including two members of the Management Board who joined in October 2017).

The total compensation to the Board of Directors for the 2018/19 reporting period, as shown above, relates to nine current members (previous year eight members).

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

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

7.3 Employee benefits

Defined benefit plans

Sonova Group's retirement plans include defined benefit pension plans in Switzerland, Austria, Canada, Germany and Israel. These plans are both funded and unfunded and governed by local regulations using independent actuarial valuations according to IAS 19. Sonova Group's major defined benefit plan is located in Switzerland, which in total accounts for CHF 405.5 million or 99.6% (previous year CHF 369.1 million or 99.6%) of Sonova's defined benefit obligation.

Pension plans in Switzerland

The current pension arrangement for employees in Switzerland is made through a plan governed by the Swiss Federal Occupational Old Age, Survivors and Disability Pension Act (BVG). The plan of Sonova's Swiss companies is administered by a separate legal foundation, which is funded by regular employer and employee contributions as defined in the pension fund rules. The Swiss pension plan contains a cash balance benefit which is, in essence, contribution-based with certain minimum guarantees. Due to these minimum guarantees, the Swiss plan is treated as a defined benefit plan for the purposes of these IFRS financial statements, although it has many of the characteristics of a defined contribution plan. The plan is invested in a diversified range of assets in accordance with the investment strategy and the common criteria of an asset and liability management. A potential under-funding may be remedied by various measures such as increasing employer and employee contributions or reducing prospective benefits. In the previous year, to further reduce the financial risks of the pension fund, the foundation has decided that, above a set insured salary, the savings capital will be split into pension-accumulating and capital-accumulating savings capital. The pension-accumulating savings capital will generate a life-long retirement pension upon retirement. The capital-accumulating savings capital will generate a one-off capital payment upon retirement. In the previous year, the foundation decided to reduce the annuity rate applied to the individual accumulated retirement saving gradually over-time. After 5.6% that was applied for 2017/18, an annuity rate of 5.4% was applied for the financial year 2018/19.

As of March 31, 2019, 1,270 employees (previous year 1,254 employees) and 123 beneficiaries (previous year 119 beneficiaries) are insured under the Swiss plan. The defined benefit obligation has a duration of 13.7 years (previous year 13.4 years).

The results of all defined benefit plans are summarized below:

Amounts recognized in the balance sheet CHF million	**31.3.2019**	**31.3.2018**
Present value of funded obligations	(407.0)	(370.7)
Fair value of plan assets	383.2	365.6
Net present value of funded plans	**(23.8)**	**(5.1)**
Present value of unfunded obligations	(2.2)	(2.3)
Total liabilities, net	**(26.0)**	**(7.4)**
Amounts in the balance sheet:		
Retirement benefit obligation	(26.0)	(7.4)

Remeasurements recognized in equity CHF million	**2018/19**	**2017/18**
Balance April 1	15.0	30.0
Actuarial losses/(gains) from		
– changes in financial assumptions	15.9	(12.5)
– changes in experience adjustments	3.1	12.6
Return on plan assets excluding interest income	(2.0)	(15.0)
Balance March 31	**32.0**	**15.0**

Amounts recognized in the income statement CHF million	**2018/19**	**2017/18**
Current service cost[1)]	26.0	21.3
Participants' contributions	(11.4)	(11.0)
Net interest cost	0.1	0.2
Total employee benefit expenses[2)]	**14.7**	**10.5**

1) Current service cost contains the effect of a gradual reduction of the annuity rate. Current service cost for the 2017/18 financial year contains the effect of the pension plan change as described above.

2) The amount recognized in the consolidated income statement 2018/19 has been charged to:
– cost of sales CHF 2.7 million (previous year CHF 1.9 million);
– research and development CHF 4.9 million (previous year 3.5 million);
– sales and marketing CHF 3.0 million (previous year 2.1 million);
– general and administration CHF 4.0 million (previous year CHF 2.9 million);
– financial expenses CHF 0.1 million (previous year CHF 0.2 million).

Movement in the present value of the defined benefit obligations CHF million	**2018/19**	**2017/18**
Beginning of the year	373.0	356.5
Interest cost	3.2	2.2
Current service cost	26.0	21.3
Benefits paid, net	(12.0)	(7.2)
Actuarial loss on obligations	19.0	0.0
Exchange differences	(0.1)	0.2
Present value of obligations at end of period	**409.2**	**373.0**

Movement in the fair value of the plan assets CHF million	**2018/19**	**2017/18**
Beginning of the year	365.6	330.8
Interest income on plan asset	3.1	2.0
Employer's contributions paid	12.7	14.0
Participants' contributions	11.4	11.0
Benefits paid, net	(11.7)	(7.2)
Return on plan assets excluding interest income	2.0	15.0
Exchange differences	0.0	0.0
Fair value of plan assets at end of period	**383.2**	**365.6**

The plan assets consist of:	31.3.2019	31.3.2018
Cash	2.3%	4.5%
Domestic bonds	16.4%	17.9%
Foreign bonds	10.0%	7.6%
Domestic equities	13.3%	12.9%
Foreign equities	31.2%	31.9%
Real estates	15.0%	14.3%
Alternative investments	11.8%	10.9%

All of the plan assets have quoted market prices. The actual return on plan assets amounted to CHF 5.1 million (previous year CHF 17.1 million). The expected employer's contributions to be paid in the 2019/20 financial year amount to CHF 13.0 million.

Principal actuarial assumptions (weighted average)	2018/19	2017/18
Discount rate	0.55%	0.85%
Future salary increases	1.00%	1.00%
Future pension increases	0%	0%
Fluctuation rate	10%	10%
Demography	BVG 2015GT	BVG 2015GT

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

Sensitivity analysis – impact on defined benefit obligation CHF million	31.3.2019	31.3.2018
Discount rate		
Discount rate +0.25%	(12.9)	(11.4)
Discount rate –0.25%	14.6	12.9
Salary growth		
Salary growth +0.25%	0.7	0.7
Salary growth –0.25%	(0.7)	(0.6)
Pension growth		
Pension growth +0.5%	14.8	26.4
Pension growth –0.5%	(14.8)	(26.4)
Fluctuation rate		
Fluctuation rate +5%	(14.9)	(11.3)
Fluctuation rate –5%	25.4	19.4

Defined contribution plans

Several of the Group's entities have a defined contribution plan. The employer's contributions amounted to CHF 21.4 million in the year ended March 31, 2019 (previous year CHF 19.1 million) and are recognized directly in the income statement.

Accounting policies

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

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

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

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

Accounting judgements and estimates

The Sonova Group has various employee benefit plans. Most of its salaried employees are covered by these plans, of which some are defined benefit plans. The present value of the defined benefit obligations at the end of the 2018/19 financial period amounts to CHF 409.2 million (previous year CHF 373.0 million). This includes CHF 405.5 million (previous year CHF 369.1 million) from the Swiss pension plan. With such plans, actuarial assumptions are made for the purpose of estimating future developments, including estimates and assumptions relating to discount rates, and future wage as well as pension trends. Actuaries also use statistical data such as mortality tables and staff turnover rates with a view to determining employee benefit obligations. If these factors change due to a change in economic or market conditions, the subsequent results could deviate considerably from the actuarial reports and calculations. In the medium term, such deviations could have an impact on the equity.

7.4 Equity plans

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

In the 2018/19 and 2017/18 financial years, Sonova granted restricted shares, restricted share units (RSUs), performance share units (PSUs), options, and for US employees, share appreciation rights (SARs). In 2018/19, grants made to the members of the Management Board under the Executive Equity Award Plan (EEAP) consist of options, PSUs as well as an additional one-time transition grant of RSUs. Options as well as PSUs granted to the Management Board in 2018/19 include a performance criterion.

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

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

CHF million	**2018/19**	**2017/18**
Equity-settled share-based payment costs	18.8	17.9
Cash-settled share-based payment costs	0.4	0.3
Total share-based payment costs	**19.2**	**18.2**

The following table shows the outstanding options and/or SARs, granted as part of the EEAP 2013 to 2019. All of the equity instruments listed below (except for the non-recurring performance options granted to the COO in 2017/18) vest in 4 equal tranches, annually over a period of 4 years. The non-recurring performance options granted to the COO vest on April 1, 2023, subject to the achievement of the performance criteria.

Summary of outstanding options and SARs granted until March 31, 2019:

Financial year granted	Instruments granted	First vesting date/ expiry date	Granted	Exercise price (CHF)	Outstanding	Average remaining life (years)	Exercisable
2012/13	Options/SARs	1.6.2014 31.1.2020	227,188	109.10	43,200	0.8	43,200
2013/14	Options/SARs[1]	1.6.2015 31.1.2021	242,673	124.60	48,851	1.8	48,851
2014/15	Options/SARs[2]	1.6.2016 31.1.2022	308,459	121.10	110,780	2.8	58,715
2015/16	Options/SARs[3]	1.6.2017 31.1.2023	298,520	124.20	155,190	3.8	48,802
2016/17	Options/SARs[4]	1.6.2018 31.1.2024	378,652	130.00	278,958	4.8	40,423
2017/18	Options[5]	1.4.2023 30.9.2027	47,415	147.85	47,415	8.5	
2017/18	Options/SARs[6]	1.6.2019 31.1.2028	341,943	147.85	326,735	8.8	
2018/19	Options/SARs[7]	1.6.2020 31.1.2029	249,760	182.40	249,760	9.8	
Total			**2,094,610**		**1,260,889**[8]	**6.5**	**239,991**[9]
Thereof:							
Equity-settled			1,858,971		1,147,865		217,568
Cash-settled			235,639		113,024		22,423

1) Including 107,567 performance options, granted to the CEO and MB members.
2) Including 135,223 performance options, granted to the CEO and MB members.
3) Including 126,206 performance options, granted to the CEO and MB members.
4) Including 147,948 performance options, granted to the CEO and MB members.
5) Non-recurring performance options, granted to the COO (now CEO).
6) Including 150,114 performance options, granted to the CEO and MB members.
7) Including 80,850 performance options, granted to the CEO and MB members.
8) Weighted average exercise price of outstanding options/SARs amounts to CHF 143.26
9) Weighted average exercise price for exercisable options/SARs amounts to CHF 121.78.

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

Assumptions for valuation at grant date	EEAP 2019 Options/SARs	EEAP 2018 Options/SARs	EEAP 2018 Performance options COO
Valuation date	1.2.2019	1.2.2018	1.2.2018
Expiry date	31.1.2029	31.1.2028	30.9.2027
Share price on grant date	CHF 182.40	CHF 147.85	CHF 147.85
Exercise price	CHF 182.40	CHF 147.85	CHF 147.85
Volatility	21.0%	20.1%	20.1%
Expected dividend yield	1.8%	1.9%	1.9%
Weighted risk free interest rate	(0.2%)	0.2%	0.3%
Weighted average fair value of options/SARs issued	**26.12**	**20.77**	**21.09**

Options

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

Changes in outstanding options:		2018/19		2017/18
	Number of options	Weighted average exercise price (CHF)	Number of options	Weighted average exercise price (CHF)
Outstanding options at April 1	1,197,443	130.87	1,123,708	122.03
Granted[1]	215,382	182.40	357,319	147.85
Exercised/sold[2]	(232,189)	119.59	(211,026)	114.36
Forfeited	(32,771)	133.06	(72,558)	125.60
Outstanding options at March 31	**1,147,865**	**142.76**	**1,197,443**	**130.87**
Exercisable at March 31	**217,568**	**121.64**	**227,885**	**115.77**

1) 2018/19 includes 80,850 performance options (previous year 150,114 performance options), granted to the CEO and MB members. In previous year, in addition, 47,415 non-recurring performance options were granted to the then COO (now CEO).

2) The total consideration from options exercised amounted to CHF 27.9 million (previous year CHF 24.1 million). The weighted average share price of the options exercised during the year 2018/19 was CHF 176.49 (previous year CHF 159.16).

Share appreciation rights (SARs)

The exercise price of SARs is generally equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange at grant date. Upon exercise of SARs, an employee shall be paid, an amount in cash equal to the number of shares for which the employee exercised SARs, multiplied by any surplus, of the per share market price at the date of exercise versus the per share exercise price (determined at the date of grant of SARs). The initial fair value of the SARs is in line with the valuation of the options of the respective period and recorded as an expense over the corresponding vesting period. Until the liability is settled, it is revalued at each reporting date recognizing changes in fair value in the income statement. The SARs may be sold after the vesting date, until they expire.

Changes in outstanding SARs:		**2018/19**		**2017/18**
	Number of SARs	Weighted average exercise price (CHF)	Number of SARs	Weighted average exercise price (CHF)
Outstanding SARs at April 1	102,369	132.90	102,364	125.00
Granted	34,378	182.40	32,039	147.85
Exercised/sold	(8,522)	124.84	(11,957)	117.19
Forfeited	(15,201)	135.08	(20,077)	125.84
Outstanding SARs at March 31[1]	**113,024**	**148.27**	**102,369**	**132.90**
Exercisable at March 31[2]	**22,423**	**123.17**	**14,042**	**119.84**

1) The carrying amount of the liability relating to the SARs at March 31, 2019 is CHF 4.0 million (previous year CHF 1.1 million).
2) The intrinsic value of the SARs exercisable at March 31, 2019 amounts to CHF 1.7 million (previous year CHF 0.4 million).

Performance share units (PSUs)/Restricted share units (RSUs)/Restricted shares

Under the EEAP grants 2013 to 2019, entitled employees have been granted RSUs. The value of an RSU is equal to the market price of Sonova Holding AG shares on the SIX Swiss Exchange on the grant date, adjusted for the fair value of expected dividends, as RSUs are not entitled to dividends. RSUs entitle the holder to one share per RSU after the vesting period. In the case of RSUs granted to the CEO (2014 to 2018) and the other members of the MB (EEAP 2014 to 2017 and 2019), vesting of these shares is dependent on the fulfillment of the performance criteria which remains the achievement of a pre-defined minimum return on capital employed (ROCE) target. In 2019, as well as in the previous year, grants made to the members of the Management Board under the EEAP consist of PSUs (in previous year CEO received RSUs). The PSUs are measured on relative TSR (rTSR) against the constituents of a recognized index. The fair value of a PSU at grant date was based on a “Monte-Carlo valuation”. PSUs entitle the holder up to two shares per PSU, subject to the achievement of the performance criterion.

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

Upon vesting of the PSUs/RSUs, the respective shares are either created out of the conditional share capital or treasury shares are used.

The cost of the PSUs/RSUs granted is expensed over their vesting period. Assumptions are made regarding the forfeiture rate which is adjusted during the vesting period (including adjustments due to re-assessments of the likely achievements of the rTSR targets for performance of PSUs and ROCE targets for performance of RSUs granted to CEO and the other members of the MB) to ensure that only vested amounts are expensed. The costs for the restricted shares granted to the members of the Board of Directors have been fully expensed in the 2018/19 financial year as these shares have no vesting period.

Changes in outstanding PSUs/RSUs/Restricted shares:	**2018/19**	**2017/18**
	Number of PSUs/RSUs/ restricted shares	Number of PSUs/RSUs/ restricted shares
PSUs/RSUs/Restricted shares at April 1	435,506	457,669
Granted[1)]	102,162	126,931
Released	(109,800)	(115,014)
Forfeited	(27,981)	(34,080)
PSUs/RSUs/Restricted Shares at March 31	**399,887**	**435,506**

1) 2018/19 includes 7,876 PSUs, granted to the MB members. In the previous year, 18,001 PSUs were granted to the MB members and 2,800 RSU's to the CEO.

Accounting policies

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

7.5 Events after the balance sheet date

There have been no material events after the balance sheet date.

7.6 List of significant companies

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000		Shares held
Switzerland					
Sonova Holding AG	A	Stäfa	CHF	3,267	
Sonova AG	A, B, C, D	Stäfa	CHF	2,500	100%
Advanced Bionics AG	A, B	Stäfa	CHF	4,350	100%
Sonova Retail Holding AG	A	Zug	CHF	1,000	100%
EMEA (excluding Switzerland)					
Sonova Audiological Care Austria GmbH	B	Wals-Himmelreich (AT)	EUR	450	100%
Sonova Retail Belgium NV	B	Groot-Bijgaarden (BE)	EUR	3,686	100%
Sonova Deutschland GmbH	B	Fellbach-Oeffingen (DE)	EUR	41	100%
Vitakustik GmbH	B	Dortmund (DE)	EUR	500	100%
Hörgeräte ISMA Komplementär GmbH	B	Dortmund (DE)	EUR	120	100%
Sonova Retail Deutschland GmbH	B	Dortmund (DE)	EUR	1,000	100%
Sonova Retail Denmark ApS	B	Klampenborg (DK)	DKK	1,581	100%
Sonova Ibérica S.A.U.	B	Alicante (ES)	EUR	7,000	100%
Sonova Audiological Care France SAS	B	Cahors (FR)	EUR	28,800	100%
Sonova France S.A.S.	B	Bron-Lyon (FR)	EUR	1,000	100%
Sonova Italia Srl	B	Milan (IT)	EUR	1,040	100%
AudioNova Italia	B	Milan (IT)	EUR	1,166	100%
Sonova Audiological Care Nederland B.V.	B	Dortrecht (NL)	EUR	19	100%
Sonova Audiological Care Polska Sp.z.o.o.	B	Lodz (PL)	PLN	678	100%
Boots Hearing Care Ltd.	B	Conwy (UK)	GBP	0 [2]	51%
Sonova UK Ltd.	B	Warrington (UK)	GBP	2,500	100%
Sonova Service Center UK Limited	C	Warrington (UK)	GBP	3,150	100%

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

Company name	Activity	Domicile (country)	Share/paid-in capital[1] Local currency 1,000			Shares held
Americas						
Sonova do Brasil Produtos Audiológicos Ltda.	B	Sao Paulo (BR)	BRL	67,179		100%
National Hearing Services Inc.	B	Victoria BC (CA)	CAD	0	2)	100%
Sonova Canada Inc.	B	Mississauga (CA)	CAD	0	2)	100%
Connect Hearing Inc.	B	Naperville (US)	USD	0	3)	100%
Sonova USA, Inc.	B	Plymouth (US)	USD	46,608		100%
Advanced Bionics Corp.	A	Valencia (US)	USD	1		100%
Advanced Bionics LLC	B, C, D	Valencia (US)	USD	0	2)	100%
Sonova United States Hearing Instruments, LLC	A	Warrenville (US)	USD	0	2)	100%
Development Finance Inc.	A	Wilmington (US)	USD	0	4)	100%
Asia/Pacific						
Hearing Retail Group Pty. Ltd.	B	McMahons Point (AU)	AUD	58,000		100%
Sonova Australia Pty Ltd	B	Baulkham Hills (AU)	AUD	10,475		100%
Sonova (Shanghai) Co., Ltd.	B	Shanghai (CN)	CNY	20,041		100%
Sonova Hearing (Suzhou) Co., Ltd.	C	Suzhou (CN)	CNY	46,249		100%
Sonova Japan Co., Ltd.	B	Tokyo (JP)	JPY	10,000		100%
Triton Hearing Ltd.	B	Auckland (NZ)	NZD	15,450,000		100%
Sonova Operation Center Vietnam Co., Ltd.	C	Binh Duong (VN)	VND	36,156,000		100%

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

7.7 Other accounting policies

Investments in subsidiaries

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

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

Related parties

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

7.8 Effect of new accounting standards

IFRS 15 “Revenue from Contracts with Customers”

The standard combines, enhances and replaces specific guidance on recognizing revenue with a new single standard based on a five step approach. The core principle of IFRS 15 is that revenue is recognized at an amount that reflects the consideration that the company expects to be entitled to in exchange for transferring goods or services. Under IFRS 15, an entity recognizes revenue when a performance obligation is satisfied.

The primary impact for the Group is on the timing of revenue recognition for the performance obligations related to extended warranties, loss and damage, battery plans and on additional revenue related disclosures.

The Group has adopted IFRS 15 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

The following table summarizes the impact, net of tax, of transition to IFRS 15 on retained earnings and non-controlling interests as of April 1, 2018, including any changes made with respect to the amount stated in the interim consolidated financial statements (CHF 126.4 million).

in CHF million	Impact of adopting IFRS 15 at April 1, 2018	
	Retained earnings	Non-controlling interests
Net impact of recognition of contract liabilities	(196.5)	(0.3)
Recognition of contract assets	8.9	
Net impact of decrease in provisions	28.9	0.1
Deferred taxes	32.4	
Net impact on retained earnings and on non-controlling interests at April 1, 2018	**(126.4)**	**(0.1)**

Effect of change in accounting policies

Under IAS 18, sales of products were recognized when the significant risk and rewards of the ownership were transferred to the buyer, mainly upon delivery. In addition, revenue from the sale of service was recognized when the service was provided to the customer and when there were no continuing unfulfilled service obligations. The main change with IFRS 15 is that at contract inception, the transaction price is allocated to each performance obligation in a contract on the basis of the relative stand-alone selling price. Revenue for services is predominantly recognized on a straight-line basis over the service period.

As a result of applying IFRS 15, a higher portion of revenue is allocated to the Group's services and therefore, more revenue is deferred. The impact of these changes at the transition date of April 1, 2018 is a reclassification from deferred income (included in other operating liabilities) to contract liabilities for services that were already deferred under the old standard. For services that were previously not deferred, contract liabilities were recognized with the corresponding transition effect recognized in equity. In addition, the Group recognized contract assets (presented in other operating assets) that relate to reinsurance of loss and damage services. The transition further resulted in a decrease of provisions for warranty due to the methodology change from providing for future costs as opposed to deferral of revenue. A description of the Group's goods and services and accounting policies in regards to revenue recognition under IFRS 15 are disclosed in Note 2.3.

For products subject to a right of return, the Group previously recognized a return provision, which was measured on a net basis at the margin on the sale. Under IFRS 15, a return provision for the expected refunds to customers is recognized as an adjustment to revenue, measured by the sales price of the products. In addition, an asset for the right to recover products is recognized measured by reference to the carrying amount, which is presented as part of other current operating assets. The transition resulted in an increase in the right to recover products (presented in other operating assets) and an increase in return provision (presented in provisions for warranty and returns) with no net transition effect in equity.

The adoption of the new standard did not result in a material impact on the Group's consolidated income statement for the financial year ended March 31, 2019, as the deferral and release of revenue is largely offsetting. For the financial year 2018/19, the adoption had a negative impact of CHF 1.1 million on the EBITA result.

Impact on the consolidated balance sheet

The following table summarizes the impact of IFRS 15 on the Group's consolidated balance sheets as at April 1, 2018 and March 31, 2019 for each of the line items affected. Line items that were not affected by the changes have not been included. As a result, the sub-total and totals disclosed cannot be recalculated from the numbers provided.

Assets CHF million			**31.3.2019**			**1.4.2018**
	As reported with IFRS 15	IFRS 15 effect	Without IFRS 15	With IFRS 15	IFRS 15 effect	Without IFRS 15
Other current operating assets	114.3	(11.4)	102.9	100.8	(10.2)	90.6
Total current assets	**1,311.9**	**(11.4)**	**1,300.5**	**1,378.0**	**(10.2)**	**1,367.8**
Intangible assets	2,463.2	(1.2)	2,462.0	2,466.4		2,466.4
Other non-current operating assets	6.5	(6.5)		6.2	(6.2)	
Deferred tax assets	144.2	(44.5)	99.7	159.6	(45.0)	114.6
Total non-current assets	**2,980.6**	**(52.2)**	**2,928.4**	**2,985.3**	**(51.2)**	**2,934.1**
Total assets	**4,292.5**	**(63.6)**	**4,228.9**	**4,363.4**	**(61.4)**	**4,302.0**

Liabilities and equity CHF million			**31.3.2019**			**1.4.2018**
	As reported with IFRS 15	IFRS 15 effect	Without IFRS 15	With IFRS 15	IFRS 15 effect	Without IFRS 15
Short-term contract liabilities	106.5	(106.5)		109.7	(109.7)	
Other short-term operating liabilities	296.0	33.2	329.2	242.6	33.1	275.7
Short-term provisions	129.2	(4.3)	124.9	121.8	(3.9)	117.9
Total current liabilities	**1,030.1**	**(77.6)**	**952.5**	**866.9**	**(80.6)**	**786.3**
Long-term provisions	122.9	23.9	146.8	142.8	23.7	166.5
Long-term contract liabilities	226.1	(226.1)		225.3	(225.3)	
Other long-term operating liabilities	26.0	101.2	127.2	7.0	106.9	113.9
Deferred tax liabilities	138.6	(12.1)	126.5	153.9	(12.6)	141.3
Total non-current liabilities	**886.3**	**(113.1)**	**773.2**	**1,148.1**	**(107.3)**	**1,040.8**
Total liabilities	**1,916.3**	**(190.7)**	**1,725.6**	**2,015.0**	**(187.9)**	**1,827.1**
Retained earnings and reserves	2,517.5	127.1	2,644.6	2,322.6	126.4	2,449.0
Equity attributable to equity holders of the parent	**2,353.8**	**127.1**	**2,480.9**	**2,325.3**	**126.4**	**2,451.7**
Non-controlling interests	22.3	0.1	22.4	23.1	0.1	23.2
Equity	**2,376.1**	**127.2**	**2,503.3**	**2,348.4**	**126.5**	**2,474.9**
Total liabilities and equity	**4,292.5**	**(63.6)**	**4,228.9**	**4,363.4**	**(61.4)**	**4,302.0**

IFRS 9 "Financial instruments"

The new standard completes the guidance on recognition/derecognition of financial instruments. It includes revised principles on classification and measurement of financial instruments, including a new expected credit loss model for calculating provisions for impairments on financial assets.

The Group has adopted IFRS 9 using the modified retrospective approach with the recognition of the cumulative effect of initial application in retained earnings. Accordingly, the information presented for the prior period has not been restated and is presented as previously reported.

The impact of transition to IFRS 9 on retained earnings as at April 1, 2018 is a decrease of CHF 6.5 million due to additional allowances.

There was no material impact on the Group's consolidated income statement for the financial year ending March 31, 2019.

Change in classification and measurement

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVPL). The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. The classification categories are disclosed in Note 4.4 "Other financial assets" and Note 4.5 "Financial liabilities.

The classification and measurement requirements of IFRS 9 did not have a significant impact on the Group. The effect of adopting IFRS 9 on the carrying amounts of financial assets at April 1, 2018 relates solely to the new impairment requirements. An increase in the allowance was recognized as of April 1, 2018 on transition to IFRS 9 as described below.

Impairment of financial assets

IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortized cost.

The Group applies the IFRS 9 simplified approach to measuring credit losses, which uses a lifetime expected loss allowance for trade receivables. This resulted in an increase of the allowance for doubtful receivables on April 1, 2018 in the amount of CHF 5.1 million (refer to Note 4.7).

The impact of the application of the expected credit loss model for other financial assets (i.e. loans) on transition to IFRS 9 was not material.

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

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Sonova Holding AG and its subsidiaries (the Group), which comprise the consolidated balance sheets as at 31 March 2019 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

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

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

Our audit approach

Overview

Overall Group materiality: CHF 22,000,000

We concluded full scope audit work at 25 reporting units in 11 countries. Our audit scope addressed over 67% of the Group's revenue and 76% of the Group's assets.

In addition, specified procedures were performed for 6 reporting units in 6 countries representing a further 8% of the Group's revenue and 5% of the Group's assets and limited reviews for 3 reporting units in 1 country representing a further 1% of the Group's revenue and 9% of the Group's assets.

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

Goodwill impairment assessment

Provisions for product liabilities

Materiality

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

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

Overall materiality	CHF 22,000,000
How we determined it	5% of profit before tax
Rationale for the materiality benchmark applied	We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured, and is a generally accepted benchmark. The use of the average number of the last three years avoids volatility effects in the profit before tax.

Audit scope

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

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

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

Key audit matters

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

Goodwill impairment assessment

Key audit matter	How our audit addressed the key audit matter
The Group has goodwill of CHF 1,963.3 million at March 31, 2019. The goodwill impairment assessment is considered as a key audit matter due to the magnitude of the balance as well as the considerable judgements and estimates made by Management. The judgements and estimates include the initial valuation and subsequent determination of the timing and measurement of an impairment charge, if any. Management's impairment assessment includes the determination of the cash generating units (CGU's), the future cash flow forecasts and discount rates applied. Refer to note 3.4 (Intangible assets).	We have obtained impairment assessments for the CGU Hearing Instruments and the CGU Cochlear Implants from Management and performed the following procedures, amongst other: We assessed and tested the design of the controls over the Group's Budget- and Management Reporting process, which is the basis for the future cash flow forecasts. We sought to ensure Management had followed a robust process for drawing up future cash flow forecasts, which included the timely oversight and discussion with the Board of Directors and which was consistent with the Board of Directors approved budgets. We assessed the identification of the relevant CGUs. We evaluated and challenged the reasonableness of Management's key assumptions applied in its impairment assessments for: • Cash flow projections in the forecast, by comparing actual results with the figures included in the prior year budgets to consider whether the key assumptions had with hindsight, been reasonable. • Any significant changes to key assumptions from prior periods by considering whether they had been applied appropriately in the cash flow projection. • Growth rates, by comparing them to economic and industry forecasts and operating margins with comparable companies. • Discount rate, with support of our valuation experts, by assessing the risk adjusted cost of capital used to derive the discount rate for the Group and comparable organisations. We performed our own sensitivity analysis around the key assumptions to ascertain the extent of change in those assumptions that either individually or collectively would be required for goodwill to be impaired. We found Management's impairment assessments were based upon reasonable assumptions and consistently applied.

Provisions for product liabilities

Key audit matter	How our audit addressed the key audit matter
Provisions for product liabilities amounted to CHF 100.9 million as of March 31, 2019. We focused on the provision for product liabilities related to the voluntary product recall of Advanced Bionics LLC in 2006 (for further details refer to note 3.6 (Provisions)), due to the inherent uncertainty of outcomes and timing of recognition of the liability. In addition, the eventual outcome of any claims is dependent on a number of future events and therefore the positions taken by Management are highly judgmental and can materially affect the Group's result.	In response to the risk, our audit procedures included, assessing management's process around the identification and evaluation of respective claims, proceedings and investigations at different levels in the organisation and the recording and continuous reassessment of the related provision and disclosures. We inquired with executive management as well as legal and financial personnel in respect of ongoing investigations, claims and proceedings. We inspected relevant correspondence and the minutes of the meetings of the Audit Committee and Board of Directors. We also received external legal confirmation letters from relevant external legal counsels. Management use a developed model to calculate the product liability (the Model). Generally, the key assumptions within the Model are consistent to the prior year. The provision is based on historical average claim rates and costs per claim. We tested the Model's mathematical integrity, the accuracy of the underlying calculation and the overall provision, including its key determining factors like devices in the market, failure rates, claim rates and costs per case. We selected samples for settlements and assessed whether the settlements support the key determining factors used in the Model. Based on our procedures performed, the provision had been reasonably based on the information currently available to Management.

Other information in the annual report

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

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

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

Responsibilities of the Board of Directors for the consolidated financial statements

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Sandra Boehm Audit expert Auditor in charge	Dominik Hattrup Audit expert

Zürich, 17 May 2019

Enclosure:

- Consolidated financial statements (consolidated balance sheets, consolidated income statements, consolidated statement of comprehensive income, consolidated cash flow statements, consolidated changes in equity and notes to the consolidated financial statements as of March 31, 2019)

Financial statements of Sonova Holding AG

Income statements

CHF million	Notes	2018/19	2017/18
Income			
Investment income		287.3	276.1
License income		0.0	6.5
Financial income	2.1	20.0	27.9
Total income		**307.2**	**310.5**
Expenses			
Administration expenses		(9.9)	(8.3)
Other expenses		(0.8)	(1.0)
Financial expenses	2.1	(34.3)	(19.3)
Direct taxes		0.2	(0.9)
Total expenses		**(44.8)**	**(29.5)**
Net profit for the year		**262.4**	**281.1**

Balance sheets

Assets CHF million	Notes	31.3.2019	31.3.2018
Cash and cash equivalents		12.4	34.4
Other receivables			
– Third parties		0.0	2.8
– Group companies		3.8	6.4
Prepaid expenses		0.1	0.0
Total current assets		**16.3**	**43.6**
Financial assets	2.2		
– Third parties		0.5	0.8
– Group companies		2,153.3	2,310.2
Investments	2.3	322.6	324.3
Total non-current assets		**2,476.4**	**2,635.3**
Total assets		**2,492.7**	**2,678.9**

Liabilities and shareholders' equity CHF million	Notes	31.3.2019	31.3.2018
Trade account payables			
– Third parties		0.1	0.1
– Group companies			0.0
Short-term interest-bearing liabilities			
– Third parties		0.0	0.0
– Group companies		46.2	17.6
Bond	2.4	250.0	150.0
Other short-term liabilities to third parties		8.9	0.2
Accrued liabilities		5.9	5.5
Total short-term liabilities		**311.1**	**173.4**
Bonds	2.4	360.0	610.0
Total long-term liabilities		**360.0**	**610.0**
Total liabilities		**671.1**	**783.4**
Share capital		3.3	3.3
Legal reserves			
– Reserves from capital contribution		18.6	18.6
– General reserves		1.8	1.8
Statutory retained earnings			
– Balance carried forward		1,702.5	1,591.2
– Net profit for the year		262.4	281.1
Treasury shares	2.5	(166.9)	(0.5)
Total shareholders' equity		**1,821.7**	**1,895.4**
Total liabilities and shareholders' equity		**2,492.7**	**2,678.9**

Notes to the financial statements of Sonova Holding AG as of March 31, 2019

1. General information

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

2. Accounting principles

2.1 Financial income/expenses

Financial income/expenses consists primarily of realized/unrealized foreign exchange gains and losses as well as interest income/expenses.

2.2 Financial assets

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

2.3 Investments

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

2.4 Bonds

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

2.5 Treasury shares

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

3. Information on income statement and balance sheet items

3.1 Bonds

On October 11, 2016, the Sonova Group issued bonds in three tranches with different coupons and terms:

- A two year variable rate bond (floating rate note) with a nominal value of CHF 150 million (ISIN CH0340912135) issued at 100.40% with interest at 3-month CHF Libor plus 50 bps p.a. paid quarterly. The loan paid an interest between 0.00% p.a. (floor) and 0.05% p.a. (cap) and was repaid on October 11, 2018.
- A three year fixed-rate bond with a nominal value of CHF 250 million (ISIN CH0340912143) issued at 100.15% with 0.00% interest payment and maturity on October 11, 2019 (disclosed under short-term liabilities).
- A five year fixed-rate bond with a nominal value of CHF 360 million (ISIN CH0340912150) issued at 100% with interest of 0.01% p.a. and maturity on October 11, 2021. Interests will be paid on an annual basis (disclosed under long-term liabilities).

3.2 Treasury shares

Out of total treasury shares amounting to 966,324 shares on March 31, 2019, 932,750 shares were purchased by the company as part of the share buyback program. The average selling price amounted to CHF 123.74 and the average purchase price to CHF 173.33.

Number/CHF million	Number	Treasury shares at cost
Balance April 1, 2018	3,622	0.5
Purchase of treasury shares from share buyback	932,750	160.7
Purchase of treasury shares	368,000	64.7
Sale/Transfer of treasury shares	(338,048)	(41.8)
Loss from sale of treasury shares		(17.3)
Balance March 31, 2019	**966,324**	**166.9**

3.3 Contingent liabilities

CHF million	**31.3.2019**	**31.3.2018**
Letters of comfort given on behalf of Group companies	11.6	0.0
Guarantees given in respect of rental obligations of Group companies	0.5	1.2

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

3.4 List of investments

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

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

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

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

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

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

3.5 Significant shareholders

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

	31.3.2019	31.3.2018
Beda Diethelm	10.19%	10.19%
Chase Nominees Ltd.[1]	9.04%	8.59%
Family of Hans-Ueli Rihs	5.67%	5.71%
Nortrust Nominees Ltd.[1]	5.82%	4.41%
Bank of New York Mellon Nominee[1]	4.17%	<3.00%
Fidelity Funds	3.43%	<3.00%
Andy Rihs[2]	<3.00%	3.08%
Registered shareholders with less than 3%	29.59%	35.93%
Not registered	32.10%	32.09%

1) Registered without voting rights.
2) Andy Rihs deceased on April 18, 2018.

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

				31.03.2019				31.03.2018
	Shares	Restricted Shares[1)3)]	PSUs/RSUs[3)]	Options (incl. SARs)[3)]	Shares	Restricted Shares[2)3)]	PSUs/RSUs[3)]	Options (incl. SARs)[3)]
Board of Directors	67,313	65,395	7,152	165,577	42,720	66,126		2,558
Management Board	47,672		47,140	436,309	62,892		56,137	613,440
Total	**114,985**	**65,395**	**54,292**	**601,886**	**105,612**	**66,126**	**56,137**	**615,998**

1) These shares are subject to a restriction period which varies from June 1, 2019 to June 1, 2024 depending on the grant date.
2) These shares are subject to a restriction period which varies from June 1, 2018 to June 1, 2023 depending on the grant date.
3) For further details see also Note 7.4 in the consolidated financial statements.

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

Appropriation of available earnings

As proposed by the Board of Directors to the Annual General Shareholders' Meeting of June 13, 2019:

CHF million	**31.3.2019**
Balance carried forward from previous year	1,702.5
Net profit for the year	262.4
Statutory retained earnings	**1,964.9**
Dividend distribution[1]	(186.7)
Balance to be carried forward	**1,778.2**

[1] If the Annual Shareholders' Meeting approves the proposed appropriation of available earnings, a gross dividend of CHF 2.90 per registered share of CHF 0.05 will be paid out (previous year distribution of CHF 2.60).

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

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Sonova Holding AG, which comprise the balance sheet as at 31 March 2019, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 March 2019 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

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

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

Our audit approach

Overview

Overall Group materiality: CHF 18,000,000

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

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

Valuation of investments in subsidiaries

Materiality

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

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

Overall materiality	CHF 18,000,000
How we determined it	1% of net assets
Rationale for the materiality benchmark applied	We chose net assets as the benchmark because Sonova Holding AG, Stäfa is a holding company that mainly holds financial assets and investments in subsidiaries. The profit of the holding company fluctuates from year to year depending on whether investees pay dividends. Furthermore, net assets is considered a key element for the user of the financial statements and it is a generally accepted benchmark for determining materiality according to auditing standards. We chose 1% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

Audit scope

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

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

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

Valuation of investments in subsidiaries

Key audit matter	How our audit addressed the key audit matter
The investments in subsidiaries amount to CHF 322.6 million (12.9% of assets) as of March 31, 2019. In general, the valuation of the investments is subject to individual valuation. Certain investments are subject to a group valuation approach due to their homogeneity in nature. This accounting policy is referenced in note 2. Accounting Principles. We consider the valuation of the investments as a key audit matter due to the size of the carrying value and the judgement involved in assessing the valuation of these assets.	We performed the following audit procedures, amongst others: We assessed the appropriateness of the grouping of the investments on their level of homogeneity in nature. We did this by critically reviewing the different elements of Management's assessment and validating them with evidence and our understanding of the economic links among the Sonova Group companies. To identify indicators for individual impairments of investments in subsidiaries, Management compared the investment value with the shareholders equity and financial performance of the respective subsidiaries. We evaluated and tested the assessment by reperforming the comparison undertaken by Management for an appropriate sample of investments. For the overall value of the investments in subsidiaries, we additionally considered the market capitalisation of the Group. We found that Management's assessments were based upon reasonable assumptions and were consistently applied.

Responsibilities of the Board of Directors for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements

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

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

PricewaterhouseCoopers AG

Sandra Boehm
Audit expert
Auditor in charge

Dominik Hattrup
Audit expert

Zürich, 17 May 2019

Enclosures:

- Financial statements (income statement, balance sheet and notes)
- Proposed appropriation of the available earnings

Investor information

Financial calendar

June 13, 2019
General Shareholders' Meeting of Sonova Holding AG
at Messe Zurich, Halle 7, Zurich-Oerlikon

November 19, 2019
Publication of Semi-Annual Report as of September 30, 2019
Media and Analyst Conference Call

May 19, 2020
Publication of Annual Report as of March 31, 2020
Media and Analyst Conference

June 11, 2020
General Shareholders' Meeting of Sonova Holding AG
Messe Zurich, Halle 7, Zurich-Oerlikon

Financial information

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

Information on the General Shareholders' Meeting

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

IR online news service

IR News Service
www.sonova.com/en/registration

Capital structure and shareholder rights

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

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

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

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

Contact form
www.sonova.com/en/contact-us

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Corporate Responsibility Report

Strategy

Message from the CEO

Dear readers,

As a leading hearing care company, Sonova has a deep commitment to sustainable success. Our business objectives are well aligned with our broader social goals; creating positive impact by helping people to hear the world, while taking responsibility for our actions towards our employees, partners, the environment, and future generations.

Our innovation and broad range of solutions create value for consumers and enable us to offer a path to better hearing for people around the world, continually setting new standards in hearing performance, ease of use and design by regularly launching new advanced products and powerful eSolutions. A significant innovation for 2018/19 was the release of the Marvel™ technology platform. Marvel takes full advantage of the unique connectivity enabled by our SWORD™ (Sonova Wireless One Radio Digital) chip and combines it with the proven convenience of our rechargeable solutions.

We strive to expand access to hearing care by offering the industry's broadest distribution network. We maintain a strategic focus on high growth markets, meeting the needs of their newly-empowered consumers with suitable product formats. In China, for example, we are expanding our distribution network, accelerating our China-specific innovation, and scaling up our education program for local professionals.

We also support people with hearing loss who have no access to hearing care through our Hear the World Foundation. This year the foundation provided funding, hearing aid technology, and expertise for 23 projects, including in Peru assessing the hearing of over 20,000 children, fitting hearing aids, and training 50 speech therapy students to become audiology technicians.

Of equal importance to us is our commitment to develop our employees through our professional leadership culture and proactive approach to employee engagement. This year, we conducted Sonova's first anonymized employee survey, called HearMe. We are proud that 84% of the respondents reported feeling engaged through their work here at Sonova.

We continue to find ways to minimize our ecological impact, across all our business activities, through our comprehensive environmental program. In 2018/19, we were able to reduce our ratio of group-wide greenhouse gas emissions to revenues by 11.7% from the previous year, keeping us well on track to achieve our long-term goal.

These efforts have once again been recognized through our inclusion in the Dow Jones Sustainability and FTSE4Good Global indices for 2018. Our first-time selection to the Bloomberg Gender-Equality Index shows that our commitment to equality and a comprehensive diversity and inclusion strategy is bearing fruit.

Sonova has been a signatory of the UN Global Compact since 2016, fully endorsing its ten principles in the areas of human rights, labor, environment, and anti-corruption. We also support the Sustainable Development Goals of the United Nations, which define the global sustainable development agenda through 2030.

I invite you to read our Corporate Responsibility Report to learn more about our strategy and how we are contributing to these global goals through our own sustainability commitments.

Arnd Kaldowski
Chief Executive Officer

Strategy

Hearing care market and supply chain

Every person's experience of hearing loss is different, hence Sonova's market is naturally diverse. Our mission, though, is simple and unchanging: to be recognized as the innovation leader in the global hearing care market. In everything we do, we aim to provide industry-leading audiological performance and outstanding consumer experience.

Hearing – an underestimated topic

The importance of good hearing and the consequences of hearing loss continue to be underestimated, even though according to the World Health Organization (WHO), about 15% of the world's population is affected by hearing loss[1]. Over 5% of the world's population – or 466 million people – has disabling hearing loss[1] (432 million adults and 34 million children). The number of people with hearing loss continues to rise, due both to the aging of populations in high income countries and to growing noise pollution in our environment. The WHO estimates that by 2050 over 900 million people will have disabling hearing loss.[2]

People with untreated hearing loss are often faced with serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. Especially severe are the consequences for children with untreated hearing loss, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss also is often associated with academic underachievement, which can lead to lower job performance and fewer employment opportunities later in life.

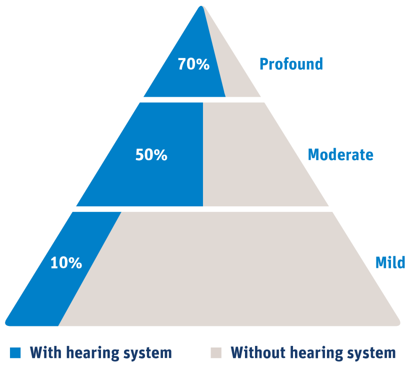
In addition to the impact of hearing loss at an individual level, untreated hearing loss puts a heavy cost burden on society. Unaddressed hearing loss costs countries an estimated USD 750 billion annually in direct health costs and loss of productivity.[3] Today's hearing technologies offer the opportunity to reduce this significantly.

1) WHO, "WHO global estimates on prevalence of hearing loss" (2012)
2) WHO definition of disabling hearing loss: hearing loss greater than 40dB in the better hearing ear in adults and a hearing loss greater than 30dB in the better hearing ear in children
3) WHO, "Addressing the rising prevalence of hearing loss" (2018)

Market opportunities

GRI 102-6

The hearing aid market continues to grow, driven by long-term socioeconomic forces. The number of people on our planet will continue to increase. Although populations in low- and middle-income countries are expected to grow the most, even high-income countries with stable populations will face a growing proportion of elderly citizens, who are likely to experience hearing loss. These trends create commercial opportunities for Sonova through an increase in demand for hearing care.



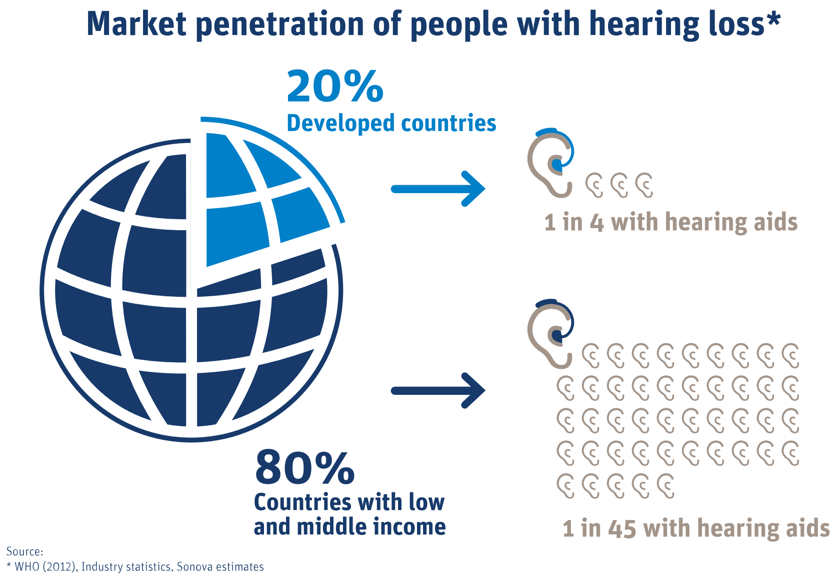
Source:
* WHO (2012)
** Industry statistics, Sonova estimates

over 15%

of the world's population is affected by hearing loss[1]

The overall rate of penetration for hearing technologies in high income countries is around 25%. We estimate that, while in developed markets 70% of people with severe-to-profound hearing loss have hearing aids, only 10% of those with mild-to-moderate hearing loss currently use hearing instruments. However, younger and less-affected people are increasing their adoption of hearing aids as technology moves toward ever better sound quality and smaller, more discreet devices. Our growing emphasis on higher convenience through e.g. rechargeability, connectivity and digital applications means that we can both broaden and deepen our engagement with consumers, offering trusted, valuable support at every stage of their journey to better hearing.

Around 80% of people with hearing loss live in low- and middle-income countries[1]. The hearing care market in these countries remains relatively under-served: Only one in forty-five people with hearing loss wears a hearing aid. People in low- and middle-income countries often have no access to audiological and medical care.



However, we expect the growth of the middle classes in emerging economies to boost consumption significantly and see the shift in spending power and lifestyle ambition as a substantial opportunity. Our strategy therefore calls for a strong focus on the potential of high growth markets to serve the demands of these newly-empowered consumers with suitable product formats.

The hearing care market is highly diverse, requiring a broad range of technologically-advanced solutions and extensive customer service channels. The core of Sonova's innovation strategy is to maintain full development pipelines for products and solutions. By extending our innovative base technologies across the different businesses and maintaining our rigorous technology platform approach to product and solution development, we accelerate time-to-market, consistently generating around two-thirds of our hearing instrument sales from products launched within the previous two years.

Two-thirds

of our hearing aids sales are generated by products less than two years from launch

1) WHO, "WHO global estimates on prevalence of hearing loss" (2012)

Market challenges

Even though we offer a product portfolio with a wide range of performance and pricing levels, affordable hearing care is still a challenge for people in low- and middle-income countries and for underprivileged social groups in high income regions.

Changes to governmental reimbursement and subsidy regimes affect the amount of funding available to end-users and thus the number of hearing aids sold. This has a significant impact: regions with high reimbursement levels clearly show higher market penetration; the lower end of the market penetration table mostly comprises low- and middle-income countries with no reimbursement regimes.

This challenge is aggravated by the fact that many countries lack trained health personnel, educational facilities, and necessary data to address the needs of those living with hearing problems. These factors, and the lack of hearing care professionals and infrastructure in certain markets, can impede efforts to raise the penetration rate. As an example, China faces the challenge of the rapidly-growing number of people with hearing loss potentially exceeding the number of qualified hearing care professionals to help them. To tackle these

WEB
CR Report 2018/19: Access to hearing care

challenges, we have defined a wide range of initiatives, including dedicated products for China, co-operation with distribution partners and government, and education for hearing care professionals.

GRI 102-9

International supply chain

Sonova deals with around 443 suppliers to its hearing instruments segment, who deliver components for manufacturing and assembly, and around 122 direct material suppliers to the cochlear implant segment. In spending terms, 69.4% of Sonova's purchase volume is located in the Asia/ Pacific region, 10.3% in Switzerland, 15.7% in Europe (excl. Switzerland), 4.2% in North America, and 0.4% in Africa.

Our suppliers are mainly high-tech design and component makers, or original equipment manufacturers with a high degree of automation. Sonova engages only a very small number of contractors and licensees. Sonova's own manufacturing operations extend from fully-automated processes, such as hybrid circuit production, to highly-skilled manual work, such as assembly of hearing aids and cochlear implants.

More detailed information on supply chain management is provided in the corresponding section of this CR Report: Ethics and integrity.

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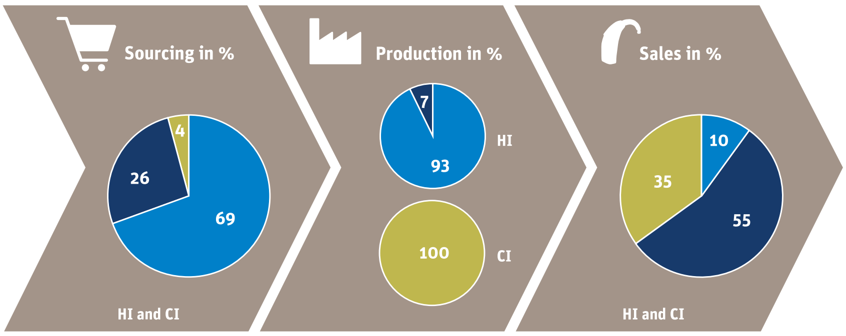
CR Report 2018/19: Ethics and integrity



APAC EMEA Americas
HI = Hearing Instruments CI = Cochlear Implants

Strategy

Sustainability program

As the world's leading provider of hearing solutions, Sonova has both a duty to act responsibly and an ability to make a positive impact on society. Our sustainability program aligns closely with our business strategy as well as the United Nations Sustainable Development Goals (SDGs).

Materiality analysis

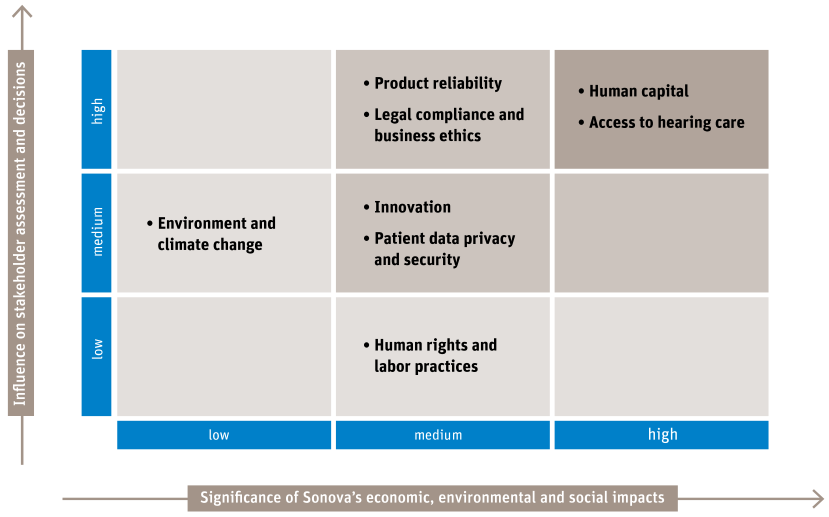
Identification and prioritization

GRI 102-46, GRI 103-1

At Sonova, material issues are those economic, social, and environmental topics that either create significant value, cause potential risks, or have negative impacts for our internal and external stakeholders.

As a medical technology company, Sonova complies with numerous international, governmental, and industry regulations, standards, and agreements. In addition, Sonova draws on a number of sources to compile a broad initial list of topics that could be considered relevant to the organization's economic, environmental, or social impact, or could be influential in its stakeholders' views and decisions. Along with the generic GRI economic, social and environmental topics and the UN Sustainable Development Goals (SDGs), Sonova's sources for these topics include: peer reviews, public media, investor & ESG analyst feedback, global standards reviews, customer and employee surveys, and stakeholder interviews. Topics with little or low relevance for Sonova or its stakeholders are not included.

Sonova prioritizes its relevant topics on the basis of interviews with key personnel, management workshops, and expert advice. Sonova holds workshops and meetings to determine the significance of Sonova's economic, environmental, and social impact related to each topic. To determine each topic's influence on stakeholder assessments and decisions, Sonova identifies its key stakeholders and determines their relative importance; each topic is then assessed for its relevance for each key stakeholder. The relative importance of stakeholders and relevance of the topic to those stakeholders is then charted along the axis of influence on stakeholder assessments and decisions.



List of material topics

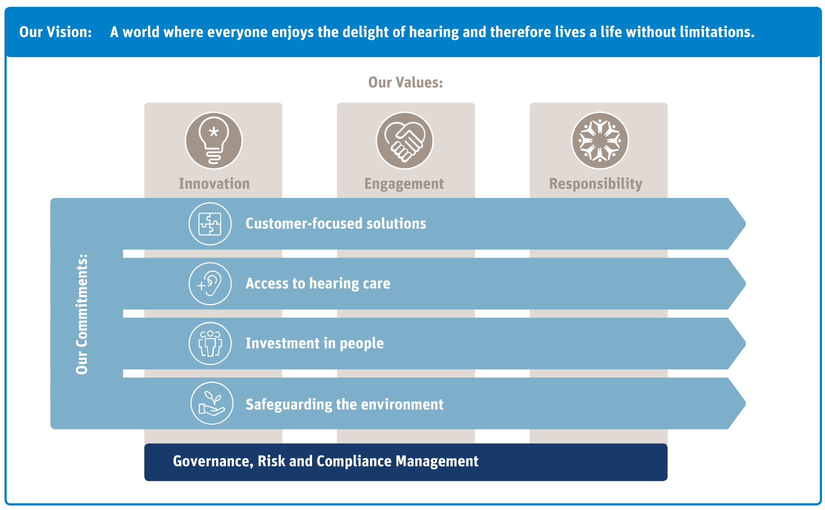
GRI 102-47

The key topics identified from the materiality matrix are further consolidated in the Sonova sustainability landscape presented below, either as part of the four core commitments Sonova makes towards its stakeholders, or as part of our governance, risk, and compliance management. The connections between the detailed topics from the materiality matrix and the five consolidated themes presented in the sustainability landscape are outlined below:

- **Customer-focused solutions:** Innovation, product reliability
- **Access to hearing care:** Access to hearing care
- **Investment in people:** Human capital
- **Safeguarding the environment:** Environment and climate change
- **Governance, risk, and compliance management:** Legal compliance and business ethics, human rights and labor practices, patient data privacy and security

Sustainability landscape

The Sonova sustainability landscape is our guiding framework for sustainability management and reporting at Sonova. The sustainability landscape shows how we intend to create value and encompasses our vision, our values and our commitments.



Our vision – the "why"

Our company's vision is the motivation for our actions and provides the basis for our sustainability program. Over 15% of the world's adults experience some degree of hearing loss, but very few are treated for it. At Sonova, our vision is straightforward: We foster a world in which all people equally enjoy the delight of hearing and live a life without limitations.

Our values – the "how"

Our shared core values of innovation, engagement, and responsibility describe how we interact with each other and how we do business. We help people hear the world by providing the most innovative technology, by dedicating ourselves to service, and by accepting responsibility for all of our actions. Our governance, risk, and compliance management further substantiate and formalize our values.

Our commitments – the "what"

The four commitments explain what we do to transform our vision into reality: we are creating value for our stakeholders by providing customer-focused solutions; and also by expanding access to hearing care. We are doing business in a responsible manner by investing in our employees and partners, as well as by maximizing our eco-efficiency. We live up to our commitments through specific, defined fields of activity. The sustainability report is structured in terms of the commitments and provides information on the progress we made in each of these defined activities.

Validation

Our sustainability program aligns closely with our business strategy. The management board assesses the sustainability program for completeness and determines its significance to the organization's economic, environmental, and social impact. Both the management board and the Board of Directors also regularly assess the program's effectiveness, based on the yearly reporting and ad-hoc updates on specific initiatives.

Topic boundaries

GRI 103-1

The sustainability program is defined by its relevance to the whole Sonova Group and therefore all defined fields of activity are assumed to be material to all or nearly all of the entities covered by this report. Sonova assigns each field of activity to its appropriate stage or stages of the value-creation process, from raw material supply to after-sales refurbishing or recycling. Those aspects of our material topics that are also or primarily material *outside* the organization relate to our supply chain (human rights and labor practices, environmental program) or to the utilization of our products and services (new products and markets, eSolutions, Hear the World Foundation).

Key corporate responsibility targets and performance

Sonova has defined key corporate responsibility (CR) targets for each of the material topics. Our sustainability program and targets are well aligned with the SDGs.

In line with SDG 3 (good health and well-being), SDG 4 (quality education), and SDG 9 (industry, innovation and infrastructure), Sonova's goal is to foster innovation and technology to offer a broad range of solutions that create value for consumers and enable us to offer a path to better hearing. Our portfolio includes a suite of innovative and easy-to-use products specially designed for children. Our target is to apply for a minimum of 40 patents annually. In 2018/19, we continued to invest substantially in research and development and filed 81 new patent applications across the Sonova Group (2017/18: 50). This contributes to SDG targets 4.5 and 9.5 and is in line with SDG indicator 9.5.1, "Research and development expenditure as a proportion of GDP."

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CR Report 2018/19: Sustainable Development Goals

Sustainability program	Related SDGs	Priority goal/KPI	Target (target year)	2018/19 performance
Customer-focused solutions: We continuously push the limits of technology and innovation to offer the best solutions to our customers.	3, 4, 9	Apply for a minimum of 40 patents each year.	40 patents (each year)	81 patents
Access to hearing care: We provide access to hearing care and improve the quality of life for millions of people with hearing loss.	3, 4	Conduct 14,000 hours of Sonova employee volunteer work for the Hear the World Foundation, starting in 2013/14.	14,000 hours (2020/21)	11,520 hours (2013/14 – 2018/19)
Investment in people: We support the development of our employees and offer a flexible and inclusive work environment.	5, 8	Achieve >35% female representation in upper management.	>35% (2022/23)	31%
Safeguarding the environment: We ensure eco-efficient practices across all our business activities.	6, 7, 9, 12, 13	Reduce greenhouse gas emissions per revenue by 30% compared to 2017/18.	-30% (2022/23)	-11.7%
Governance, risk, and compliance management: We adhere to good corporate governance and strictly ethical business practices	8, 16	No fines or non-monetary sanctions for non-compliance with laws and regulations.	0 (each year)	0

Our efforts to increase access to hearing care and improve the quality of life for millions of people with hearing loss closely aligns with SDG 3 (good health and well-being) and SDG 4 (quality education). Our target is to conduct a total of 14,000 hours of Sonova employee volunteer work for the Hear the World Foundation by 2020/21. The Foundation focuses on supporting children, enabling them to develop their fullest potential. In 2018/19, Sonova employees conducted 3,120 hours of volunteer work, which brings the total to 11,520 hours since 2013/14. This contributes to the SDG targets 3.8, 3.C, 3.D, and 4.5.

By investing in the development of our employees and offering a flexible and inclusive environment, we have an impact on SDGs 5 (gender equality) and 8 (decent work and economic growth). We have a special focus on recruiting and promoting women and employees from different cultures in leadership and executive positions. By striving for gender balanced representation in filling open positions, we aim to achieve a 35% proportion of women in upper management by 2022/23. In 2018/19, 31% of upper management positions were held by women (2017/18: 29%). This corporate responsibility target is well aligned with SDG target 5.5 and SDG indicator 5.5.2, "Proportion of women in managerial positions." Our first-time selection to the Bloomberg Gender-Equality Index shows that our comprehensive diversity and inclusion strategy is bearing fruit.

Sonova is committed to protect the environment and ensure eco-efficient practices across all our business activities. This commitment contributes to several SDGs related to the environment (6, 7, 9, 12, 13). In 2018/19, we defined several new environmental targets, the most important being to reduce our ratio of group-wide greenhouse gas (GHG) emissions to revenues by 30% by 2022. In 2018/19, we have already reduced GHG emissions intensity by 11.7%, keeping us well on track to achieve our long-term goal. This contributes to SDG target 9.5 and SDG indicator 9.4.1, “CO_2 emission per unit of value added.”

We adhere to good corporate governance and strictly ethical business practices, thereby positively influencing SDGs 8 (decent work and economic growth) and 16 (peace, justice and strong institutions). No fines or non-monetary sanctions for non-compliance with laws and regulations were levied against the company in the 2018/19 financial year. This confirms our endeavors to promote ethical conduct at all levels of the organization, which is well aligned with SDG target 16.5, “Substantially reduce corruption and bribery in all their forms.”

GRI 103-2, GRI 103-3

Management approach

Customer-focused solutions

Our commitment: We continuously push the limits of technology and innovation to offer the best solutions to our customers.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By offering customer-focused solutions, Sonova contributes to the SDGs 3, 4, and 9. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Priority goal
We will continue to offer the broadest range of technologically advanced hearing solutions to our customers by substantially investing in R&D and by applying for a minimum of 40 patents each year.

Approach
- Investment in expertise and training: We continuously strengthen the expertise of hundreds of engineers working in our R&D centers around the world to drive innovation in hearing aids, cochlear implants, wireless communication systems, and professional hearing care solutions.
- Strong partnerships: We leverage the complementary strengths of all our business brands and foster know-how transfer through close collaboration with expert networks and universities around the globe.
- eSolutions: We strategically focus on the development of eSolutions to establish one-to-one, real-time relationships with our customers.

Performance
Read about our achievements and progress in 2018/19 in the corresponding section of this CR Report: Customer-focused solutions.

Access to hearing care

Our commitment: We provide access to hearing care and improve the quality of life for millions of people with hearing loss.

Priority goal
We aim to provide access to hearing care and improve the quality of life. By 2020/21, we want to conduct 14,000 hours of Sonova employee volunteer work for the Hear the World Foundation.

Approach
- Extensive product portfolio: At Sonova, we offer a wide range of performance and pricing levels, from standard to premium solutions.
- Hearing care infrastructure: By developing new service formats and distribution channels and by supporting the education of local specialists, we can provide hearing care services and treatment to groups who are currently underserved.
- Partnerships: By building productive partnerships and collaborations with local organizations, we can offer the fullest benefit of our skills and services to the people who need them.
- Foundation: Affordable hearing care is still a challenge for people in countries with low-to-middle income and for underprivileged social groups in countries with high income. We cater to these groups through our charitable Hear the World Foundation.

Performance
Read about our achievements and progress in 2018/19 in the corresponding section of this CR Report: Access to hearing care.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By providing access to hearing care, Sonova contributes to the SDGs 3 and 4. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Investment in people

We support the development of our employees and offer a flexible and inclusive work environment.

Priority goal
We will achieve >35% female representation in upper management by 2022/23.

Approach
- Professional career development: We develop our employees to higher levels of success with a systematic talent management process including a strategic approach to training, succession, and career planning.
- Employee engagement: We foster employee engagement through a holistic Diversity & Inclusion strategy and other initiatives, such as the group-wide Body & Mind initiative.

Performance
Read about our achievements and progress in 2018/19 in the corresponding section of this CR Report: Investment in people.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By investing in people, Sonova contributes to the SDGs 5 and 8. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Safeguarding the environment

We ensure eco-efficient practices across all our business activities.

Priority goal

We aim to reduce our greenhouse gas emissions in relation to revenues by 30% by 2022/23.

Approach

- Operational energy efficiency: We reduce our carbon footprint by fully utilizing capacity, renewing equipment, remodeling existing buildings, or moving to new buildings.
- Alternative energy: We generate power using renewable sources and purchase green power.
- Environmental management systems: We have established a ISO 14001-certified environmental management at all our key manufacturing and distribution centers and urge our suppliers to follow the same standard.

Performance

Read about our achievements and progress in 2018/19 in the corresponding section of this CR Report: Safeguarding the environment.

Sonova and the United Nations Sustainable Development Goals (SDGs)

By safeguarding the environment, Sonova contributes to the SDGs 6, 7, 9, 12, and 13. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Governance, risk, and compliance management

We adhere to good corporate governance and strictly ethical business practices.

Priority goal

We aim for no fines or non-monetary sanctions for non-compliance with laws and regulations to be levied against Sonova.

Approach

- International labor standards: We conduct business and align our codes and principles according to internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic Cooperation and Development (OECD). All our employees, business partners, and suppliers are expected to comply with these standards.
- Compliance program: We continue to strengthen the Group compliance program through training sessions and process enhancements in ethics and anti-bribery compliance, and we intensify our efforts to support Code of Conduct compliance through the global "Speak-Up!" campaign.
- Continuous supply chain management: We require that all our suppliers be as committed to sustainable development as we are and ensure compliance with the Sonova Group Supplier Principles (SGSP).

Performance

Read about our achievements and progress in 2018/19 in the corresponding sections of this CR Report: Ethics and integrity and Corporate governance.

Sonova and the United Nations Sustainable Development Goals (SDGs)

By adhering to good corporate governance and strictly ethical business practices, Sonova contributes to the SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Strategy

Stakeholder engagement

Sonova strives to engage in an open and transparent dialog with all its stakeholders. We actively initiate dialog through a broad range of channels as a way to promote participative and integrated decision-making.

Open dialog

Sonova understands how the involvement of stakeholders supports our long-term success by enhancing transparency, broadening knowledge, and generating innovative solutions. Based on the relevant aspects of our business and products, Sonova has defined five key stakeholder groups: GRI 102-40

- Customers
- Employees
- Shareholders
- Suppliers
- Academia and opinion leaders

Further stakeholder groups important to Sonova are:

- Financial community
- Media
- Regulators
- Insurers
- Competitors

Sonova identifies and selects relevant stakeholders for further dialog and engagement based on our existing stakeholder-facing activities and on information gathered from internal staff interviews and management workshops. We regularly interact with our current stakeholders to define their specific interests in our activities and their influence over our decisions. GRI 102-42

Key topics and concerns raised through stakeholder engagement are included in our materiality analysis, sustainability program and respective reporting activities. The following key topics have been raised during the reporting year 2018/19 through stakeholder engagement, mainly by employees, customers, and regulators: GRI 102-44

- **Convenience:** Our growing emphasis on higher convenience through e.g. rechargeability, connectivity and digital applications means that we can both broaden and deepen our engagement with consumers, offering trusted, valuable support at every stage of their journey to better hearing. Sonova affirmed its leading position in audiological performance with the release of the Marvel™ technology platform. Marvel takes full advantage of the unique connectivity and combines it with the proven convenience of our rechargeable solutions. The market reaction is very positive, reflecting the step-change that Marvel represents in the lives of consumers.

- **Employee engagement:** This year we conducted our first global employee survey, HearMe; around 90% of employees participated, providing valuable information about ways we can boost collaboration across the Group. The first resulting initiatives have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thus stimulate professional growth and business success.

- **Compliance:** In 2018/19, we intensified our efforts to support Code of Conduct compliance with an internal communication and training campaign, “Speak-Up!", that was rolled out globally across the Sonova Group. The campaign included mandatory global compliance online training, which focused on the Sonova Code of Conduct and anti-bribery laws. We also established a new internal online platform as an additional channel to help employees understand Sonova’s Code of Conduct and to make it easy for everyone to report any violations.

GRI 102-43

Approach to stakeholder engagement

Customers

Our customers stand at the center of our business. Our business model is built on business-to-business (hearing care professionals, clinics, retailers) and business-to-consumer (end users, patients) customer relationships. Sonova establishes specific channels of engagement appropriate to the differing needs of each of these groups.

We ensure continuous dialog with our business-to-business customers through our sales representatives, brand tracker surveys, customer satisfaction surveys, advisory network, knowledge management and sharing, customer hotline and support, audiology conferences, online customer communities, and complaint management channels. We provide a broad range of professional training and courses that address the various specializations in the hearing care industry. We also organize e-learning seminars, road shows, face-to-face in-clinic training, and technical marketing material to help transfer our knowledge and train hearing care specialists.

We engage with end users and patients through satisfaction surveys and online consumer communities such as HearingLikeMe.com and Advanced Bionics’ Bionic Ear Association (BEA™). HearingLikeMe.com is an online community for people whose lives are affected by hearing loss. The website is visited by more than 50,000 people every month, and provides daily educational and inspirational news articles, videos and social media content. All stories are written by people with hearing loss, their family members, or hearing care professionals. BEA™ aims to improve the quality of life of individuals with severe-to-profound hearing loss by providing valuable information, education, and awareness on cochlear implants. As a community of hearing health professionals and cochlear implant recipients, the BEA™ offers important support services to help recipients “Hear and Be Heard™”.

The Phonak Pediatric Advisory Board was founded in 1998 to help steer Phonak's pediatric product development and establish and recommend industry-best practices to support the needs of children with hearing loss and ensure optimal outcomes for them. Members of the Pediatric Advisory Board include parents of children with hearing loss, researchers and professors in pediatric audiology, as well as master pediatric clinicians. The board usually comes together once per year.

We conduct an annual worldwide customer survey to ensure satisfaction and loyalty of our customers. Based on this data, the Customer Satisfaction Index (CSI) is calculated and expressed on a scale between 0 and 100, the latter being the best. In 2018/19, the CSI was 80.

Employees

Sonova's employees are key to its success. We foster a spirit of innovation, shared engagement, and personal responsibility. Through our vision, we want to ensure that our employees experience their work as genuinely meaningful.

WEB
CR Report 2018/19: Investment in people

Sonova actively engages with its employees through regular employee satisfaction surveys and through its annual appraisal process. The employee appraisal meeting is an essential process to assess satisfaction, provide feedback, and define expectations for behavior and performance. It supports each employee's personal and professional development and helps to build trusting relationships by providing a format for open dialog.

Shareholders

Sonova has 17,158 registered shareholders, who together own 67.9% of the total shares. Shareholders' interests are represented by the Board of Directors, which sets and oversees the general direction of the company.

We publish an Annual Report for shareholders and other stakeholders, and hold an Annual General Shareholders' Meeting, which provides a forum for discussion and debate as well as an opportunity to vote on compensation for management and the Board of Directors. Each share entered in the share register with a voting right entitles the holder to one vote at the Annual General Shareholders' Meeting.

Suppliers

Suppliers are an integral part of Sonova's value chain. Our relationship with our suppliers is governed by Sonova's Group Supplier Principles (SGSP), which are based on a range of international standards, customer requirements, and industry characteristics.

PDF
Sonova Group Supplier Principles (SGSP)

We assess all new suppliers on their management systems. We regularly audit and visit suppliers and inspect their management capabilities through employee interviews and on-site inspections.

Academia and opinion leaders

Sonova's know-how and history of innovation is reflected in its strong partnerships with leading academic institutions and opinion leaders around the world. We collaborate intensively with universities such as the University of Zurich, the University of Hannover (Germany), the University of Oldenburg (Germany), Vanderbilt University in Nashville (US), the University of Melbourne (Australia), the University of Queensland (Australia), the University of Western Ontario in Waterloo (Canada), the Swiss Federal Institutes of Technology (ETH) in Zurich and Lausanne, and the University of Manchester (UK).

We foster a close collaboration with these partners by offering support toward diploma theses for Master's or PhD students. We do not just support studies financially, but, when appropriate, participate in the actual work by closely collaborating on research projects.

Financial community

As a publicly listed company, Sonova pursues an open and active information policy. A governing principle of this policy is to treat all stakeholders alike and to inform them at the same time.

We actively interact with the financial community at roadshows, conferences as well at investor meetings and conference calls. Sonova holds an Investor and Analyst Day every year at its headquarters in Stäfa; last year's event again attracted significant interest from the international investor community, with around 100 participants attending. We also hold regular exchanges with representatives from the social responsibility investment segment and participate in assessments by sustainability index authorities.

Media

Sonova drives and maintains a strong in-depth relationship with a variety of media representatives as part of its commitment to ensure transparency, dialog, and accountability for all of its activities. The media relations team works globally with top-tier media, public interest media, trade and special interest media, financial and economic media, and the major wire services to ensure a fair disclosure of information to all stakeholders, creating – amongst other topics – awareness for hearing loss and its implications and of informing on key aspects of Sonova's business performance.

We maintain a close and cooperative dialogue with the media by creating news. We proactively distribute press releases and publish it on our corporate website, organize press conferences, media trips, events or respond to requests when journalists are developing stories.

Regulators

Sonova's products are regulated medical devices, which means that the company must meet statutory patient safety standards and functional performance claims with clinical evidence.

We recognize our responsibility to share our specialist knowledge in external working groups to help define, on behalf of our customers, the regulatory principles that will ensure the highest quality standards for hearing instruments and cochlear implants.

Insurers

Governments and social institutions such as the Veterans Administration in the United States and the National Health Service in the United Kingdom, as well as public and private insurance providers, all contribute to improve access to hearing care.

Sonova regularly participates in tender processes and offers its products and services to help insurers receive the best hearing value for their money.

Competitors

Sonova's competitors aim to gain market share. This competition generates improved service for customers and drives Sonova to push yet further the limits of technology. We are committed to fair competition.

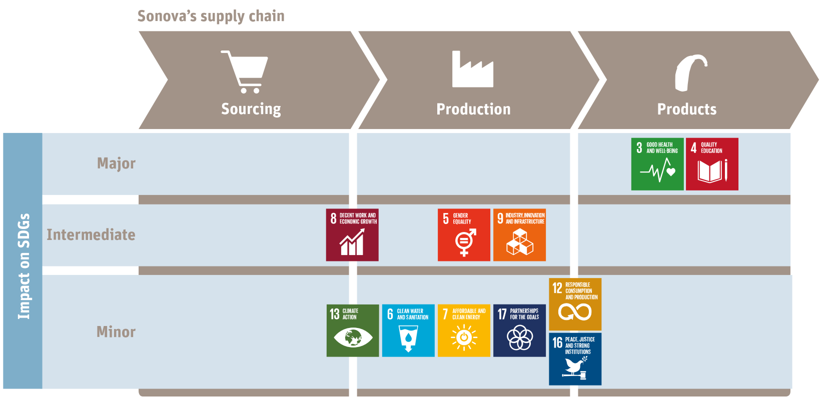
Sonova interacts with representatives from competitors e.g. through membership in industry associations such as the European Hearing Instrument Manufacturers Association (EHIMA), which was founded in 1985 and represents the seven major European hearing instrument manufacturers.

Strategy

Sustainable Development Goals

Sonova's contribution to the United Nations Sustainable Development Goals (SDGs)

Seventeen sustainable development goals (SDGs) comprise the UN's global sustainable development agenda for the years until 2030. Taken together, they represent an urgent call for action by government in all countries – developed and developing – working in global partnership. Business too, as an engine of economic growth and employment, as well as a source of finance, technology, and innovation, has a key role to play in achieving the SDGs. Sonova has been a signatory of the UN Global Compact since 2016 and actively supports the achievement of all seventeen SDGs.



Our analysis of Sonova's direct or indirect impact on the SDGs, with their 169 targets and indicators, has revealed that Sonova's products, business strategy, and activities make essential contributions to SDGs 3 (good health and wellbeing) and 4 (quality education). We conduct business in a responsible way and thereby also positively influence SDGs 5, 8, and 9. We have limited and less direct impact on goals 6, 7, 12, 13, 16, and 17.

Priority SDGs

Good health and well-being (SDG 3)

The third development goal focuses on ensuring healthy lives and promoting well-being for people of all ages. The importance of good hearing and the consequences of hearing loss are still underestimated, although people with untreated hearing loss often face serious consequences. These range from disadvantages at work to relationship problems and social isolation, which may even lead to depression. As well as its impact on the individual, untreated hearing loss puts a heavy cost burden on society. According to the WHO, unaddressed hearing loss costs countries an estimated USD 750 billion annually in direct health costs and loss of productivity[1].

SDG 3 is well aligned with our vision: a world where everyone enjoys the delight of hearing and lives a life without limitations. Sonova contributes particularly to the achievement of the following SDG targets:

- 3.8: “Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all.”
- 3.C: “Substantially increase health financing and the recruitment, development, training and retention of the health workforce in developing countries, especially in least developed countries and small island developing States.”
- 3.D: “Strengthen the capacity of all countries, in particular developing countries, for early warning, risk reduction and management of national and global health risks.”

Sonova provides access to hearing care not only in developed, but also in developing countries. To expand access to hearing care, we offer the industry’s most comprehensive product portfolio and support education of local specialists, particularly in high-growth, developing markets. In China, for instance, Sonova has built an entirely new training center – the Global Hearing Institute in Suzhou. Around 1,600 students have been enrolled and trained at the Hearing Institute since 2017 and around 4,000 per year are trained online by audiologists and product specialists.

You can read more about our commitment to SDG 3, related targets, and performance in the corresponding sections of this CR Report: Access to hearing care and Customer-focused solutions.

1) WHO, “Addressing the rising prevalence of hearing loss” (2018)

Quality education (SDG 4)

The fourth development goal is about ensuring an inclusive and quality education for all and promoting lifelong learning. To be able to follow a lifelong educational path, it is essential for children to have a good start. Children with untreated hearing loss, however, face severe difficulties, since development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss among children can greatly limit speech, cognitive development, and school performance. Children with hearing loss often grow up unable to find work and become trapped in a cycle of poverty and isolation.

In addition to Sonova’s suite of innovative and easy-to-use products especially designed for children, we also support people with hearing loss and limited access to hearing care through the Hear the World Foundation, which contributes to the achievement of the following target of SDG 4:

- 4.5: “By 2030, eliminate gender disparities in education and ensure equal access to all levels of education and vocational training for the vulnerable, including persons with disabilities, indigenous peoples and children in vulnerable situations.”

Founded by Sonova in 2006, the Hear the World Foundation focuses particularly on supporting children in low- and middle-income countries, enabling them to develop to their fullest potential. Sonova supports the Foundation through funding, technology, and the

You can read more about our commitment to SDG 4, related targets, and performance in the corresponding section of this CR Report: Access to hearing care.

expertise of its employees who serve the Foundation's projects as volunteers. Since its establishment, the Hear the World Foundation has provided funding, hearing technology, and expertise with a total value of over CHF 16 million to over 90 projects all around the world and given thousands of children access to better hearing and education.

Medium impact on SDGs

Gender equality (SDG 5)

The fifth SDG aims at achieving gender equality and empowering all women and girls. Sonova is committed to gender equality among its employees and contributes to the following SDG targets:

- 5.1: "End all forms of discrimination against all women and girls everywhere."
- 5.4: "Recognize and value unpaid care and domestic work through the provision of public services, infrastructure and social protection policies and the promotion of shared responsibility within the household and the family as nationally appropriate."
- 5.5: "Ensure women's full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life."

Sonova has a focus on recruiting and promoting women, and employees from a wide range of cultures, to leadership and executive positions. By striving for gender balanced representation in filling open positions, we aim to achieve a 35% proportion of women in upper management by 2022/23. In our Code of Conduct, which applies to all employees and partners, we emphasize that Sonova does not tolerate harassment or discrimination on the basis of sex, race, color, religion, age, ethnic or national origin, marital/parental status, or sexual orientation. We also support the compatibility of pursuing a career and raising a family by promoting flexible working models such as home offices, flexible working hours, and part time work in leadership positions.

You can read more about our commitment to SDG 5, related targets, and performance in the corresponding section of this CR Report: Investment in people.

Decent work and economic growth (SDG 8)

Goal number eight is to promote sustained, inclusive, and sustainable economic growth, full and productive employment, and decent work for all. Sonova contributes to the following SDG targets:

- 8.2: "Achieve higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labor-intensive sectors."
- 8.5: "By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value."
- 8.6: "By 2020, substantially reduce the proportion of youth not in employment, education or training."
- 8.7: "Take immediate and effective measures to eradicate forced labor, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labor, including recruitment and use of child soldiers, and by 2025 end child labor in all its forms."
- 8.8: "Protect labor rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment."

You can read more about our commitment to SDG 8, related targets, and performance in the corresponding sections of this CR Report: Investment in people and Ethics and integrity.

We believe in treating everyone with respect and fairness at all times; this applies not only to our over 14,000 employees, but to all other stakeholders. Sonova respects and supports human rights, a responsibility reflected in our Code of Conduct and Group Supplier Principles and embedded in the company's culture. We are also a signatory of the UN Global Compact. Sonova is committed to ensuring that its operations and supply chain are free from modern slavery practices, including child labor, forced and bonded labor, and human trafficking. We are committed to equal pay for equal work and we are taking the necessary steps to ensure a fair compensation system. Sonova also provides reasonable accommodation in its job application procedures for young people and qualified individuals with disabilities. Through our products, we allow people with hearing loss to actively participate in working life.

Industry, innovation and infrastructure (SDG 9)

SDG 9 has the aim to build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation. Sonova has an impact on the following SDG targets:

- 9.2: “Promote inclusive and sustainable industrialization and, by 2030, significantly raise industry’s share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries.”
- 9.4: “By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities.”
- 9.5: “Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including, by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people and public and private research and development spending.”

As a medical technology company with steady growth in employee numbers, revenues, and profit in recent years, we are committed to consumer-centered innovation and contribute to inclusive and sustainable industrialization. We invest significantly in research and development and filed 81 new patent applications across the Sonova Group in 2018/19. Sonova is committed to reducing its environmental impact and has set the goal of a 30% reduction in greenhouse gas (GHG) emissions intensity by 2022/23.

You can read more about our commitment to SDG 9, related targets, and performance in the corresponding section of this CR Report: Safeguarding the environment and Customer-focused solutions.

Limited impact on SDGs

Environmental topics (SDGs 6, 7, 12, and 13)

The common thread in these SDGs is the safeguarding of our shared environment by reduction of environmental pollution, waste, and water use; efficiency and renewable sourcing in energy use; and abatement of climate change-related emissions. The SDG targets that have some relevance to Sonova’s own environmental policies include:

- 6.3: “By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.”
- 6.4: “By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.”
- 7.2: “By 2030, increase substantially the share of renewable energy in the global energy mix.”
- 7.3: “By 2030, double the global rate of improvement in energy efficiency.”
- 12.2: “By 2030, achieve the sustainable management and efficient use of natural resources.”
- 12.4: “By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment.”
- 12.5: “By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.”

You can read more about our commitment to SDGs 6, 7, 12, and 13, related targets, and performance in the corresponding section of this CR Report: Safeguarding the environment.

- 12.6: “Encourage companies, especially large and transnational companies, to adopt sustainable practices and to integrate sustainability information into their reporting cycle.”
- 12.7: “Promote public procurement practices that are sustainable, in accordance with national policies and priorities.”
- 12.8: “By 2030, ensure that people everywhere have the relevant information and awareness for sustainable development and lifestyles in harmony with nature.”
- 13.2: “Integrate climate change measures into national policies, strategies and planning.”
- 13.3: “Improve education, awareness-raising and human and institutional capacity on climate change mitigation, adaptation, impact reduction and early warning.”

Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the entire lifecycle of its products and across all its business activities. We are committed to safe handling of chemicals and hazardous substances and efficient waste and water management. Sonova has set Group-wide targets including an increase in renewable energy sourcing, a reduction of greenhouse gas emissions and water consumption, and an increase in the recycling quota.

Peace, justice and strong institutions (SDG 16)

The goal of SDG 16 is to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable, and inclusive institutions at all levels. Sonova has identified one SDG 16 target as relevant to its business:

- 16.5: “Substantially reduce corruption and bribery in all their forms.”

Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws. Sonova’s Anti-Bribery Policy was updated in 2018, refining the rules under the Code of Conduct and prohibiting all forms of corruption. As a global healthcare company, we also recognize that many countries have specific regulations governing interactions with healthcare professionals. These impose further obligations which the company has translated into country-specific guidelines detailing what is permissible and what is not.

You can read more about our commitment to SDG 16, related targets, and performance in the corresponding section of this CR Report: Ethics and integrity.

Partnerships for the goals (SDG 17)

SDG 17 aims at strengthening the means of implementation and revitalizing the Global Partnership for Sustainable Development. Sonova contributes to the following SDG target:

- 17.16: “Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries.”
- 17.17: “Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships.”

We support multi-stakeholder partnerships through our membership in the UN Global Compact and our ongoing dialog with stakeholders to enhance transparency, broaden knowledge, and generate innovative solutions. One key area of interdisciplinary collaboration lies in establishing and promoting international networks where the specific knowledge of leading research bodies, hospitals, companies and institutions is pooled together, enriched and comes to fruition in new hearing solutions.

You can read more about our commitment to SDG 17 and how we interact with our stakeholders in the corresponding sections of this CR Report: Stakeholder engagement and Customer-focused solutions.

Commitments

Customer-focused solutions

Our commitment: We continuously push the limits of technology and innovation to offer the best solutions to our customers.

Development of new products

The market offers exciting opportunities for new customer groups and new solution formats. Our consistent platform approach to product development in hearing instruments and cochlear implants – along with our continued high investment in research and development – has allowed us to expand our product offering over the year to exploit these opportunities.

Our goal is to continue to offer the broadest range of technologically advanced hearing solutions to our customers by substantially investing in R&D and by applying for a minimum of 40 patents each year. In 2018/19, 81 new patent applications were filed across the Sonova Group. As of March 2018/19, the Sonova Group owned over 1,600 active granted patent and design rights.

Innovation through collaboration

At Sonova, we consider interdisciplinary collaboration as the guarantor of progress. Especially when it comes to as complex a subject as hearing. One key area of our innovation strategy therefore lies in establishing and promoting international networks where the specific knowledge of leading research bodies, hospitals, companies and institutions is pooled together, enriched and comes to fruition in new hearing solutions.

Long-term partnership and open exchange are the hallmarks of our collaboration with around fifty top-class universities and centers of excellence and technology. The focus of this interdisciplinary work is to leverage all potential for innovation: Together, we are broadening our understanding of auditory perception and its cognitive processing, driving forward digital signal processing and the miniaturization of electronics, improving material and implantation technologies and researching the possibilities of bionics. We work especially closely with the international groups of experts from the Pediatric Advisory Board to develop hearing solutions that counteract hearing loss in early childhood and at the same time include and support the entire family.

Below we outline two examples of collaborations on research with top-class universities on broader topics such as impact on quality of life or healthy aging.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By offering customer-focused solutions, Sonova contributes to the SDGs 3, 4, and 9. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

>1,600

number of active granted patent and design rights owned by the Sonova Group as of March 2019

Today we put hearing loss in a very different context than in the past. We study how hearing loss impacts quality of life beyond not-hearing or not understanding speech. Hearing loss impacts social interaction and participation, reduces activities of daily living, and impacts emotional vitality. With two academic institutions, Ryerson University in Toronto and Vanderbilt University in London Ontario, we recently conducted work showing how hearing loss affects perception of emotional content of spoken language. This work will help us to better understand the needs of hearing impaired people, improve our technology development and help us to better counsel our customers and their families.

In recent years several large cohort longitudinal studies have shown that the occurrence of hearing loss is strongly correlated with other health considerations in elderly people. In this research theme we have been studying various comorbidities between hearing loss and health issues such as psycho-social-health, depression, arthritis, cognitive decline, risk of falls and diabetes in collaboration with the VU University Medical Center in Amsterdam (Netherlands). This research will provide us with a new, more holistic perspective of hearing health care in the broader context of healthy aging. Currently, Sonova supports two major studies investigating whether or not hearing instruments can help slow down cognitive decline or not. The studies are driven by Johns Hopkins University, Baltimore and The University of Melbourne in Melbourne.

>50

number of scientific collaborations

Smart technologies

The digital revolution and the Internet of Things are making their way into various aspects of our lives. New, web-based business models are questioning the status quo because they promise more convenience, simplicity and freedom with smart technologies and services. We welcome this development, since maximum comfort and autonomy for the user, as well as flawless service, are also our key areas of innovation.

eSolutions

eSolutions today

Digital technology and connectivity make Sonova hearing solutions smart companions. Their sophistication is not just in terms of sound resolution and quality, speech intelligibility, form factor, or design – but also functionality: the hearing aid connects wirelessly to media players of all kinds. Music, TV sound, or phone calls can be enjoyed in excellent quality directly within the ear. Thanks to a discreet Bluetooth®[1] microphone, hearing aid wearers can follow conversations even in noisy environments – in some cases better than a person without hearing loss. And a smartphone app lets the wearer control parameters and functions intuitively and individually.

1) The Bluetooth® word mark and logos are registered trademarks owned by the Bluetooth SIG, Inc.

eSolutions for the future

Improving audiological quality and ease of operation is one thing; multiplying opportunities through networking is another: Our solutions go far beyond the individual hearing instrument, creating a digital experience that brings together, empowers, and supports the healthcare provider and the user, seamlessly and in real time, through all stages of the hearing journey. From online-based histories and customer support to remote adjustment and optimization under real-life conditions, digitally networked solutions offer users a previously undreamed-of degree of control and freedom. Wherever users might be, their audiologist can be by their side online, directly capturing data on the specific audiological situation and providing immediate assistance. Continuous data monitoring and statistical analysis of listening situations allow ever more user-specific fine tuning, as well as more targeted advice. Follow-up appointments are a thing of the past, spatial distance is no longer an issue: professional and personal assistance, as well as effortless instrument adjustment by the user, are only a screen tap away. People with hearing loss can enjoy complete autonomy in a fully networked world of hearing. Our promise is to use and further expand these digital channels to establish one-to-one, real-time relationships with our customers.

GRI 416-1

Product reliability

Regulatory and standards

Sonova's medical devices are regulated by government agencies, healthcare authorities, and other regulatory bodies worldwide. These organizations verify that throughout the life cycle of our products we are fulfilling the requirements of applicable health and safety regulations. We are committed to maintaining transparent, constructive, and professional relationships with all applicable regulatory authorities on policy, product submissions, compliance, and product performance. Their requirements include design controls, marketing approvals, good manufacturing practices, vigilance systems, clinical studies, and other applicable product regulations, standards and normative documents specified by government agencies.

Our processes for identifying potential risks related to our products – and for estimating, evaluating, controlling, and monitoring these risks – are governed by the ISO 14971 standard, which specifies the application of risk management to medical devices. Initial training programs and maintenance training programs ensure the adequate training and qualification regarding the regulatory and statutory requirements.

Each national healthcare authority has specific requirements for products that are offered in its market which need to be respected e.g. in Europe our hearing instruments comply with the essential requirements and other relevant provisions of the Medical Device Directive 93/42/EEC, the Radio Equipment Directive 2014/53/EU and other applicable international standards. In the US, hearing instruments are regulated by the United States Food and Drug Administration (FDA) and classified as medical devices of the class I (hearing aids) and class II (wireless hearing aids). Both categories are exempt from the Premarket Approval (PMA) and Premarket Notification (PMN) known as 510(k) and can be introduced into commercial distribution without undergoing these processes.

Cochlear implants and their respective accessories from Advanced Bionics are classified as active implantable medical devices (Class III-AIMD), which are regulated by the EU Active Implantable Medical Devices Directive 90/385/EEC and must generally undergo a formal PMA process wherever they are launched.

PDF

Advanced Bionics 2018 Global Implant Reliability Report

All our operation centers and major group companies are certified according to the ISO 13485 standard and fulfill the requirements for quality management systems of the US FDA Quality System Regulation, Title 21 CFR Part 820.

Sonova is carefully following the changes in the related regulatory environments worldwide to ensure the conformity of the products to any time; in particular recently published changes in medical device regulation in Europe regarding the transition from Medical Devices Directive 93/42/EEC to Medical Devices Regulation 2017/745.

Product service and labeling

The majority of products from Sonova group companies are covered by these regulations, standards, and medical classes. All of these products are continuously assessed for health and safety improvements, using such tools as our complaint handling system and process, post-market surveillance, vigilance reporting, reliability trending, and post-launch engineering.

Commitments

Access to hearing care

Our commitment: We provide access to hearing care and improve the quality of life for millions of people with hearing loss.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By providing access to hearing care, Sonova contributes to the SDGs 3 and 4. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Expanding market reach

Innovation is not limited to products – it also drives the way we approach the market, both through our wholesale companies and our audiological care network. The industry is seeing a rise in lower-cost channels, but also an increased emphasis on personalized care from dedicated audiologists. We address both these trends through channel partnership, vertical integration, services that generate increased customer demand, and an expanded presence in high growth markets, such as China.

Broad product portfolio

Our declared goal is to offer the most technologically advanced hearing solutions and services available to users worldwide. The comprehensive, interdisciplinary knowledge that we acquire in the process is factored into each of our products. It also enables us to offer a broad spectrum of service and pricing levels for individual needs and different markets in both developing and developed countries. Operating through many channels multiplies the potential paths to hearing in all markets, even in parts of the world where care has been in short supply.

Customized solutions

Around 1.3 billion people around the world speak a Sinitic language such as Mandarin or Cantonese[1]. These are tonal languages, where the basic frequencies communicate the information content of words. To better understand the specific needs of Chinese people with hearing loss, we are working with China's largest hospital, the Tongren Hospital, in Beijing. The result is a specific prescription formula for the amplification/frequency curve shapes of tonal languages – or, to put it more simply, hearing aids offering significantly better speech clarity for millions of people in Asia.

1) Ethnologue: Languages of the World, 22nd edition (2019)

Education and training of hearing care practitioners

In China, there is a significant lack of comprehensive, practical training for qualified hearing care professionals. That is why Sonova decided to bridge the gap and build a training center – the Global Hearing Institute in Suzhou. The center offers advanced audiology courses and practical training for optimal hearing solutions with a customer focus; it features a soundproof room for hearing tests and workstations for fitting ear-molds.

The uptake of training courses by hearing care practitioners from across China has been very strong since the center opened in May 2017. After the courses, participants keep in touch with their trainers via chat and can contact them if they need advice on issues back in the workplace. Around 1,600 students have been enrolled and trained at the Global Hearing Institute since 2017 and around 4,000 per year are trained online by audiologists and product specialists.

Sonova's training center in Suzhou (China) offers practice-oriented training courses for hearing care professionals from the entire Asia-Pacific region.

1,600

students have been enrolled and trained at Sonova Global Hearing Institute in Suzhou since 2017

Distribution network and remote access

We strive to expand access to hearing care by offering the industry's broadest distribution network with over 3,500 own stores and clinics. Over 7,000 Sonova employees work for our audiological care business.

Sonova's efforts to increase access to hearing care for people living in rural areas led to the TeleAudiology model, pioneered by Triton Hearing, a Sonova Group company in New Zealand. Despite Triton's nationwide network of 70 clinics across the country, many New Zealanders still find seeing an audiologist difficult, especially in communities of indigenous people living in remote areas. In 2018, Triton fitted out a 1949 Bedford bus with state-of-the-art diagnostic hearing equipment and turned into a mobile, full-service hearing clinic. An ear nurse provides the in-room support: including performing video otoscopy, positioning transducers, and handling hearing aids. Through TeleAudiology, clients are connected with audiologists over a high-definition teleconferencing system. It is possible to provide a full diagnostics assessment, hearing and communication needs assessment, impression taking, hearing aid fitting and verification, purchase and follow-up services through a synchronous, live connection.

In 2018/19, the mobile hearing clinic bus traveled more than 5,000 kilometers across New Zealand, visiting 30 locations and reaching almost 2,000 new customers.

Corporate citizenship and philanthropy

Hear the World Foundation

Around 466 million people worldwide – over 5% of the world's population – suffer from disabling hearing loss[1]; 34 million of these are children. The majority of people with disabling hearing loss live in low- and middle-income countries with no or little access to audiological care.[2]

The consequences of untreated hearing loss, especially for children, can be severe, as the development of speech and language is fundamentally dependent on the sense of hearing. Untreated hearing loss is also often associated with social isolation, less chance of getting an education, poor prospects for future employment, and reduced opportunities to live a life without limitations.

Samuel can finally hear better thanks to his new Unitron hearing aids. His permanent bilateral hearing loss was diagnosed during a hearing screening campaign at a school in Peru – one of 23 projects supported by the Hear the World Foundation in 2018/19.

Founded by Sonova in 2006, the charitable Hear the World Foundation works to counteract this. The Foundation is committed to creating equal opportunities and a better standard of living for people in need with hearing loss, and particularly children in low- and middle-income countries. The key is education and prevention of hearing loss, along with financial and technological support of aid projects that bring better hearing to people who desperately need it.

In 2018/19, the Foundation provided funding, hearing aid technology and expertise for 23 projects. In Peru, together with a local partner, it tested the hearing of over 20,000 children, fitted 100 children with hearing aids, and trained 50 speech therapy students to become audiology technicians.

Since 2006, Sonova employees have successfully supported over 90 projects all around the world on many voluntary missions, helping thousands of children through advanced hearing solutions and actively contributing to building local audiological care infrastructure. Starting in 2013, the Foundation aims to achieve a total of 14,000 hours of volunteer work from Sonova employees by 2020. So far, the total is 11,520 hours (2018/19: 3,120 hours).

>90,000

child hearing screenings in 23 projects supported by the Hear the World Foundation in 2018/19

1) WHO definition of disabling hearing loss: hearing loss greater than 40dB in the better hearing ear in adults and a hearing loss greater than 30dB in the better hearing ear in children
2) WHO, "Addressing the rising prevalence of hearing loss" (2018)

Group-wide strategy

Sonova's corporate citizenship/philanthropic engagement at Group level has a strong focus on the Hear the World Foundation. The mission of the Foundation is to improve the quality of life of people worldwide in need with hearing loss and create equal opportunities. The strategy is well aligned with Sonova's overall corporate strategy and vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations. The Hear the World Foundation makes essential contributions to the UN Sustainable Development Goal (SDG) 3 (good health and wellbeing) and SDG 4 (quality education).

The priorities of the Foundation's activities are projects to support children in need with hearing loss (supporting SDG 3: good health and wellbeing), education and training of clinicians (supporting SDG 4: quality education), and prevention of hearing loss (supporting SDG 3). The benefits of these activities are measured with different key performance indicators, such as the number of hearing solutions donated (2018/19: over 1,400), the number of professionals trained (2018/19: over 275), and the number of hearing screenings conducted (2018/19: over 90,000). The Hear the World Foundation Activity Report is published annually and provides detailed information on the Foundation's activities and performance.

PDF

Hear the World Foundation Activity Report 2018/19

The activities of the Hear the World Foundation are well aligned with Sonova's business drivers and allow us to leverage our vision, brand, and strengths as a leading provider of hearing solutions to have a maximum impact on the beneficiaries of the aid projects. The Foundation's projects improve access to hearing care, especially in low- and middle-income countries, build up local capacity with training in countries that lack qualified hearing care professionals, and contribute to high employee engagement by offering volunteering opportunities.

Corporate citizenship and philanthropic contributions

In the 2018/19 financial year, the total monetary value of Sonova's contribution to corporate citizenship and philanthropic activities amounted to around 3.3 million CHF.

Type of activities

CHF[1]

	2018	%
Total	**3,267,062**	**100%**
Community investments	2,950,573	90%
Charitable donations	50,920	2%
Commercial initiatives	265,569	8%

1 only contributions at Sonova Group level included, does not include contributions at brand level

The vast majority (90%) of all contributions were community investments: long-term strategic involvement with community partner organizations through the Hear the World Foundation with the aim to improve quality of life and create equal opportunities. A total of 2% of the cost of all activities were charitable donations, and 8% were for commercial initiatives, e.g. our partnership for hearing loss prevention with the concert and event organizer abc Production, research projects, sponsoring of community organizations, and other initiatives related to the topic of hearing.

Type of contribution

CHF[1]

	2018	%
Total	**3,267,062**	**100%**
Cash contributions	715,569	22%
Time	291,435	9%
In-kind contributions	1,751,058	54%
Management costs	509,000	16%

1 only contributions at Sonova Group level included, does not include contributions at brand level

The total of around 3.3 million CHF comprises 54% in-kind contributions (mostly hearing instruments and cochlear implants), 22% direct cash contributions, 16% management costs (e.g. staff salaries and overheads), and 9% time (e.g. employee volunteering).

Access to hearing care

“It’s all about children”

Sonova employee Julien Ricadat-Crosnier traveled to Lebanon as a volunteer with the Hear the World Foundation to provide audiological care for local children with hearing loss. Taking part in the aid project was a dream come true for him.

Julien Ricadat-Crosnier gives a thumbs-up, signaling “well done” to the little boy sitting opposite. He shows him the cast of his auditory canal he has just taken; the lad examines it concentratedly and beams, showing Julien that he has understood.

The young audiologist working for Sonova brand Audition Santé first volunteered for a Hear the World Foundation aid project in May 2018, traveling from his home in Mantes-la-Jolie, a medium-sized town northwest of Paris, to Beirut, the capital of Lebanon. The trip was a dream come true for Julien: “I’ve been interested in getting actively involved in humanitarian work ever since I can remember.”

Julien had long harbored a desire to take part in a Hear the World Foundation aid project, although he initially had to wait until he had qualified as an audiologist. When an opportunity arose at the beginning of 2018, he didn’t hesitate for a second. He recalls thinking to himself right away: “This couldn’t be more perfect. It’s all about children – I have just spent the last few years completing a supplementary audiological training course for under-sixes. And the Foundation is looking for someone from France because they also speak French in Lebanon.” Julien’s application was successful, and he found himself joining two Brits and a German on a trip to Beirut to provide audiological care for Syrian refugees aged between four and 14 as well as for local Lebanese children. “I had prepared very well for the trip and done lots of research. Beirut is being rebuilt and the military are patrolling the streets everywhere. You feel safe, although you do see a great deal of poverty outside the city.”

Julien Ricadat-Crosnier

The team worked in the IRAP (Institut de Rééducation Audio-Phonétique) school for the deaf and in a branch of Houri Hearing, Phonak’s local distribution partner. Many of the children had lost their hearing in bomb attacks and explosions, although some were born with profound hearing loss and had never received proper healthcare because of the precarious situation there. “I had been expecting traumatized children, but the little ones greeted us with a smile and were very glad to see us. They are curious and full of questions, asking us who we are and where we are from.” This friendliness and openness comes all the more as a surprise to Julien when he learns (via the interpreter) that some of the children live on the streets or have lost both parents in the upheavals of war.

Most of his little patients had already been fitted with hearing aids by other Sonova staff who visited Lebanon as voluntary aid workers for the Foundation in November 2017. Julien and the other staff on his mission have now been tasked with cleaning the devices and checking the settings. “We had to refit some of the hearing aids from scratch, as the children’s ability to hear had changed. Cleaning was sometimes also a lot of work.” They look after some 30 children as well as providing devices for new young patients, whom Julien fits with hearing aids made by Sonova brand Phonak for the first time. “We have noted excellent outcomes in children with 80% hearing loss; they speak properly and are able to communicate with one another. We were really pleasantly surprised.”

The young audiologist was also highly impressed by his visit to IRAP: “All the facilities there are old-fashioned, of course, the technology is not up-to-date, but there’s a real *joie-de-vivre*.” The Sonova volunteers adapt to local circumstances, working in a noisy environment and using just the simple means at their disposal. Julien supports the people working there with his professional expertise and compares notes with the team on new treatment methods.

The day of departure finally arrives, and Julien finds it hard to say goodbye:
“I’ve developed a real bond with the children here. Just like everywhere else in the world, what they want to do more than anything else is play.” He is particularly fond of two little girls aged seven and eight. They live in the school for the deaf because their parents are too poor to look after them at home. “They showed me the whole school, including their classroom and their sleeping quarters. While we were waiting for the minibus that was to take us to the airport, we spent an hour playing, singing, and – most of all – laughing a lot together.”

Having returned to Mantes-la-Jolie, Julien Ricadat-Crosnier has resumed his normal daily routine, but the trip to Lebanon has forged strong links between the participants, and he is still in close contact with his Sonova colleagues. “We write to one another and swap pictures of our stay.” Looking back, Julien sums up his experiences: “I learned a lot during my time there. Our Hear the World Foundation is doing genuinely sustainable work and we’re trying to provide long-term support for projects. In addition to fitting people with hearing aids, providing follow-up care and training opportunities for specialist audiologists on site is playing a critical role. I’m proud to work for a company that’s socially engaged in this way and I’m hoping I can be involved again.”

Commitments

Investment in people

Our commitment: We support the development of our employees and offer a flexible and inclusive work environment.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By investing in people, Sonova contributes to the SDGs 5 and 8. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Our employees are key to our success

At Sonova, our employees contribute to something greater than themselves – they transform lives. We work to enhance the quality of life for millions of people by bringing better hearing to those with hearing loss. Our shared corporate values – innovation, engagement, and responsibility – shape the culture that defines and unites us as a company across all brands and regions.

Global trends such as demographic changes, a limited availability of specialist talent, and the need to adapt quickly to shifting markets highlight the importance of a proactive staffing strategy for Sonova. We strongly believe that developing talent with the goal of ensuring internal succession is vital to sustainable success. Appointing internally to key positions while retaining and developing skilled employees helps to ensure that Sonova's specialist knowledge and intellectual property remain within the company, sustaining our competitive advantage. In 2018/19, we were able to fill 53% of our open leadership positions with Sonova employees.

Internal leadership recruitment rate (ILRR)
% of employee headcount[1]

	2018/19	2017/18
Total (% of total internal hires)	**52.3**	**52.8**
Women (% female of internal hires)	55.0	43.9
Men (% male of internal hires)	45.0	56.1

1 In 2017/18 former AudioNova was excluded, in 2018/19 – Audiological Care Germany

GRI 401-1

Our conscientious treatment of our workforce, professional leadership culture, and proactive approach to employee retention over the past years have combined to keep our global employee turnover to a level of around 12%. The average tenure of our managerial staff is 8.3 years, while the total average workforce tenure is 6.3 years.

Employee turnover rates

% of FTE[1]

	2018/19	2017/18	2016/17
Total	**12.3**	**11.9**	**10.8**
Region			
Switzerland	6.8	8.5	7.5
EMEA (excl. Switzerland)	8.9	7.6	6.2
America	19.5	18.4	18.0
Asia/Pacific	12.2	10.8	9.0
Gender			
Women	12.2	11.9	11.2
Men	12.0	12.1	10.3
Age			
under 30 years old	16.2	15.0	–
30–50 years old	10.6	12.1	–
over 50 years old	8.2	11.4	–

1 The employee turnover rate is the percentage of the employees who left Sonova during the fiscal year; this includes continuing and discontinued operations (excl. leaves following company sale). In 2017/18 former AudioNova was excluded from the total workforce, in 2018/19 – Audiological Care Germany.

This year, we conducted Sonova's first anonymized employee survey, called HearMe. Around 90% of employees participated worldwide, providing valuable information about ways we can boost collaboration across the Group. Of respondents, 84% reported feeling engaged through their work (82% for men, 85% for women). The first concrete initiatives inspired by HearMe results have already been implemented, aiming to release untapped potential, identify key drivers of employee engagement, encourage effective leadership at all levels, and thus stimulate professional growth and business success.

84%

report feeling engaged through their work at Sonova

Personnel figures

GRI 102-8

The number of employees increased in the current reporting year by 3.5% to a total of 14,734 full time equivalents. The additional 492 full time equivalent employees stem mostly from growth in operations in Vietnam and in our audiological care business in Europe.

Employees by region

FTE (end of period)[1]

	2018/19	2017/18	2016/17
Total (Regular and Fixed-term)	**14,740**	**14,242**	**14,089**
Switzerland	1,224	1,219	1,178
EMEA (excl. Switzerland)	6,748	6,471	6,399
America	3,443	3,539	3,538
Asia/Pacific	3,325	3,013	2,974

1 Employee numbers do not show any seasonal or other temporary fluctuation

Employees by employment contract

% of employee headcount[1]

	2018/19	2017/18	2016/17
Regular	86.6	91.2	92.8
Fixed-term[2]	2.9	4.5	3.8
External temporary[3]	7.2[4]	0.9	0.4
Interns	3.3	3.5	3.0

1 Information about FTE not available for temporary hires, therefore % split calculated based on headcount
2 Employees on fixed-term contract
3 Agency temps and contingent workers
4 The increase among external temporary employees is mainly driven by the methodological change in gathering the data

We are taking steps to further improve our local operating structure, strengthening the supply chain and consolidating some of the services provided by our hearing instruments business in the UK, Germany, and Canada. These measures are expected to produce a combined workforce reduction of about 250 employees, most of which is already reflected in the reported personnel figures.

Human resource organization

GRI 102-41

The majority of our employees are directly supported by a local human resources (HR) manager. At our corporate headquarters in Switzerland, we develop – in collaboration with our group companies – and monitor a comprehensive set of global human resource processes, standards, and policies, which are implemented locally in line with country-specific regulations and customs. We assess the impact of all our activities through a set of key performance indicators such as turnover, internal leadership recruitment rate, and depth of available in-house talent. Regular audits ensure compliance with internal regulations and local labor law, with the objective to provide excellent working conditions and monitor progress in all our locations. We estimate that around 7% of Sonova's global workforce is covered by collective bargaining agreements.

Career development

GRI 404-3

We offer a flexible and inclusive work environment and an open culture that inspires personal growth and professional development. Line and HR managers review the competencies, performance, and potential of our employees through a yearly appraisal process. By setting individual and measurable goals, we promote a sense of accountability.

We believe that every employee deserves an individual development plan. We therefore launched in spring 2019 an initiative that allows employees at all levels to define their development objectives under the appraisal process and discuss them with their managers in designated development conversations. The aim is to ensure that we invest in the fulfilment of each individual's strengths and preferences.

Our global Succession Planning process allows us to mitigate the risk of losing expertise in key positions while identifying and developing promising candidates for internal succession.

Training programs

The Sonova Academy is our group-wide education platform. In close collaboration with selected external partners such as INSEAD in Paris, our Academy offers targeted programs and provides an opportunity for our leaders, managers, and best-performing talents to enhance their skills and competencies. The Sonova Academy also serves as a cross-business learning network that provides consistency and supports change throughout our organization.

Our leadership development process is based on a portfolio of training programs:

Training program	Audience	Description
Aspiring Leaders	• Employees with leadership aspirations • 12–16 participants per cohort	The Aspiring Leaders program is two-day course that encourages participants to start thinking about their own leadership brand and about how they can best fulfill and contribute to Sonova's future.
Leadership Foundations	• Mandatory for all new people managers • Recommended for all people managers • 8–16 participants per cohort	The Leadership Foundations course is a two-day intensive course focusing on care, accountability, and continuous improvement for leaders to emphasize the essential people-management and leadership skills.
Leading Effective Teams	• Foundation alumni with direct reports • ideally 9+ months after Foundation • 16–24 participants per cohort	Focusing on effective and productive collaboration, Leading Effective Teams is a yearlong program that begins with a two-day face-to-face workshop, followed by frequent virtual sessions asking participants to team up to tackle real business problems they are facing as leaders.

Through intensive feedback, coaching, and experiential exercises, the program gives participants the chance to reflect on their personal style, to understand and to increase the impact they have on their company's performance, and to plan how they will continue to develop as leaders at Sonova. In the reporting year, 211 employees have participated in around 4,700 hours of face-to-face leadership training courses.

A strong focus on customer service is also reflected in our training programs: we are convinced that a trusting personal relationship, founded on expertise and understanding, is the best way for customers to reap the full benefit from their hearing solution. A new Sonova Academy in Germany will open in summer 2019, offering face-to-face and online training to further develop the ability of our hearing health care professionals to deliver the best service and customer experience.

We measure the success of the career development process in two ways: each line manager assesses development planning and employee progress, while Sonova tracks the internal promotion rate and participation in the training programs.

Traineeship programs

Sonova has an excellent network of research collaboration with various leading universities around the world, where students can participate in joint studies and other activities. We offer them the opportunity to work in our organization as a member of one of our Research and Development teams, either in an internship, or as part of their Bachelor's, Master's, or PhD thesis work.

Our talent acquisition process also targets the most sought-after group of professionals in our industry: experts in audiology. To support our constant need for top audiologists, we offer an international Audiological Traineeship program, with training placements in the US, Canada, and Switzerland. This program is an opportunity for ambitious audiology graduates to benefit from a one-year formal development and rotation experience, where they will have the opportunity to work with our talented audiologists in various business units (Audiology, Marketing, Customer Training, Sales, and Research) before starting on their career path with Sonova.

GRI 401-1

At Sonova we conscientiously support and invest in Switzerland's effective dual training system, which links formal education with in-company training, providing both theory and necessary practical experience. The number of our apprentices has doubled since 2013, and we train more than 40 apprentices at our headquarters. The range of Sonova apprenticeships is highly diverse, offering training in twelve professions, from polytechnician through logistics clerk to cook. In recent years three apprentices with disabilities successfully completed an apprenticeship at Sonova.

New hire rate

% of new hired FTE

	2018/19	2017/18	2016/17
Region			
Switzerland	4.4	8.1	4.7
EMEA (excl. Switzerland)	33.7	32.3	43.2
America	29.7	39.6	26.6
Asia/Pacific	32.1	20.0	25.5
Gender			
Women	67.1	66.6	71.8
Men	32.9	33.4	28.2
Age			
under 30 years old	48.4	42.3	43.5
30–50 years old	41.8	48.0	46.9
over 50 years old	9.7	9.7	9.6

GRI 102-8, GRI 405-1

Diversity and inclusion

Sonova has subsidiaries in over 30 countries and a workforce of over 14,000 dedicated employees representing a broad mix of experiences and backgrounds. We consider this diversity to be key to our success, since it fosters innovation and helps us understand our global customer base. All facets of diversity are important to us; we strive to create an inclusive environment where everyone – regardless of age, gender, language, ethnic origin, religion, culture, sexual orientation, or health status – can contribute and realize their full potential. Our commitment to diversity is recorded in our Code of Conduct and is binding for all our employees.

As the world's largest hearing care provider, Sonova campaigns for equal opportunities and a better quality of life for people with hearing loss. It is our vision to create a world where everyone enjoys the delight of hearing and lives a life without limitations. By offering the most comprehensive range of solutions to treat all major forms of hearing loss, we aim for our consumers to feel fully included in society. To help us reach this challenging goal, our workforce and work culture need to reflect the values of diversity and inclusion.

>20%

employees less than 30 years old

Building a diverse workforce

Our employees bring different skills and characteristics to the table, depending on their age, gender, origins, and personal background. We are convinced that our success as a company largely depends on the extent to which we are able to realize the benefits of this diversity. A variety of perspectives is essential to best meet the many and various needs of our clients and to make a convincing case for the company over the long term with innovative products and services. We therefore make it a priority to recruit and develop a wide range of people who share our passion and bring in new skills, viewpoints, and experiences.

Employees by gender

% of employee headcount[1]

	2018/19	2017/18	2016/17
Women			
Share of total workforce	65.7	66.0	66.0
Part-time employees	18.4	19.0	18.1
Men			
Share of total workforce	34.3	34.0	34.0
Part-time employees	6.3	6.0	4.9

1 Only regular contracts, no fixed-term contracts

Employees by age

% of employee headcount[1]

	2018/19	2017/18	2016/17
All employees			
under 30 years old	20.7	18.1	22.0
30–50 years old	60.3	61.9	58.0
over 50 years old	18.9	20.0	20.0
Women			
under 30 years old	22.6	19.9	23.9
30–50 years old	59.9	61.9	57.8
over 50 years old	17.4	18.2	18.3
Men			
under 30 years old	17.1	14.5	18.4
30–50 years old	61.1	61.9	58.5
over 50 years old	21.9	23.6	23.1

1 Only regular contracts, no fixed-term contracts

To guarantee a balanced mix, we have a special focus on recruiting and promoting women and employees from different cultures in leadership and executive positions. By striving for gender balanced representation in filling open positions, we aim to achieve a 35% proportion of women in upper management within four years.

We actively support the compatibility of pursuing a career and raising a family by promoting flexible working models such as home offices, flexible working hours, and part time work in leadership positions. Our terms of employment guarantee our employees in Switzerland a number of additional family related benefits, including 16 weeks of maternity leave, two weeks of paternity leave, and the possibility of purchasing additional vacation time. In all our production sites, where shift work is standard, employees returning from maternity leave can choose to work at between 50% and 100% of their previous level during their first year back. We operate our own day care center at our headquarters in Stäfa and financially support lower-salary employees in Stäfa and in our production center in Vietnam to help pay for day care. We are proud that today, 48% of all positions involving staff responsibilities are held by women. In lower and middle management, the ratio of women is 55% – these are ideal conditions to reach our ambitious gender diversity targets in upper and senior management through professional succession planning and individual development plans.

55%

women in lower and middle management positions

Women in management positions

% of employee headcount within respective management position

	2018/19	2017/18	2016/17
Women in senior management			
Total	**17.3**	**14.7**	**8.5**
Switzerland	8.3	–	8.3
EMEA (excl. Switzerland)	11.4	10.8	4.0
America	46.2	38.5	30.0
Asia/Pacific	13.3	14.3	–
Women in upper management			
Total	**31.1**	**29.1**	**30.0**
Switzerland	18.0	14.9	18.9
EMEA (excl. Switzerland)	36.7	31.3	34.1
America	33.1	33.8	32.4
Asia/Pacific	36.1	36.9	33.3
Women in lower and middle management			
Total	**54.7**	**54.4**	**52.5**
Switzerland	32.4	27.5	22.7
EMEA (excl. Switzerland)	57.5	57.8	56.1
America	52.7	52.8	50.0
Asia/Pacific	56.9	55.1	53.6
Women in non-management			
Total	**69.2**	**68.4**	**68.4**
Switzerland	45.3	43.3	43.7
EMEA (excl. Switzerland)	68.5	67.8	67.7
America	69.3	70.0	69.4
Asia/Pacific	78.0	78.2	78.8

Sonova also provides reasonable accommodation in its job application procedures for qualified individuals with disabilities, or to enable otherwise qualified individuals with disabilities to perform essential job functions.

Advancing our culture of inclusion and innovation

Inclusion is a foundation of our corporate culture, and an integral part of how we benefit from the diversity of our workforce. We embrace the differences that make each of our employees exceptional. We are committed to creating a safe, positive, and nurturing work environment where all people feel appreciated, respected, and taken seriously. We are convinced that this promotes thoughtful and valuable dialog and fosters innovation.

In this context, we are actively addressing the role of unconscious biases and expectations: we have started training courses to help recognize and prevent stereotypical (often unwitting) role expectations from affecting HR processes and thus hindering our efforts to increase diversity in senior leadership functions. In December 2018, the whole management board participated in training session to learn how we can make better decisions by being aware of our biases.

In 2018, we have for the first time calculated and benchmarked Sonova's inclusion score, as part of our employee engagement survey.

To raise awareness and continuously advance a culture of inclusion, we also support expanding employee networks, providing platforms where people can connect and learn from one another. Women's networks, initiated by our employees, have already been established in Canada, the US, Germany, and Switzerland.

A continuously improving gender balance in upper and senior leadership, along with our first-time selection to the Bloomberg Gender-Equality Index, shows that our commitment to equality and to a comprehensive diversity and inclusion strategy is bearing fruit.

Employee wellbeing

Sonova is committed to foster employees' health and well-being. Our group companies and operation centers take specific prevention and health promotion measures to help maintain and enhance each employee's capacity for productive and fulfilling work. Sonova's global Body & Mind initiative aligns and supports its various prevention measures. The health initiative rests on four main pillars:

- Sound and well-balanced nutrition
- Physical and mental harmony through exercise
- Re-energizing through active relaxation
- Medical care through regular check-ups and vaccinations

Three-minute break-time exercises at our operation center in Suzhou to reduce muscle tension.

Our group companies are responsible for implementing Body & Mind measures locally and for continuously refining programs in all the four areas: nutrition, exercise, relaxation, and medical care. Examples of activities and best practice across Sonova globally in the 2018/19 financial year included:

- Health coaches leading employees in three-minute break-time exercises to reduce muscle tension at our operation centers
- Sports groups and sports events ran by employees (e.g. skiing, biking, badminton, soccer)
- Provision of sports changing rooms with showers
- Yoga classes
- Healthy breakfast options and salad buffet
- Stress management and burnout prevention coaching sessions
- Free medical check-ups
- Health awareness days

Occupational health and safety

Sonova has established an effective occupational health and safety culture that supports and protects our employees. We regularly monitor and analyze the potential health and safety risks of our operations and implement both legally-required and voluntary occupational health and safety programs. Sonova's operations have a relatively low exposure to health and safety risk, but we are committed to continuous improvement here as elsewhere. We operate within a highly integrated business model: all manufacturing centers are owned by Sonova. We engage only a small number of contractors and licensees.

GRI 403-2

Each incident is investigated to determine its cause and take steps to prevent any reoccurrence. Our low exposure to health and safety risk is reflected in the figures for the past three financial years reported in the table below. Any incident that requires external medical health care is considered as a work-related injury. First-aid level injuries are not included. Any work-related injury that results in the company employee not being able to return to work the next scheduled work day/shift is considered as a lost-time injury. Lost days refer to working days, not calendar days, and begin the day after the accident. In general, injuries and lost work days are not caused by the manufacturing processes; they are more likely to be sustained during activities such as movement of goods.

Occupational health and safety indicators

	2018/19	2016/17	2015/16
Injury rate (IR)	0.30	0.44	0.44
Lost day rate (LDR)	7.40	1.73	2.69
Lost-time injury frequency rate (LTIFR)	0.46	0.5	0.42
Occupational illness frequency rate (OIFR)	0.19	0.18	0.44
Work-related fatalities	0	0	0

IR = total number of injuries/total hours worked x 200,000
LDR = total number of lost days due to injuries/total hours worked x 200,000
LTIFR = total number of lost-time injuries/total hours worked x 1,000,000
OIFR = total number of occupational illness or diseases cases/total hours worked x 1,000,000

The injury rate (IR), lost day rate (LDR), lost-time injury frequency rate (LTIFR), occupational illness frequency rate (OIFR), and work-related fatalities cover the Sonova manufacturing centers in Switzerland, Vietnam and China. Gender-specific indicators are not considered relevant on an aggregated level. Sonova does not record health and safety statistics for contractors.

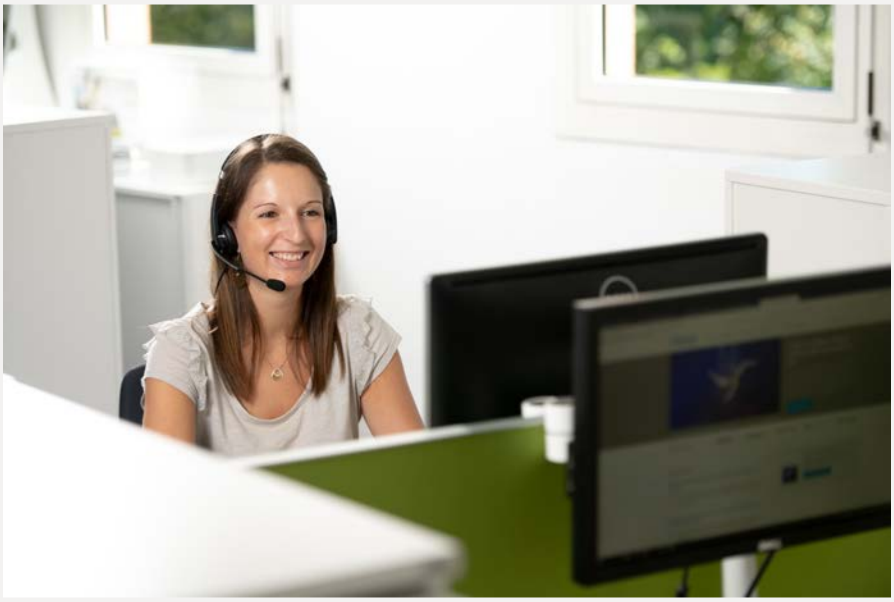
Investment in people

One year, three continents and lots of new experiences

Sonova has been offering its High Potential Program (HPP) as part of its staff development plan for over ten years. Léonie Fauvet, a young Frenchwoman, has participated in this training scheme for future managers. Personal development and international networking go hand in hand here.

Léonie Fauvet’s hands fly across the keyboard of her computer as she uploads images, adds hashtags, and inserts links. This young woman with friendly brown eyes works in Sonova France’s headquarters in a suburb of Lyons, where she is responsible for the Phonak brand’s social media presence in the local market. As Digital Marketing Manager, she looks after channels such as YouTube, Facebook, LinkedIn, and a blog called “EcouteEtMoi”. She really enjoys her work, especially as its gives her ample opportunity to act on her own initiative. “When I started working for Sonova four years ago, this role didn’t exist at all. It has been newly created, so I can define a lot of it myself.” The 27-year-old, who has a Master’s degree in International Marketing, holds the purse strings for the budget and enjoys comparing notes with her social media colleagues in other countries as part of her work. Keeping an eye on synergy and cooperation is a particular interest, “but the content is often not a perfect fit for my market. I’m now pretty good at judging whether or not I can adopt existing content from other Phonak countries, and I make those decisions myself,” she explains confidently. The young woman’s independence is impressive – especially to her line managers, who put her forward for the HPP.

“The HPP Program is the flagship career development scheme we offer our staff,” explains Claudio Bartesaghi, Sonova Group’s Vice President Corporate Human Resources Management & Communications, who headed up the international professional development program for several years. “The slots on offer are very restricted, with 30 participants selected each year; we have something like three times as many applicants as places in every round,” says Claudio Bartesaghi. A multi-stage selection procedure is used to whittle down candidates. “The selection criteria include the employee’s performance over recent years and development potential as identified by their line manager.” But this is not all – Sonova has adopted a broad-brush approach: “In addition to examining these various business functions, we take geographical considerations and gender balance into account when assigning places.”



Léonie Fauvet

Léonie Fauvet managed to hold her own in the rigorous selection procedure and was the youngest of the 30 participants in 2018. But age is of only secondary importance as far as Sonova is concerned: “We’re more interested in asking what stage the employee has reached in their career. In her late 20s, Léonie brings digital marketing skills to the table that very few 45-year-olds are likely to possess.” The HPP lasts a whole year and involves workshops for which the participants are divided into five or six groups to complete interdisciplinary projects on topics set by the Management Board. Léonie’s group was tasked with evaluating customer service, and the team compared notes in regular Skype calls between meetings. As Léonie remembers: “We had a conference call every two weeks – but not until 7pm, because of the time difference. In my group, there were even participants from the US and New Zealand.” The workshops were held in Chicago, Ho Chi Minh City and Sonova’s headquarters in the Swiss town of Stäfa. Claudio Bartesaghi outlines the reasons for this approach: “With international requirements expanding all the time, we have distributed the training course across three continents, America, Asia, and Europe. This also allows participants to build up a network right across the group.”

Léonie, a sports enthusiast from the renowned wine region of Beaujolais, particularly enjoyed the trip to Vietnam: “We visited the production facility where our hearing aids are manufactured. The program gave me an entirely new and very comprehensive perspective on the market for hearing solutions, and on our company as a whole. I found it extremely valuable to meet staff from such a wide range of business segments,” she recounts with excitement. Her day-to-day work is now also benefiting from the experience and expertise acquired on the HPP.

Once the program has been completed, Sonova assesses the benefits each participant has gained from the course. Claudio Bartesaghi is very happy with the results: “All participants expand their network globally and describe the program as extremely practice-oriented and relevant to their day-to-day work. Moreover, at least two-thirds of participants climb the next rung of the career ladder within 18 months of completing the course.” Here, the HPP is making a significant contribution to Sonova’s objective of filling more vacant management and expert roles with recruits from its own ranks.

“The more talented staff members we can train in-house – and thus retain within the company – the better,” says Claudio Bartesaghi, adding “I’m also convinced that diverse teams will make better decisions and boost Sonova’s capacity for innovation.” This is why Sonova makes a special effort to recruit women and staff from a range of cultural backgrounds for management roles.

Commitments

Safeguarding the environment

Our commitment: We ensure eco-efficient practices across all our business activities.

Environmentally friendly practices

Commitment and policies

Sonova makes an explicit commitment to continuously promote and pursue environmentally friendly practices throughout the entire lifecycle of its products and across all its business activities. We set the priorities and provide the resources needed to reduce our environmental impact through responsible, efficient management of our buildings and infrastructure, processes, products, and services. Our environmental policy supports Sonova's commitment to behave proactively and describes the company's environmental performance management organization and responsibilities, along with their relevant environmental aspects and other management approaches.

Thanks to Sonova's low risk exposure to environmental issues and its strict group-wide environmental management, no fines or non-monetary sanctions were levied against Sonova in 2018 (and in previous years) for noncompliance with environmental laws or regulations.

Environmental management systems

As part of continuous improvement in operations, Sonova has committed to establish ISO 14001-certified environmental management systems at all its key manufacturing and distribution centers; these require employees to make sound environmental decisions when designing, manufacturing, and servicing products. For non-manufacturing sites, Sonova has implemented an adapted environmental management system to ensure integration of environmental factors in decision-making and improvement in environmental performance. All key Sonova manufacturing and distribution centers are currently certified to the ISO 14001 standard:

- Sonova AG and Advanced Bionics AG (Stäfa, Switzerland)
- Phonak Communications AG (Murten, Switzerland)
- Sonova Operations Center Vietnam Co., Ltd. (Binh Duong, Vietnam)
- Sonova Hearing (Suzhou) Co., Ltd. (Suzhou, China)
- Sonova USA Inc. manufacturing and distribution centers (Warrenville/Aurora, USA)
- Advanced Bionics LLC (Valencia, USA)

Sonova and the United Nations Sustainable Development Goals (SDGs)
By safeguarding the environment, Sonova contributes to the SDGs 6, 7, 9, 12, and 13. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

GRI 307-1

Sonova environmental policy

Environmental targets

Sonova's environmental program sets clearly defined targets. We continuously monitor and optimize environmental objectives and performance across the Group. During the past financial year, we developed new environmental five-year targets with 2017 as the base year and 2022 as the target year. The five most important key environmental targets, current progress, and related UN Sustainable Development Goals (SDGs) are outlined in the table below.

Sonova 2022 key environmental targets

Goal	Key SDGs	2017 base year	2018 performance	2022 target
Energy and climate: Reduce greenhouse gas emissions[1] per revenue by 30%	7, 9, 13	18.6 t CO_2 eq per million CHF	16.4 t CO_2 eq per million CHF (-11.7%)	13.0 t CO_2 eq per million CHF (-30%)
Green procurement: Increase share of purchase volume from suppliers with certified environmental management system (EMS) to 75%	12, 13	52%	66%	75%
Materials: Zero[2] substances of very high concern (SVHC) in Sonova products	12	1	3	0
Waste: Increase recycling rate to 60%	12	47%	53%	60%
Water: Reduce total water withdrawal per employee by 5%	6	18.2 m^3/FTE	18.3 m^3/FTE (+0.3%)	17.3 m^3/FTE (-5%)

1 Scope 1&2 + air-travel related Scope 3 emissions
2 above the threshold level of 0.1% by weight according to REACH regulation

Most of the programs are on track to reach their targets and necessary measures have been initiated. More details on these are provided in the respective sections below.

Energy and climate

Commitment and approach

Climate change is one of the biggest challenges of our time: it requires prompt, effective action from governments, industries, and individuals. Sonova is committed to reducing its carbon footprint attributable to direct and indirect energy consumption, including energy used in transportation and distribution. The company's strategy requires a steady increase in the energy efficiency of its operations, integrating environmentally friendly energy purchase and generation, and optimizing transportation and distribution logistics. Sonova has set up implementation initiatives that concentrate on its most energy-intensive facilities, while considering other sites that show realistic potential for improvement. From a risk perspective, Sonova's business has a low exposure to climate change and hence anticipates no financial implications for the organization's activities from this source.

Climate change risks and opportunities

Sonova takes a systematic approach to managing corporate responsibility risks, both in its supply chain and in its own operations. Identifying and mitigating risks arising from climate change is an integral part of our strategic risk management process, and it is reviewed and assessed together with all other business risks.

Climate change risks are not currently included in the Group Risk Map as they do not appear to be key risks, given of the nature of Sonova's goods and services. The company has not identified any significant climate change related regulatory, physical, or other risks to its business, including changes in emission limits, energy efficiency standards, carbon taxes, or carbon trading schemes.

At the same time, Sonova does not anticipate any current or future climate change related opportunities. The topic has only an indirect and limited influence on our business, e.g. in terms of production processes. Customer surveys show that the topic is not currently considered relevant to Sonova and therefore does not present a business opportunity.

Energy

GRI 302-1

In 2018, the total energy consumption of the Sonova Group from heating (fuel oil and natural gas), electricity, and vehicle fuels (diesel, gasoline, liquefied petroleum gas, liquefied natural gas, ethanol) amounted to 120,322 megawatt-hours (MWh). Of this total, 56,351 MWh can be attributed to the wholesale business and 63,971 MWh to the audiological care business. The wholesale business accounts for a higher proportion of electricity consumption because of the air conditioning systems necessary in operation centers in China, Vietnam and the US. On the other hand, the audiological care business accounts for a higher proportion of heating because of a stronger presence in Europe, where cold winters make heating more relevant.

4.4%

reduction of total energy consumption

Compared to 2017, total energy consumption fell by 4.4% despite an increase in electricity consumption due to higher production volume and growth in employee numbers. This was mainly thanks to higher fuel efficiency in Sonova's corporate car fleet and decreased heating consumption in the audiological care business.

Energy consumption

MWh

	2018		2017		2016
	Audiological care[1]	Wholesale	Audiological care[1]	Wholesale	Wholesale
Total	**63,971**	**56,351**	**68,888**	**56,997**	**54,622**
Heating	30,991	7,879	36,926	7,812	8,033
Electricity	20,769	35,405	18,688	34,465	30,629
Vehicle fuels	12,211	13,067	13,275	14,720	15,960

1 extrapolation, only partial data available

Sonova is committed to increasing the share of renewable energy in its total energy budget. In line with our greenhouse gas reduction target, we have set the target of 100% green electricity for all key manufacturing and distribution centers. Across the company, our target is to increase the share of renewable energy to 20% of total energy consumption by 2022. In 2018, 10,618 MWh of electricity came from renewable sources (2017: 5,520 MWh). Of this, 542 MWh came from the 5,000-square meter solar panel system, activated in 2015, on the roofs of our manufacturing center in Suzhou, China. In total, we increased the share of renewable energy in total energy consumption in 2018 from 4% to 9%. The total non-renewable energy consumption in 2018 was 109,704 MWh.

Greenhouse gas emissions

GRI 305-1, GRI 305-2, GRI 305-3, GRI 305-4

Sonova aims to achieve by 2022 a 30% reduction of greenhouse gas (GHG) emissions in relation to revenues. The GHG total for our target comprises Scope 1, 2, and air-travel related Scope 3 emissions. In 2018, we reduced GHG emissions intensity by 11.7% from 18.6 to 16.4 metric tons of CO_2 equivalents (t CO_2eq) per million CHF revenues, keeping us well on track to achieve our long-term goal.

Sonova Group's absolute carbon footprint of Scope 1 and 2 emissions for 2018 amounted to 35,500 t CO_2eq, down by 8.3% from the previous year's emissions of 38,701 t CO_2eq. The main reason for the absolute reduction in Scope 1 and 2 GHG emissions is increased use of renewable electricity, as well as group-wide efforts to improve energy efficiency in our infrastructure and production processes. Sonova Group companies developed local carbon footprint reduction measures in line with the global environmental program, to help reach the 2022 environmental targets. Examples include improving building automation to optimize electricity use for heating, ventilation, and air conditioning at our operation centers in Vietnam, replacing IT infrastructure with more energy-efficient devices and improving building insulation at Boots Hearingcare in the United Kingdom, and replacing conventional lighting with LED technology in several Group companies.

11.7%

reduction of greenhouse gas emissions per revenue

Greenhouse gas (GHG) emissions – Scope 1+2

t CO_2 eq

	2018		2017		2016
	Audiological care[1]	Wholesale[2]	Audiological care[1]	Wholesale[2]	Wholesale
Total Scope 1+2	**19,386**	**16,114**	**20,576**	**18,125**	**29,108**
Scope 1	9,584	5,049	11,048	5,446	6,646
Scope 2	9,802	11,065	9,528	12,679	22,462

1 extrapolation, only partial data available
2 values not comparable to 2016, due to changes in emission factors and reporting scope in 2017

In 2018, we estimated Scope 3 emissions for three categories: upstream transportation and distribution (11,543 t CO_2eq), business travel (9,830 t CO_2eq), and employee commuting (21,558 t CO_2eq), which totals to 42,931 t CO_2eq of Scope 3 emissions.

Greenhouse gas (GHG) emissions – Scope 3

t CO_2 eq

	2018[1]	2017
Total Scope 3	**42,931**	**43,542**
Upstream transportation and distribution	11,543	11,543
Business travel	9,830	10,441
Employee commuting	21,558	21,558

1 Studies to gauge emissions from upstream transportation and distribution, as well as employee commuting, are not carried out every year; our estimates are based on values from the 2017 study and survey.

Total Scope 1, 2, and 3 absolute greenhouse gas emissions for 2018 amounted to 78,431 t CO_2eq, a reduction of 4.6% compared to the previous year (82,243 t CO_2eq). The majority of Sonova's GHG emissions are Scope 3 emissions (55%).

Business-related air travel

Sonova is a global company: business-related air travel is essential to maintain and improve operations, and to collaborate with internal and external stakeholders. However, we are committed to reduce our carbon emissions from business-related air travel by systematically using information and communications technology to substitute for air travel. In 2018, the carbon emissions from business-related air travel on a group-wide basis were 9,830 t CO_2eq, of which 29% originated from the flights of Sonova employees in Switzerland. This represents an absolute emission reduction of 5.9% compared to the previous year (2017: 10,441 t CO_2eq), reflecting the benefits of strict travel policies and increased use of web-conferencing tools.

5.9%

reduction of air travel-related greenhouse gas emissions compared to 2017

Corporate car fleet

Sonova also estimated the carbon footprint of its corporate car fleet in 2018. All vehicles purchased, leased, or rented by Sonova Group companies were taken into account. The estimated total carbon footprint of Sonova's corporate car fleet is around 6,645 t CO_2eq in 2018, which represents a reduction of 9.3% compared with 2017 emissions of 7,328 t CO_2eq. This decrease is mostly due to improved overall fuel efficiency in the Sonova car fleet.

Employee commuting

In 2017, Sonova conducted for the first time a worldwide survey to estimate its carbon footprint from employee commuting; this amounted to 21,558 t CO_2eq. The global survey is not carried out every year. Hence, for 2018, we base our carbon footprint calculations on the numbers from the 2017 survey results.

Because the availability of public transport differs across countries, Sonova's initiatives to promote environmentally friendly commuting are influenced by the local infrastructure. The headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns. This initiative increased the proportion of employees who commute using public transportation, by foot, or by bike from 40% to 60% over the last 10 years.

Sonova headquarters in Stäfa established an integral mobility program which provides incentives to use public transport, accompanied by targeted awareness campaigns.

Upstream transportation and distribution

In terms of product distribution, air freight is clearly the dominant contributor to Sonova's carbon footprint, accounting for around 98% of relevant CO_2 emissions. Based on a study conducted in 2017, the carbon emissions for the hearing instruments segment are estimated at 10,708 t CO_2eq in absolute terms and 7.2 kg CO_2eq per kg transported in relative terms. The equivalent carbon emissions for the cochlear implant segment were estimated at 835 t CO_2eq and 4.0 kg CO_2eq per kg transported, respectively. The study is not carried out every year, so total Scope 3 emissions for upstream transportation and distribution for 2018 are estimated at 11,543 t CO_2eq, based on the 2017 study results.

GRI 308-1

Green procurement

We insist on environmentally friendly business practices throughout our supply chain: we do not restrict our environmental standards to our own operations, but consider them equally crucial in selecting our suppliers. The Sonova Group Supplier Principles recommend that suppliers use the international ISO 14001 standard as the starting point and basis for their work.

All new suppliers are screened using environmental criteria. Our long-term target for 2022 is to increase the share of our purchase volume from suppliers with certified environmental management systems (EMS) to 75%. In 2018, we increased the share of our purchase volume coming from suppliers with certified EMS to 66% (2017: 52%). This assessment was made based on desk research as well as internal or external audits and visits.

66%

purchase volume from suppliers with certified environmental management systems

Materials

As a medical device manufacturer, the Sonova Group takes a proactive approach to evaluating materials in its products and components to assess environmental, health, or safety risks. Sonova may restrict substances because of customer or legal requirements, or because the company believes it is appropriate, based on a precautionary approach. Evaluating alternative materials is a continuous process, relevant to all stages of the production.

The main materials used in Sonova products are polymers (e.g. nylon, silicone, acrylonitrile-butadiene-styrene, acrylic polymers), metals (steel, titanium, tin), and semimetals (e.g. silicon). Sonova complies with the EU directive on Restriction of Hazardous Substances (RoHS 2015/863/EU), which governs the use of heavy metals and halogenated compounds in electrical and electronic equipment, and with the EU's regulation on the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH EC 1907/2006) for the safe manufacture and use of chemical substances throughout their lifecycle. Sonova's suppliers are also required to prove their compliance with the RoHS directive and the REACH regulation in their respective processes and supply chains.

In accordance with REACH regulation, Sonova continuously updates the list of substances of very high concern (SVHC) that may be present in its products above the regulatory threshold level of 0.1% by weight of the article. This list is made publicly available on the Phonak website. By the end of the 2018/19 financial year, there were three SVHC substances requiring communication in accordance with the REACH regulation: DEHP, 1,3-propanesultone, and lead titanium trioxide. It is our long-term target to have zero SVHC present in Sonova products above the 0.1% threshold level by 2022.

Other substances classified as hazardous – but excluded from the RoHS directive – include solder paste and wire, paint, organic solvents, oil emulsions, mineral oil, and water-based cleaning solution. Employees who work with chemicals and hazardous substances, or come into contact with them, are regularly trained in their safe handling.

GRI 306-2

Waste

For Sonova, dealing with materials sustainably means avoiding or reducing waste wherever possible, collecting recyclables separately and disposing of hazardous waste in environmentally compatible ways. Our long-term target for 2022 is to increase the recycling rate to 60%. Thanks to various initiatives in Group companies, such as improved waste separation and recycling systems, we were able to further increase our recycling rate from 47% in 2017 to 53% in 2018.

53%

of total waste recycled

The volume of total waste increased by 7.7% in 2018, mostly due to an increase in production volume and number of employees. Solid waste sent to disposal, such as municipal solid waste or material left over from manufacturing processes, decreased by 3.3% to 995 metric tons (previous year: 1,030 metric tons). The share of recycling waste increased by 21.7% from 958 metric tons in 2017 to 1,165 metric tons in 2018. This reflects group-wide efforts to foster recycling.

Sonova complies with legal requirements to transport and dispose of hazardous waste solely through officially authorized disposal agents. The main categories of hazardous waste substances are solvents, oil emulsions, paints, adhesives, soldering paste, filters, petroleum, and washing fluids. The amount of hazardous waste decreased in 2018 by 28.1% from 56 to 40 metric tons.

Waste
metric tons

	2018	2017	2016
Total	**2,201**	**2,043**	**2,196**
Non-hazardous	995	1,030	1,142
Hazardous	40	56	36
Recycling	1,165	958	1,018

GRI 303-1

Water

Sonova uses water provided by utilities primarily for sanitary services and kitchen and garden areas. Our manufacturing processes do not require significant amounts of water. In our environmental program we therefore mainly focus on conserving water in our office buildings, e.g. with low-volume water equipment in restrooms.

Sonova takes a systematic approach to managing ESG risks, both in its supply chain and in its own operations. Risks related to water are reviewed and assessed together with all other business risks. Water availability and quality risks are not currently included in the Group Risk Map, as we do not consider them key risks.

In 2018, water consumption at Group level increased by 6.1% from 132,505 cubic meters (m^3) to 140,627 m^3 in 2017. The sources of all water withdrawn are municipal water supplies or other public or private water utilities. The main reason for the increase in water consumption is the higher number of employees. Our 2022 target is to reduce the total water consumption per employee to 17.3 m^3, which corresponds to a reduction of 5% compared to 2017. However, in 2018, relative water consumption slightly increased by 0.3% from 18.2 m^3 to 18.3 m^3 per employee. We will intensify measures to reverse this trend and bring us back on track to achieve our long-term target.

Sonova returns water to the sewage system without contamination. The company has experienced no spills from operating processes or other instances of water contamination.

Water use
m^3

	2018	2017	2016
Total municipal water supply	140,627	132,505	133,972
Municipal water supply per FTE	18.3	18.2	20.1

Air emissions

Sonova has low atmospheric pollutant emissions from volatile organic compounds (VOCs) in paints and adhesives, in coatings, and for surface cleaning. Group-wide levels of VOCs evaporated to air decreased in 2018 by 11.1% from 4,655 liters to 4,137 liters due to improvements of production processes leading to a significant reduction of isopropanol used.

Sonova has experienced no spill-related atmospheric pollution. We have not used ozone-depleting chlorofluorocarbons (CFCs) in our production processes since 1992.

Volatile organic compounds (VOCs)

liters

	2018	2017	2016
VOC	4,137	4,655	4,191

Life cycle perspective and circular economy

Sonova is committed to minimize the impact of its products and packaging on the environment and human health throughout the entire life cycle and to foster the transition toward a more circular economy. Our global environmental program covers the different stages of the product life cycle from product design, to procurement and manufacturing, packaging and distribution, consumer use, and end-of-life.

Product design

Sonova performs Life Cycle Assessments (LCA) as part of the product research and development phase. The aim is to reduce the use of hazardous substances, avoid other environmental risks, minimize consumption of resources, and design for recycling and easy end-of-life treatment.

In 2018, we introduced our first products based on the proprietary SWORD™ (Sonova Wireless One Radio Digital) chip, an ultra-low power chip.

Improving energy efficiency is an important aspect in the research and development phase of our products. For example, Phonak Audéo™ Marvel was launched in 2018/19: and it is powered by our new leading-edge technology, based on Sonova's proprietary SWORD™ (Sonova Wireless One Radio Digital) Made For All wireless chip. SWORD is a low-voltage radio chip with the lowest power consumption of any hearing aid using Bluetooth®[1] Classic, and is the world's first Bluetooth® Classic chip compatible with small hearing aid batteries.

1) The Bluetooth® word mark and logos are registered trademarks owned by the Bluetooth SIG, Inc.

Procurement and manufacturing

Sonova has been advancing the industrial use of 3D printing technology for many years: at the beginning of the millennium, Sonova was one of the first companies to start digitally producing custom shells for in-the-ear hearing aids and earpieces. Today, the company prints hundreds of thousands of custom-made products every year, such as the Virto™ B-Titanium, combining the strength and lightness of titanium with the versatility of 3D printing to produce the smallest custom instrument in the company's history – and saving material with a shell that is twice as thin as traditional custom shells.

Packaging and distribution

We continuously strive to further reduce the waste we generate, and the carbon footprint of our packaging and transportation. Our current focus is the SLIM Packaging Project which aims to reduce considerably the packaging size and weight of selected hearing aids, along with the number of hard cases.

Moxi Jump R – Unitron's first lithium-ion rechargeable Receiver-In-Canal hearing aid

Consumer use

Since 2016, the Sonova brands Phonak, Unitron, and Hansaton have continuously expanded their portfolios of hearing aids with a built-in lithium-ion rechargeable battery. In 2018, Unitron introduced Moxi Jump R – Unitron's first lithium-ion rechargeable Receiver-In-Canal hearing aid, which offers a full day of hearing on a single charge. Advanced Bionics also offers rechargeable battery options for cochlear implant sound processors. Our increasing focus on rechargeable hearing solutions helps us to reduce the use of disposable batteries.

We also provide a broad range of repair and refurbishment services to lengthen the life cycle of our products and their components.

Product end-of-life

Sonova complies with the EU directive on Waste Electrical and Electronic Equipment (WEEE), which requires such equipment to be returned to the manufacturer for recycling or environmentally friendly disposal.

Sonova Group companies with retail activities offer battery collection programs, in which customers can bring the used hearing aid batteries back to the store or take home a box, collect their batteries and bring them back to the store for recycling. The batteries collected are forwarded and disposed of through officially authorized disposal agents. In 2018, a total of more than two metric tons of batteries were collected at different stores worldwide. One example is the battery collection initiative of Connect Hearing Canada, where customers can collect their used hearing aid batteries in “The Little Green Box” and return them to the clinic for recycling once the box is full.

At Connect Hearing Canada, customers can collect and return their used hearing aid batteries in “The Little Green Box”.

GRI 302-1, GRI 303-1, GRI 305-1, GRI 305-2, GRI 305-3, GRI 306-2

Environmental reporting and system boundaries

Sonova’s environmental data monitoring and reporting includes energy consumption, carbon footprint, materials, waste disposal, water consumption, and emissions of volatile organic compounds (VOC). The company reports and discusses environmental performance to the limits of the available data. Actual data was collected whenever feasible, and estimated if data collection was not feasible given the decentralized organizational structure of these businesses and their small, often rented facilities.

The tables above show environmental data from Sonova Group companies that operate as headquarters, manufacturing sites, wholesale distributors, and Group companies with retail activities only. Energy consumption, car fleet and air flight data are provided for all entities in the 2018 environmental data reporting. Waste, water and VOC emissions data were collected for all Group companies that operate as headquarters, key manufacturing and distribution centers, as well as larger wholesale distributors. For Group companies with only retail activities, waste, water and VOC emissions data are only monitored where feasible and not included in this report. Overall, the entities covered in the waste, water and VOC emissions data reporting account for 93.5% of Sonova’s employees (excluding employees of Group companies with only retail activities). Data for the AudioNova Group companies, acquired in September 2016, were included for the first time in the 2017 environmental reporting.

Sonova’s environmental management system monitors greenhouse gas emissions arising from its electricity, heating oil, and natural gas consumption. The company measures its carbon footprint using country-specific grid emission factors and, if available, specific emission factors provided by energy utilities. Scope 2 emissions were calculated using the ‘market-based’ approach in accordance with the Greenhouse Gas Protocol Scope 2 Guidance. When reported according to the ‘location-based’ approach, the Scope 2 emissions were 24,362 t CO_2eq. Sonova purchased 3,546 MWh as renewable energy certificates (RECs), which were accounted for under the market-based approach for Scope 2. The measurement methodology and reporting format for the carbon footprint are based on the standards and guidance of the Greenhouse Gas Protocol.

Sonova differentiates between direct emissions (Scope 1) from sources such as burning natural gas, indirect emissions (Scope 2) from sources such as using electricity, and, starting in 2017, indirect emissions (Scope 3) from upstream transportation and distribution, business travel, and employee commuting. Since 2014, we have also investigated the environmental impact of our corporate car fleet – a further Scope 1 emission source. For the car fleet and air flight data, all Sonova Group companies were taken into account.

Sonova strives to be trustworthy and transparent with all its stakeholders; it therefore participates in the Carbon Disclosure Project (CDP). The results are publicly available and accessible on the CDP website. The CDP scoring level (Disclosure, Awareness, Management, Leadership) demonstrates a company's level of environmental stewardship, and actions and approaches in managing climate change. In 2018, Sonova has received a high score of A-, which is within the Leadership band.

A-

Leadership score in 2018 CDP climate change ranking

PDF

Climate Change 2018 CDP Score Report

Governance

Corporate governance

Our shared values and beliefs of innovation, engagement and responsibility reflect the corporate governance that defines and unites us as a company across all brands and regions. Good corporate governance is essential for Sonova and we strive for high standards in this field.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By adhering to good corporate governance and strictly ethical business practices, Sonova contributes to the SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Structure

At Sonova, corporate governance is based upon and structured to conform with relevant international standards and practices. The company fulfils its legal duties under the relevant articles of the Swiss Code of Obligations, the SIX Swiss Exchange Directive on Information Relating to Corporate Governance, and the standards defined in the Swiss Code of Best Practice for Corporate Governance. The present chapter describes the principles of corporate governance for the Sonova Group and provides background information with a special focus on environment, social and governance (ESG) issues. Additional information can be accessed at the Corporate Governance chapter of the Annual Report 2018/19 and at the corporate governance section of the Sonova website.

WEB
Corporate Governance Report 2018/19

Sonova's corporate structure includes a two-tier board consisting of the Board of Directors and the Management Board. In accordance with the Sonova Organizational Regulations (OrgR), the Board appoints an Audit Committee and a Nomination and Compensation Committee. In all respects not mentioned in the OrgR, or unless the law or the Articles of Association stipulate otherwise, the policy document 'Delegation of Authority of Sonova Holding AG' provides the basis for delegating authorities within the different levels of management in the Group.

GRI 102-18, GRI 102-19

PDF
Sonova Organizational Regulations (OrgR)

GRI 102-18, GRI 102-22, GRI 102-23

Composition of the highest governance body and its committees

The composition of the Board of Directors and its committees is described in detail in the relevant section of the Corporate Governance chapter of the Annual Report.

WEB

Corporate Governance Report 2018/19: Board of Directors

Diversity is a key topic in any discussion of board composition. The Board's aspiration is to have a diverse membership in all aspects, including nationality, gender, background and experience, age, tenure, viewpoints, interests, and technical and interpersonal skills.

The Articles of Association of Sonova Holding AG state that the Board of Directors must consist of a minimum of three and a maximum of nine members. The Board of Directors is chaired by Robert F. Spoerry and currently consists of nine non-executive members.

GRI 102-24

Nomination and selection for the highest governance body and its committees

The processes for determining the composition of the Board of Directors and its committees, as well as the division of responsibility between the Board of Directors and Management Board, are set out in detail in the company's OrgR and Committee Charters.

PDF

Sonova Committee Charters

The members of the Board of Directors and of the Nomination and Compensation Committee of Sonova Holding AG are elected by the General Shareholders' Meeting for a term of office until completion of the next ordinary General Shareholders' Meeting. If a replacement is elected to the Board of Directors during a member's term, the newly elected member finishes the predecessor's term. The Audit Committee is elected by the Board of Directors according to Article 2 of the Committee Charters.

WEB

Corporate Governance Report 2018/19: Management Board

GRI 102-25

The members of the Management Board are proposed by the CEO and appointed by the Board of Directors upon the recommendation of the Nomination and Compensation Committee.

Article 4 of the OrgR governs how Sonova deals with potential conflicts of interest. Cross-board memberships of the Board of Directors and significant shareholders (holding more than 3% of shares) are disclosed in the Corporate Governance chapter of the Annual Report. Related party transactions, if any, are disclosed in the Annual Report under note 29 to the Group Consolidated Financial Statement.

GRI 102-26

Roles, policy, and strategy

The OrgR and the Committee Charters define the roles and the duties of the highest governance bodies.

The Board of Directors of Sonova Holding AG is responsible for the overall direction of the company, except in matters reserved by law to the General Shareholders' Meeting. It approves policy and strategy.

The CEO has the duty and authority to link the company's strategy with its operational management by preparing the corporate strategy documents, policies, and procedures for submission to the Board of Directors' review and approval. The Management Board supports the CEO in his responsibility to direct the company's operations by actively participating in directing, planning, and executing the business strategy.

Competencies and performance evaluation

GRI 102-28

The Board of Directors conducts an annual self-assessment evaluating its efficiency, effectiveness, and internal cooperation. The purpose is to enhance the Board's understanding of the business and the company, evaluate and define its role, particularly in relation to management, and make best use of the human capital represented in the Board of Directors. More detailed information is available in the Corporate Governance Report.

GRI 102-21, GRI 102-29

Consultation between stakeholders and the highest governance body

Sonova actively engages with a broad range of stakeholders on economic, environmental and social topics as described in the "Stakeholder engagement" chapter of this report. Internal reporting procedures ensure consultation between stakeholders and the highest governance body on all topics deemed highly relevant.

Compensation and incentives

The Compensation Report is an integral part of the Annual Report and covers the compensation principles, system and key components, with a focus on the Board of Directors and Management Board as the governing bodies. Sonova complies with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Corporations, which amongst other things stipulates annual binding votes on the compensation of the Board of Directors and Management Board.

WEB

Compensation Report 2018/19

We are committed to equal pay for equal work and we are taking the necessary steps to ensure a fair compensation system. Thus, based on our grading and position management processes we are certainly committed to equal pay. We are also reviewing compensation in the context of the relevant local legal and regulatory equal pay requirements as they continue to evolve globally.

The variable cash compensation (VCC) of Sonova's executive members is based on financial KPIs on a group and business unit level and additionally reflects the achievement of individual objectives as defined in the annual performance review process. Individual objectives can also include non-financial targets (e.g. internal leadership recruitment rate, strategic initiatives).

Risk management

GRI 102-11, GRI 102-30

The Group has implemented an efficient system to identify and assess strategic, operational, financial, legal, reputational and compliance risks related to the Group's business activities. The risk management function categorizes risks by impact and likelihood and supports the Management Board in determining the measures necessary to address or mitigate them. In accordance with the Audit Committee Charter, the Audit Committee reviews the company's risk assessment prepared by Risk Management before it is presented to the Board of Directors. The Board of Directors approves the risk assessment and provides guidance from a strategic point of view. To continuously monitor key risks and their mitigation, Risk Management prepares risk status reports which are presented to the Audit Committee on an ad hoc basis. Currently, Sonova's Group Risk Map consists of 36 risks, of which 14 are designated as key risks.

ESG issues are an integrated part of Sonova's strategic risk management process. Human rights and environmental risks are evaluated in the regular risk assessment process together with all other business risks. Human rights and environmental risks are currently not considered key risks and are thus not included in the Group Risk Map.

Internal Audit carries out compliance and operational audits and assists the business units in attaining their goals by providing assurance from independent evaluation of the effectiveness of internal control processes. Management is responsible for the control of business risks and for compliance with laws and regulations. The Head of Internal Audit & Risk reports to the Chairman of the Audit Committee. The Audit Committee approves the annual work plans of Internal Audit and ensures that the relevant Group companies are adequately reviewed according to their risk scoring. The Audit Committee also reviews and discusses the reports on completed audits submitted by Internal Audit. Internal Audit together with business controlling monitor the implementation by Group companies of any measures necessary to address findings from previous audits and regularly reports progress to the Audit Committee.

The Group has a comprehensive compliance program in place which is administered by the Head Group Compliance Program and overseen by the Group General Counsel. Quarterly compliance reports are provided to the Audit Committee and an annual compliance report is addressed to the Board of Directors.

Corporate responsibility organization

GRI 102-18, GRI 102-19, GRI 102-20, GRI 102-26, GRI 102-27, GRI 102-29, GRI 102-31, GRI 102-32

Our sustainability program aligns closely with our business strategy; its topics and their impacts, risks and opportunities as well as reporting are reviewed both at the highest management level and biannually at meetings of the Board of Directors.

WEB

CR Report 2018/19: Sustainability program

The Corporate Responsibility (CR) function develops the sustainability program and provides expertise and advice to the management board on relevant topics. It implements the strategy approved by the management board and coordinates group-wide initiatives in close collaboration with experts from the CR network.

CR country champions represent one or all Sonova Group companies in a given territory and are responsible for gathering data and implementing CR initiatives locally. CR functional champions are linked to group-wide business functions; they report to the CR function on relevant functional issues.

Association membership and external initiatives

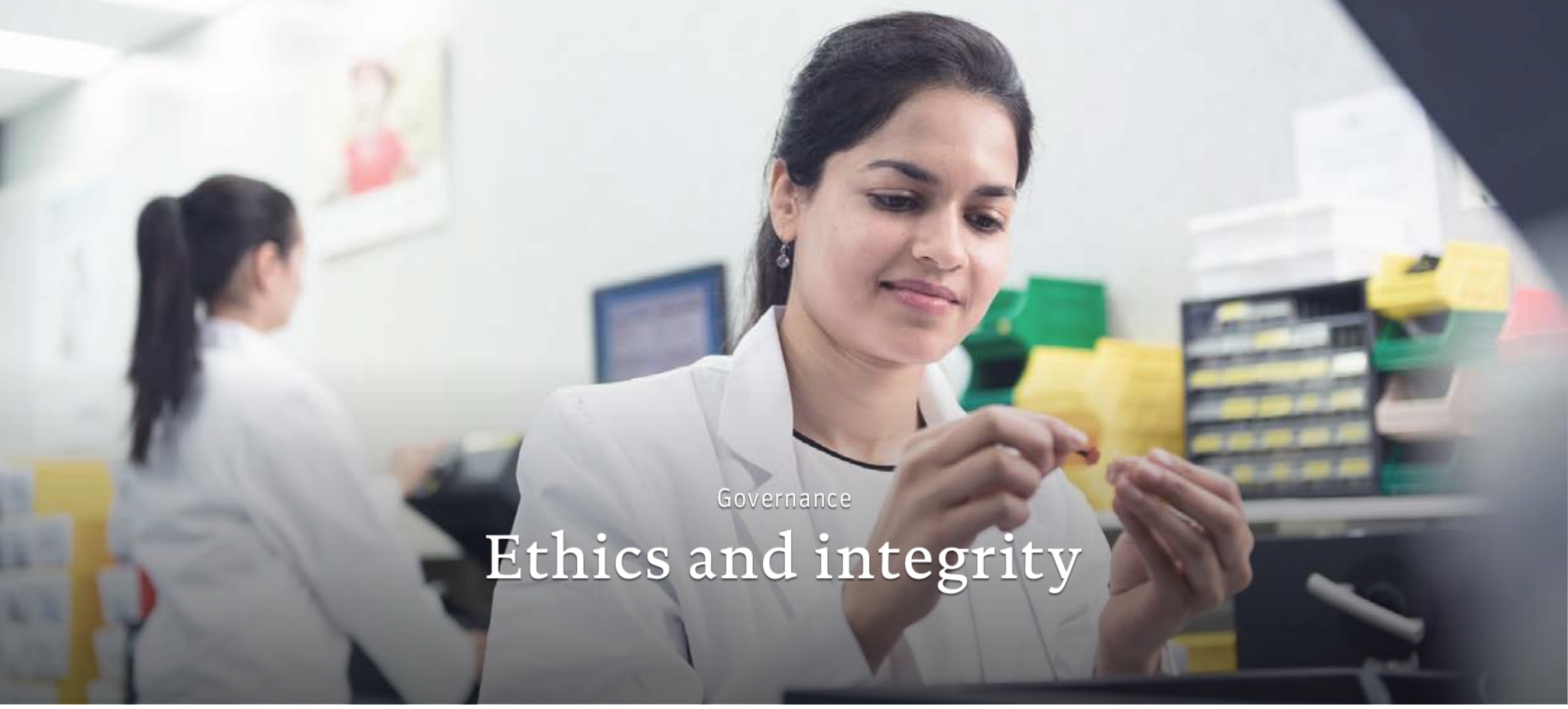
GRI 102-12, GRI 102-13

Sonova actively participates in associations to share its specialist knowledge and to ensure highest quality standards for hearing instruments and cochlear implants.

We are a member of the European Hearing Instrument Manufacturing Association (EHIMA), the Hearing Instrument Manufacturers' Software Association (HIMSA), the Hearing Industries Association (HIA) and the Hearing Instrument Manufacturers' Patent Partnership (HIMPP). Arnd Kaldowski, CEO of the Sonova Group, is member of EHIMA's Board of Directors. Founded in 1985, EHIMA represents the six major European hearing instrument manufacturers.

In 2018/19, Sonova contributed around 450,000 CHF in membership fees to trade associations and non-commercial organizations. Amongst the largest contributions are membership fees and contributions to EHIMA, Bluetooth SIG, Inc., and IngCH Engineers Shape our Future.

Since 2016, Sonova is a signatory to the UN Global Compact, an initiative of the United Nations with a focus on corporate citizenship, dialogue with stakeholders, partnerships, and communication. Sonova is part of both the global and local Swiss networks of the UN Global Compact.



Governance

Ethics and integrity

Our reputation for ethical behavior and integrity is one of our most valuable assets. It is the result of our daily actions and an integral part of our endeavor to create sustainable value and success.

Sonova and the United Nations Sustainable Development Goals (SDGs)
By adhering to good corporate governance and strictly ethical business practices, Sonova contributes to the SDGs 8 and 16. More information is provided in the corresponding section of this CR Report: Sustainable Development Goals.

Values, principles, standards, and norms of behavior

Corporate values

GRI 102-16

Our shared core values shape the corporate culture that defines and unites us as a company across all brands and regions:

- Innovation
- Engagement
- Responsibility

Code of Conduct and internal regulations

Sonova's commitment to compliance promotes ethical conduct at all levels of the organization. Compliance means that we follow the laws of each country in which we operate while also abiding by our own Code of Conduct and internal regulations.

Sonova Code of Conduct

Sonova's Code of Conduct defines general principles for ethical behavior; it applies to all employees of the Sonova Group, its subsidiaries, and any contractors or vendors performing work for the Sonova Group or any of its subsidiaries. Written acknowledgment of the Code of Conduct is part of each new employment contract and inherent part of each supplier contract. The Code of Conduct is available in 15 languages. The Code of Conduct was prepared by the office of the Group General Counsel in consultation with relevant stakeholders and approved by the Board of Directors.

The entire workforce was trained on the Sonova Code of Conduct when it came into force; all new employees of the Sonova Group including its subsidiaries are trained on its principles as part of their initial orientation. Suppliers are regularly instructed to ensure that they adequately understand and are able to comply with the Sonova Code of Conduct. Sonova's internal audit function performs independent performance assessments on ethical standards and reports these to the Audit Committee.

The principles of the Code of Conduct are further refined in various internal guidelines and policies, including – but not limited to – anti-bribery, interaction with healthcare professionals, competition law, trade compliance, and Swiss Stock Exchange reporting obligations. Non-compliance with the company's Code of Conduct or Sonova's internal policies and guidelines triggers disciplinary action, including – where appropriate – dismissal and prosecution.

Trainings

Our continuing efforts to help us live our values of ethical behavior and unquestionable integrity were further underpinned during the 2018/19 financial year with the following training programs rolled out to all employees worldwide:

- Global compliance training
- Anti-bribery training
- Data protection training
- Online security training
- Passwords and information technology devices training

Mechanisms for advice and concerns about ethics

Compliance program

GRI 102-17

Compliance is a shared responsibility at Sonova. Ultimate responsibility and oversight lie with the Board of Directors. The Management Board is expected to lead by example. Local Compliance Champions ensure implementation of the group compliance program within each group company.

During the 2018/19 financial year, Sonova continued to strengthen the Group compliance program, with a particular focus on the integration of our acquired businesses into our compliance culture, along with training sessions and process enhancements in ethics and anti-bribery compliance. The compliance program covers all employees, including part-time workers and contractors.

GRI 416-2, GRI 419-1

No fines or non-monetary sanctions for non-compliance with laws and regulations were levied against the company in the 2018/19 financial year.

Internal grievance procedures

Sonova maintains an internal compliance helpdesk for general questions and advice regarding Sonova Group policies as well as a compliance hotline, which enables employees around the world to call to voice concerns related to potential violations of the Code of Conduct. The hotline is operated by an independent, qualified, third-party service partner and allows employees to raise concerns anonymously. The compliance hotline covers all main languages and is available 24/7 to internal and external stakeholders.

In 2018/19, we intensified our efforts to support Code of Conduct compliance with an internal communication and training campaign, “Speak-Up!", that was rolled out globally across the Sonova Group. The campaign included mandatory global compliance online training, which focused on the Sonova Code of Conduct and anti-bribery laws. We also established a new internal online platform as an additional channel to help employees understand Sonova's Code of Conduct and to make it easy for everyone to report any violations. The “Speak-Up!" platform is available 24/7 in 15 languages.

All reports to the compliance hotline or “Speak Up!" online platform are forwarded to designated functions in the Sonova Group and followed up in a timely manner for further investigation and clarification. Reports are kept confidential to the greatest extent possible, and no complainant or witness will suffer retaliation because of a report made in good faith. The Audit Committee is updated quarterly on any concerns received through the hotline and the measures taken.

The requirements for conflict resolution, including e.g. the use of independent arbitration, are determined on a case by case basis.

Human rights and labor standards

Commitment and policies

Sonova respects and supports human rights, and not just in our business. This commitment is reflected in our Code of Conduct and Group Supplier Principles (SGSP) and embedded in the company culture. We believe in treating everyone with respect and fairness at all times. We value the varied experiences and backgrounds of individuals from around the world, different walks of life, and orientation. We are committed to conducting business in accordance with, and to aligning our codes and principles according to, internationally recognized standards of the United Nations (UN), the International Labor Organization (ILO), and the Organization for Economic Cooperation and Development (OECD).

PDF

Sonova Group Supplier Principles (SGSP)

Sonova is committed to ensuring that its operations and supply chain are free from modern slavery practices, including child labor, forced and bonded labor, and human trafficking.

PDF

Sonova UK Modern Slavery Statement

As a sign of our commitment, Sonova became a signatory to the UN Global Compact in 2016, endorsing its ten principles in the areas of human rights, labor, the environment, and anti-corruption. All employees of the Sonova Group, as well as its business partners, are expected to comply with the Compact's principles.

Principles

Human rights as understood by the Sonova Group include the following principles:

- Ensuring that there are no children, forced, or illegal workers engaged at any point in our supply chain.
- Never tolerating harassment or discrimination on the basis of sex, race, color, religion, age, ethnic or national origin, marital/ parental status, or sexual orientation.
- Providing fair remuneration that ensures, for all employees and their families, a living wage and an existence with human dignity.
- Arranging the working time of our employees in full compliance with applicable law.
- Protecting the privacy of our employees, customers, and their patients.
- Ensuring that there are grievance mechanisms for employees and other parties to file complaints in a safe and, if desired, anonymous environment.
- Respecting the legal rights of employees to join or to refrain from joining worker organizations, including trade unions.
- Strengthening access to hearing care, including for those currently underserved by the healthcare system.

Human rights due diligence

GRI 412-1

Sonova takes a systematic approach to managing corporate responsibility risks, both in its supply chain and in its own operations. Identifying and mitigating human rights risk is an integral part of our strategic risk management process, and it is reviewed and assessed together with all other business risks. Human rights risks are not currently included in the Group Risk Map, as we do not consider them key risks.

Sonova operates within a highly integrated business model: all manufacturing centers are owned by Sonova. Thanks to its ownership and financial control over its manufacturing sites, Sonova is able to enforce strong ethical business practices even in countries with higher risk of human rights concerns. Sonova's local management teams and the corporate procurement team are permanently on the alert to prevent any breaches of such human rights principles as nondiscrimination, prevention of child and forced labor, or freedom of association and collective bargaining.

Assessments

GRI 408-1, GRI 409-1

In the 2018/19 financial year, no concerns were raised relating to human rights violations. Sonova's internal audits and supplier assessments found no operations or supplier businesses in which the right to exercise freedom of association and collective bargaining may have been violated or put at significant risk. No operations or suppliers were identified as posing a significant risk for incidents of child labor, forced or compulsory labor, or illegal labor. As a consequence, no remediation or mitigation actions needed to be taken.

Training

In the 2018/19 financial year, Sonova rolled out a major global training program on its Code of Conduct for employees worldwide, as a reminder of the rights and obligations contained in it. The training also concerned aspects of human rights, such as nondiscrimination and nonharassment. As mentioned above, Sonova also launched the “Speak-Up!" campaign, opening additional reporting channels for employees to reporting concerns.

Anti-competitive behavior

Sonova's Competition Law Policy describes the basic principles of fair competition in doing business. The existing Policy was updated in 2016/17 and rolled out globally to further strengthen employee awareness of competition law matters.

GRI 206-1

In the 2018/19 financial year, Sonova was not involved in any legal actions related to anti-competitive behavior or violations of anti-trust and monopoly legislation.

Corruption and bribery

Commitment, policies and guidelines

GRI 102-16, GRI 205-2

Sonova is committed to high standards of integrity in dealing with its business partners and to compliance with all applicable anti-bribery laws, including the Swiss Criminal Code, the UK Bribery Act, and the US Foreign Corrupt Practices Act. Sonova's Anti-Bribery Policy was updated in 2018, refining the rules under the Code of Conduct and prohibiting all forms of corruption. The Policy, like the Code of Conduct, is available in 15 languages.

PDF

Sonova Global Anti-Bribery Policy

As a global healthcare company, we also recognize that many countries have specific regulations governing interactions with healthcare professionals. These impose further obligations which the company has translated into country-specific guidelines detailing what is permissible and what is not.

Key elements

Key elements of Sonova's Anti-Bribery Policy are:

GRI 415-1

- **Bribes:** As a matter of principle, Sonova avoids dealing with third parties known or reasonably expected to be paying bribes in any form. Potential bribery/corruption risks are therefore an integral component of our business partner due diligence, which is performed not only before entering a business relationship but also regularly thereafter, following a pre-defined process.

- **Direct or indirect political contributions:** As a general rule, Sonova does not make donations to political parties.

- **Charitable contributions and sponsorship:** Sonova, its employees, and representatives may make contributions to support charitable causes, subject to appropriate due diligence (including the amount contributed, and the nature and purpose of the charity's activities). Contributions should be made for bona fide purposes and only where permitted by local law.

- **Facilitation payments:** Sonova does not permit making facilitation payments.

Communication and training

The Anti-Bribery Policy has been communicated to all directors, managers, and employees worldwide. All Sonova business partners – such as distributors, consultants, or suppliers – must commit to complying with the principles underlying the Anti-Bribery Policy. The Sonova Group Supplier Principles also cover ethical standards, including compliance with all laws and regulations on bribery, corruption, and prohibited business practices. These have been communicated to all our suppliers.

During the 2018/19 financial year, Sonova intensified its communication and training efforts covering anti-corruption policies and procedures. The publication of the updated Anti-Bribery Policy was accompanied by related online training, which was mandatory for all Sonova directors, managers, and employees. Suppliers are regularly instructed to ensure that they adequately understand and are able to comply with the Sonova Code of Conduct and the Group Supplier Principles. Furthermore, bribery and corruption were key topics raised during the global "Speak-Up!" campaign.

Data protection and privacy

Sonova protects the confidentiality and integrity of the data it holds, including the data of employees and customers, by technical and organizational means. We adhere to applicable data protection laws and regulations. We closely monitor developments in data protection law and incorporate its principles into our business processes and product design. We continue evolving our data protection program to meet the changing demands of the digital environment.

Sonova issued a Group Data Protection Policy, effective June 1, 2018. The policy is complemented by standard operating procedures and guidelines that break down the various data protection and privacy topics and provide more detailed guidance.

The Sonova Data Protection Office developed a mandatory online Data Protection Global Training for all employees; they are trained, both on Sonova's Data Protection Policy and on the EU General Data Protection Regulation (GDPR) and data protection principles.

Responsible marketing and sales

Policies and guidelines

We adhere to strictly ethical sales and marketing practices in all our businesses. Sonova has issued worldwide guidelines to all its Group companies that explain its principles of responsible marketing. Their purpose is to ensure that all our marketing materials, as well as our interactions with customers, provide truthful, accurate, balanced, and non-misleading information, and to prevent inappropriate practices or false claims.

These guidelines are further supported by the worldwide Sonova Group Code of Conduct and the Anti-Bribery Policy. We have implemented refined country-specific codes of marketing and sales practices for Group companies in relevant markets.

Interactions with healthcare professionals

Sonova is committed to ethical interactions with healthcare professionals (HCPs). We interact with HCPs on a daily basis, in a variety of roles and settings. They include audiologists and acousticians, professors, surgeons, ear nose and throat specialists, or researchers. The following "Four-Leaf Clover Principles" govern our cooperation with healthcare professionals:

- we must strictly separate our sales activities from our engaging of healthcare professionals to provide legitimate services to the company;
- we must properly document their services to us;
- we must not pay them more than the fair market value of their services; and
- we must be transparent about our collaboration with them.

More detailed information on how we ensure ethical interactions with healthcare professionals is provided in the Sonova Global Anti-Bribery Policy as well as internal Standard Operating Procedures and country-specific guidelines for interactions with HCPs.

Advertising and marketing practices

To make certain that Sonova's advertising messages to businesses and consumers are properly substantiated, we have established a claims management process and evidence database, maintained by the claims core team. Every claim has to go through a standardized review and approval process by a dedicated committee before being used. This forms an integral part of the end-to-end marketing process and follows formal guidelines on how to identify, substantiate, and administer a claim. The purpose is to ensure both compliance with regulatory requirements and a high quality of marketing communication.

PDF

Overview Sonova Claims Management Process

Continuous supplier management

Commitment, policies and guidelines

Our suppliers are an integral part of our international value chain: a risk to them is also a risk to our company and our customers. Sonova requires that all our suppliers be as committed to sustainable development as we are.

The Sonova Group Supplier Principles (SGSP) are based on a range of international standards, customer requirements, and industry characteristics. These principles are non-negotiable; they are the first basis of contact with possible suppliers. Once a supplier has been approved as a Sonova partner, the SGSP, the General Conditions of Purchase, as well as the Sonova Code of Conduct are incorporated into all development and supply agreements. All suppliers have to certify in written form that they will now and at all times in the future comply with these standards and principles in all of their Sonova-related dealings, activities,

PDF

Sonova Group Supplier Principles (SGSP)

products, and services. Sonova includes this certification in all supply agreements, and periodically requests suppliers to sign it again in confirmation. The Code of Conduct is available in 14 languages and the SGSP are available in English and German. Both documents are publicly available on the Sonova website.

The Supplier Principles require suppliers to put in place and maintain systems that ensure:

- healthy and safe working environments;
- respectful and dignified working conditions;
- environmentally friendly production; and
- legal and ethical behavior.

Identification of critical suppliers

In the 2018/19 financial year, we had 10 critical tier-1 and non-tier 1 suppliers. The items or materials we receive from critical suppliers have a direct impact on the performance of our products or come into direct contact with the skin of users. The main criteria for qualification as a critical supplier are related to dependency (critical components, technology, sustainability, quality, regulatory) but other factors, such as high volumes, are also considered. The classification of critical suppliers is carried out at the beginning of each new supplier relationship and is reviewed regularly.

Supplier risk evaluation and mitigation

The procurement department actively participates in the design and planning of Sonova products, solutions, and services. It makes sure from the earliest development stages that a risk assessment is performed for every component, based on the “Risk and Risk Mitigation Matrix” defined by the procurement department.

Sonova assesses all new suppliers on their management systems, including their compliance and management procedures, as well as on environmental, human rights, and labor practices. Our personnel audit and/ or visit potential supplier sites and inspect their management capabilities – through employee interviews, document reviews, on-site inspections, and third-party information searches – to assess potential risks and identify opportunities for improvement. If deficiencies are found, we require the suppliers to take corrective and preventive actions before we begin any active business relationship. A candidate that fails to meet the requirements will not be accepted as a Sonova supplier.

GRI 308-1, GRI 414-1

Even after careful supplier selection, we maintain a continuous supplier management process. We annually assess supplier environmental, social, and governance (ESG) risks and identify the risk level for each supplier. We manage our suppliers based on their risk level, regularly risk-auditing supplier sites. If a problem occurs, we require the suppliers to take preventive and corrective measures, and follow up on their progress until the issue is resolved.

We are committed not to use any conflict materials for any product supply to Sonova. Since 2007, Sonova has been proactively asking suppliers to review their sources of materials and confirm the absence of conflict minerals.

Supplier visits and audits

GRI 308-2, GRI 414-2

In the 2018/19 financial year, three critical suppliers were audited by Sonova; a further three critical suppliers were certified or recertified by a notified body, and therefore needed no additional audit by Sonova. All critical suppliers have been visited within the last two years in a less formal manner than an audit and assessed on social and environmental impacts. The Group Supplier Principles were always an important topic during the visits.

In 2018/19 we have not identified any critical tier-1 or non-tier 1 supplier as having significant actual or potential negative issues related to environmental issues, labor practices, or human rights matters. No suppliers, therefore, had to take corrective or preventive actions.

Examples of key performance indicators, targets and progress related to sustainable supply chain management until 2022/23 are the following:

- Share of new and existing tier-1 suppliers having signed the Sonova Group Supplier Principles (target 2022/23: 100%; performance 2018/19: 100%, 2017/18: 100%, 2016/17, 100%)
- Share of critical suppliers visited or audited at least once per business year (target 2022/23: 100%; performance 2018/19: 100%, 2017/18: 100%, 2016/17, 100%)
- Share of purchase volume coming from suppliers with certified environmental management systems (target 2022/23: 75%; performance 2018/19: 66%, 2017/18: 52%, 2016/17: 50%)

Long-term supplier collaboration

Sonova strives for long-term collaborations and long-term contracts with its suppliers. In the 2018/19 financial year, 83% of the total purchase volume came from suppliers with more than 10 years of business relationship with Sonova and 96% of the total purchase volume came from suppliers with more than 5 years of partnership.

Sonova also offers its suppliers financial support to buy necessary equipment and technology.

Taxes

Sonova is a Swiss-based multinational enterprise, with operations almost entirely headquartered in the canton of Zurich where the Group develops, manufactures, and distributes products marketed under multiple brands. Sonova operates in more than 100 countries and owns local wholesale and audiological care distribution subsidiaries in over 30 countries. With this business structure, Sonova’s tax contribution encompasses various direct and indirect, corporate, and employee taxes, as well as customs duties, that make a significant contribution to societies around the world.

Tax strategy and policies

Sonova is committed to the highest level of tax compliance and directs its international flow of goods in line with all applicable tax regulations. Sonova’s tax approach is fully compliant with the spirit as well as the letter of local tax laws and regulations, reporting and filing obligations in all countries of operation as well as in complete alignment with relevant international standards.

As laid down in Sonova’s Code of Conduct, Sonova strives to attain the highest standards in complying with laws, rules, regulations, and reporting, filing, and disclosure requirements. This also applies to tax matters. The publicly available Sonova Tax Principles provide high level information on procedures and internal guidelines for tax compliance within the Sonova Group, that is for all legal entities that are majority-owned or otherwise controlled directly or indirectly by Sonova Holding AG.

PDF Sonova Group Tax Principles

Sonova’s commitment to tax transparency and responsibility is further expressed in policies and processes, mostly for internal use only, that guide compliance with direct and indirect taxes, as well as transfer pricing.

Approach towards taxation

Key elements of Sonova’s approach towards taxation are:

- **Taxes follow the business:** Sonova is committed not to transfer value created to low tax jurisdictions. Sonova does not use non-business related offshore structures (so-called “tax havens”), nor does the Group allocate functions or risks to international structures purely for tax reasons. Sonova avoids the acquisition of non-business related offshore structures. An important step during the integration process for newly acquired companies is to unwind acquired tax schemes and bring the tax structure of the new business fully in line with Sonova’s tax policy and BEPS (Base Erosion and Profit Shifting) principles.

- **Full compliance:** All taxes fully comply with the spirit and letter of local laws, regulations and are aligned with internationally recognized standards such as the OECD/BEPS and European guidelines. Sonova’s complex cross-border operations and added value chains are subject to yearly reviews to align Sonova’s Transfer Pricing Processes. Arm's length profit allocation within the added value chains is granted through yearly reviews in line with multiple benchmarking analysis. Inter-company transactions are regularly monitored to ensure complete alignment with international standards and Sonova’s internal Transfer Pricing Processes.

- **Cooperation with tax authorities:** Sonova highly values open and proactive cooperation with tax administrations worldwide for any kind of tax matter, irrespective of the fact that Sonova has not entered Advanced Pricing Agreements (APAs). As part of our tax compliance policy, we continuously engage in constructive and transparent dialogue with tax authorities.

Organization and reporting

The responsibility for tax compliance lies with the Corporate Tax team, located in Switzerland, the US, and Germany. The team reports directly to the Group CFO. This function coordinates, educates, and supports local controllers in all Group companies to ensure that they achieve tax compliance in line with local and international laws, rules, regulations, reporting, filing and disclosures requirements as well as Sonova’s standards and policies. A Master Transfer Pricing file is prepared, along with local files that are coordinated with the local organizations according to the OECD guideline Action 13 and Sonova’s Transfer Pricing Processes.

Sonova has prepared an external Country-by-Country Report (CbCR) since 2016, and filed this voluntarily with the Swiss Federal Tax Administration in 2017. In 2018, the CbCR filed with the Swiss Federal Tax Administration was made available for automatic information exchange with the tax authorities worldwide, as foreseen by the BEPS initiative.

Information on earnings before tax, reported taxes, reported tax rate, cash taxes paid, and cash tax rate can be found in the Sonova Financial Report 2018/19. Sonova’s tax rates might be lower than industry group averages because of group-wide net operating losses and net operating losses from previous periods in subsidiaries of acquired groups. Furthermore, Sonova is a Swiss-based multinational enterprise with large activities, substance, risks and assets in Switzerland, and the Swiss tax rate is lower than the global average tax rate. Cash tax paid is largely influenced by advanced as well as final adjustment payments.

Bioethics

As a manufacturer of medical devices, Sonova is required by regulatory authorities to demonstrate the biological safety of any product with body contact by complying with the international standard ISO 10993-1. According to this standard, animal tests need to be considered in biological safety evaluations; in some cases, they cannot be completely avoided.

Sonova also provides components of cochlear implants to cochlear implant research centers and universities, where these are tested on animals for basic research concerning e.g. safety, feasibility or efficacy of new technologies.

Sonova does not carry out any animal testing in-house and only works together with third parties. We are committed to the “Three Rs” principle – replacement, reduction, and refinement – to limit animal testing as far as possible:

Replacement

- We use non-animal testing methods (in particular testing with cell cultures) or chemical constituent testing in situations where these methods are accepted by the respective regulatory bodies and yield information as relevant as that obtained from in vivo models.
- We monitor the development and regulatory acceptance of new in vitro methods.

Reduction

- We apply strategies to reduce the number of animals used in testing.
- We use previously evaluated or historically established biologically safe materials whenever possible, by taking advantage of shared research between the different Sonova companies around the world. We strive to avoid completely any unnecessary or duplicated testing.
- We emphasize risk assessment to evaluate clearly any need for animal testing.

Refinement

- We select those test methods that minimize the distress caused to animals.
- We conduct all animal testing for biological safety evaluations through appropriately accredited testing laboratories. All tests are conducted according to recognized valid and current best laboratory and quality practices, such as the OECD Principles of Good Laboratory Practice.
- We conduct animal testing for research collaborations only through universities and research laboratories where experiments are reviewed, approved and overseen by the respective ethics committees.

Reporting practice

GRI 102-50, GRI 102-51, GRI 102-52

Sonova reports in an annual cycle. The 2018/19 reporting period covers the financial year from April 1, 2018 to March 31, 2019. The most recent previous Annual Report and Corporate Social Responsibility Report were released on May 22, 2018.

The Sonova CR Report for 2018/19, when combined with the Business and Financial Report for 2018/19, complies with the Global Reporting Initiative (GRI) Standards and forms an integral part of Sonova's UN Global Compact Communication on Progress. See our GRI content index for details on how the report content maps against the GRI Standards and UNGC principles. The index refers to the content of the online CR Report. Additional relevant information about economic performance and remuneration is provided in the Compensation Report, Governance Report, and Financial Review chapters of the Annual Report.

WEB

Financial Report 2018/19

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Business Report 2018/19

Entities

GRI 102-45, GRI 102-1

The information and data provided relate to the entire Sonova Holding AG, including its Group companies, unless explicitly noted. Some environmental data stems from actual data collection, whereas other data of selected Group companies were only estimated. Whenever applicable, it is stated in the respective sections whether the data is measured or estimated.

Organizational profile

GRI 102-1, GRI 102-3, GRI 102-4, GRI 102-5, GRI 102-7, GRI 102-10

Sonova is a leading provider of innovative hearing care solutions. The group operates through its core business brands Phonak, Unitron, Hansaton, Advanced Bionics and AudioNova. Sonova offers its customers one of the most comprehensive product portfolios in the industry – from hearing instruments to cochlear implants to wireless communication solutions. Founded in 1947, the group is currently present in over 100 countries across the globe and has a workforce of over 14,000 dedicated employees. Across all businesses, and by supporting the Hear the World Foundation, Sonova pursues its vision of a world where everyone enjoys the delight of hearing and therefore lives a life without limitations.

Sonova's market is worldwide. The Sonova Group is headquartered in Stäfa, Switzerland, and is active in over 100 countries. Sonova has subsidiaries in over 30 countries and a network of independent distributors serving additional markets. We sustain our brands with six innovation centers and four operations sites in Switzerland, the United States, China, and Vietnam. Our sales and support presence is the widest in the industry: over 50 wholesale companies and more than 100 independent distributors. Our audiological service network has more than 3,500 locations in 18 key markets.

Sonova Holding AG is a Swiss public limited company. More detailed organizational and financial information, including a list of significant shareholders is provided in the 2018/19 Financial Report and Business Report.

Restatements and significant changes

There were no significant changes during 2018/19 in the scope, boundary, or measurement methods applied in the report, that would require a restatement of information provided in earlier Sonova CSR Reports.

GRI 102-48, GRI 102-49

Declaration and assurance

This report has been prepared in accordance with the GRI Standards: Core option.

GRI 102-54

PricewaterhouseCoopers AG has provided independent assurance on specific data outlined in the CR Report 2018/19. For more detail, see the Independent Assurance Report.

The compensation report, the consolidated financial statement, and the financial statement of Sonova Holding AG in the 2018/19 Annual Report have been audited by a statutory external auditor.

WEB

Independent Assurance Report on the Sonova Corporate Responsibility Reporting 2018/19

Contact

If you have questions regarding the report or its contents, please contact:

GRI 102-53

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pwc

Independent Assurance Report on the Sonova Corporate Responsibility Reporting 2018/19

To the Board of Directors of Sonova Holding AG, Stäfa.

We have been engaged to perform assurance procedures to provide limited assurance on the aspects of the 2018/19 Corporate Responsibility (CR) Reporting of Sonova Holding AG, Stäfa and its consolidated subsidiaries included in the 2018/19 CR Report.

Scope and subject matter

Our limited assurance engagement focused on the selected data and information disclosed in the CR Report of Sonova for the year ended on March 31, 2019:

- The indicator 'number of active granted patent and design rights owned by the Sonova Group as of March 2019' in the section 'Customer-focused solutions', the tables 'Internal leadership recruitment rate (ILRR)', 'Employee turnover rates', 'Employees by region', 'Employees by employment contract', 'New hire rate', 'Employees by gender', 'Employees by age', 'Women in management positions' in the section 'Investment in people', the tables 'Energy consumption', 'Greenhouse gas (GHG) emissions – Scope 1+2', 'Greenhouse gas (GHG) emissions – Scope 3', and the indicator 'purchase volume from suppliers with certified environmental management systems' in the section 'Safeguarding the environment' (CR indicators);
- The management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of CR indicators.

We have not carried out any work on data reported for prior reporting periods, nor have we performed work in respect of projections and targets.

Criteria

The management reporting processes with respect to the CR reporting and CR indicators were prepared by Sonova based on the internal policies and procedures as set forth in the following:

- the Sonova Group internal CR reporting guidelines based on the 'GRI Standards' published in October 2016 by the Global Reporting Initiative;
- the Sonova Group internal reporting manuals 'Environmental Reporting' dated 12th of December 2017 and 'HR KPI Calculation Factsheet'; and
- Procedures, by which the data for the CR indicators reporting is gathered, collected and aggregated internally.

Inherent limitations

The accuracy and completeness of CR indicators are subject to inherent limitations given their nature and methods for determining, calculating and estimating such data. Our assurance report should therefore be read in connection with Sonova's internal guidelines, definitions and procedures on the CR reporting.

Sonova's responsibilities

The Board of Directors of Sonova Holding AG is responsible for both the subject matter and the criteria as well as for the selection, preparation and presentation of the selected data and information in accordance with the criteria. This responsibility includes the design, implementation and maintenance of related internal control relevant to this reporting process that is free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a limited assurance conclusion on whether anything has come to our attention to indicate that the identified CR information selected and contained in this report is not stated, in all material respects, in accordance with the reporting criteria.

We planned and performed our procedures in accordance with the International Standard on Assurance Engagements (ISAE 3000) (Revised) 'Assurance engagements other than audits or reviews of historical financial information', and, in respect of greenhouse gas emissions, with the International Standard on Assurance Engagements (ISAE 3410) 'Assurance Engagements on Greenhouse Gas Statements'. These standards require that we plan and perform the assurance engagement to obtain limited assurance on the identified sustainability information prepared, in all material aspects, in accordance with Sonova's internal policies and procedures.

A limited assurance engagement under ISAE 3000 (Revised) and ISAE 3410 is substantially less in scope than a reasonable assurance engagement in relation to both the risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks. Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement. The procedures selected depend on the assurance practitioner's judgement.

Our independence and quality control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our firm applies International Standard on Quality Control 1 and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Summary of work performed

Our assurance procedures included, amongst others, the following work:

- **Evaluation of the application of Group guidelines**
  Reviewing the application of the Sonova Group internal CR reporting guidelines;
- **Site visit and management inquiry**
  Remote site visit procedures at Advanced Bionics LLC in Valencia (USA). The selection was based on quantitative and qualitative criteria;
  Interviewing personnel responsible for internal reporting and data collection at the site and at the Sonova Corporate level;
- **Assessment of the key figures**
  Performing tests on a sample basis of evidence supporting selected CR indicators concerning completeness, accuracy, adequacy and consistency;
- **Review of documentation and analysis of relevant policies and principles**
  Reviewing relevant documentation on a sample basis, including Sonova Group CR policies, management of reporting structures and documentation;
- **Assessment of the processes and data consolidation**
  Reviewing the management reporting processes for CR reporting and assessing the consolidation process of data at Sonova Group level.

We have not conducted any work on data other than outlined in the subject matter as defined above. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our assurance conclusion.

Based on our work performed nothing has come to our attention causing us to believe that in all material respects:

- The CR indicators outlined in the scope and subject matter section and disclosed in the 2018/19 CR Report of Sonova Group are not stated in accordance with Sonova Group internal policies and procedures; and
- The management of reporting processes with respect to the CR Report and the preparation of CR indicators as well as the related control environment in relation to data aggregation of these key performance indicators are not functioning as designed.

PricewaterhouseCoopers AG

Marc Schmidli

Stephan Hirschi

Zurich, 17 May 2019

CR report

GRI content index

GRI content index

This is our **Communication on Progress** in implementing the principles of the **United Nations Global Compact** and supporting broader UN goals.

We welcome feedback on its contents.

Disclosure	Description	UNGC	SDG	Reference	External assurance
GENERAL STANDARD DISCLOSURES					
1. Organizational profile					
102–1	Name of the organization			Reporting profile	No
102–2	Activities, brands, products, and services			Business report: Strategy and businesses	No
102–3	Location of headquarters			Reporting profile	No
102–4	Location of operations			Reporting profile	No
102–5	Ownership and legal form			Reporting profile	No
102–6	Markets served			Hearing care market and supply chain	No
102–7	Scale of the organization			Reporting profile	No
102–8	Information on employees and other workers	6	8	Investment in people	Yes
102–9	Supply chain			Hearing care market and supply chain	No
102–10	Significant changes to the organization and its supply chain			Reporting profile	No
102–11	Precautionary Principle or approach			Corporate governance	No
102–12	External initiatives			Corporate governance	No
102–13	Membership of associations			Corporate governance	No
2. Strategy					
102–14	Statement from senior decision-maker			Message from the CEO	No
3. Ethics and integrity					
102–16	Values, principles, standards, and norms of behavior	1	16	Ethics and integrity	No
102–17	Mechanisms for advice and concerns about ethics	1	16	Ethics and integrity	No

4. Governance					
102–18	Governance structure			Corporate governance	No
102–19	Delegating authority			Corporate governance	No
102–20	Executive-level responsibility for economic, environmental, and social topics			Corporate governance	No
102–21	Consulting stakeholders on economic, environmental, and social topics		16	Corporate governance	No
102–22	Composition of the highest governance body and its committees		5, 16	Corporate governance	No
102–23	Chair of the highest governance body		16	Corporate governance	No
102–24	Nominating and selecting the highest governance body		5, 16	Corporate governance	No
102–25	Conflicts of interest		16	Corporate governance	No
102–26	Role of highest governance body in setting purpose, values, and strategy			Corporate governance	No
102–27	Collective knowledge of highest governance body		4	Corporate governance	No
102–28	Evaluating the highest governance body's performance			Corporate governance	No
102–29	Identifying and managing economic, environmental, and social impacts		16	Corporate governance	No
102–30	Effectiveness of risk management processes			Corporate governance	No
102–31	Review of economic, environmental, and social topics			Corporate governance	No
102–32	Highest governance body's role in sustainability reporting			Corporate governance	No
102–35	Remuneration policies			Business report: Compensation report	Yes
102–36	Process for determining remuneration			Business report: Compensation report	Yes
102–37	Stakeholders' involvement in remuneration		16	Business report: Compensation report	Yes
5. Stakeholder engagement					
102–40	List of stakeholder groups			Stakeholder engagement	No
102–41	Collective bargaining agreements	3	8	Investment in people	No
102–42	Identifying and selecting stakeholders			Stakeholder engagement	No
102–43	Approach to stakeholder engagement			Stakeholder engagement	No
102–44	Key topics and concerns raised			Stakeholder engagement	No
6. Reporting practice					
102–45	Entities included in the consolidated financial statements			Reporting profile	No
102–46	Defining report content and topic Boundaries			Sustainability program	No
102–47	List of material topics			Sustainability program	No
102–48	Restatements of information			Reporting profile	No
102–49	Changes in reporting			Reporting profile	No
102–50	Reporting period			Reporting profile	No
102–51	Date of most recent report			Reporting profile	No
102–52	Reporting cycle			Reporting profile	No
102–53	Contact point for questions regarding the report			Reporting profile	No
102–54	Claims of reporting in accordance with the GRI Standards			Reporting profile	No
102–55	GRI content index			GRI content index	No
102–56	External assurance			Assurance Report	No

SPECIFIC STANDARD DISCLOSURES					
Customer-focused solutions					
103–1	Explanation of the material topic and its Boundary			Sustainability program	No
103–2	The management approach and its components			Sustainability program	No
103–3	Evaluation of the management approach			Sustainability program	No
416–1	Assessment of the health and safety impacts of product and service categories			Customer-focused solutions	No
Own indicator	New patent applications		3, 4, 9	Customer-focused solutions	No
Access to hearing care					
103–1	Explanation of the material topic and its Boundary			Sustainability program	No
103–2	The management approach and its components			Sustainability program	No
103–3	Evaluation of the management approach			Sustainability program	No
Own indicator	Employee volunteer work for the Hear the World Foundation		3, 4	Access to hearing care	No
Investment in people					
103–1	Explanation of the material topic and its Boundary			Sustainability program	No
103–2	The management approach and its components			Sustainability program	No
103–3	Evaluation of the management approach			Sustainability program	No
401–1	New employee hires and employee turnover	6	5, 8	Investment in people	Yes
403–2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities		8	Investment in people	No
404–3	Percentage of employees receiving regular performance and career development reviews	6	5, 8	Investment in people	No
405–1	Diversity of governance bodies and employees	1	5, 8	Investment in people	Yes
Safeguarding the environment					
103–1	Explanation of the material topic and its Boundary			Sustainability program	No
103–2	The management approach and its components			Sustainability program	No
103–3	Evaluation of the management approach			Sustainability program	No
302–1	Energy consumption within the organization	7, 8	7, 12, 13	Safeguarding the environment	Yes
303–1	Water withdrawal by source	7, 8	6	Safeguarding the environment	No
305–1	Direct (Scope 1) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–2	Energy indirect (Scope 2) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–3	Other indirect (Scope 3) GHG emissions	7, 8	12, 13	Safeguarding the environment	Yes
305–4	GHG emissions intensity	7, 8, 9	12, 13	Safeguarding the environment	Yes
306–2	Waste by type and disposal method	8	12, 13	Safeguarding the environment	No
307–1	Non-compliance with environmental laws and regulations	8		Safeguarding the environment	No

Governance, risk, and compliance management

103–1	Explanation of the material topic and its Boundary			Sustainability program	No
103–2	The management approach and its components			Sustainability program	No
103–3	Evaluation of the management approach			Sustainability program	No
205–2	Communication and training about anti-corruption policies and procedures	10	16	Ethics and integrity	No
206–1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices			Ethics and integrity	No
308–1	New suppliers that were screened using environmental criteria	8		Ethics and integrity	No
308–2	Negative environmental impacts in the supply chain and actions taken	8		Ethics and integrity	No
408–1	Operations and suppliers at significant risk for incidents of child labor	4, 5	8, 16	Ethics and integrity	No
409–1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	4, 5	8	Ethics and integrity	No
412–1	Operations that have been subject to human rights reviews or impact assessments	1, 2		Ethics and integrity	No
414–1	New suppliers that were screened using social criteria	2	8, 16	Ethics and integrity	No
414–2	Negative social impacts in the supply chain and actions taken	2	8, 16	Ethics and integrity	No
415–1	Political contributions		16	Ethics and integrity	No
416–2	Incidents of non-compliance concerning the health and safety impacts of products and services			Ethics and integrity	No
419–1	Non-compliance with laws and regulations in the social and economic area		16	Ethics and integrity	No

UNCG = UN Global Compact Principle
AR = Annual Report
SDG = UN Sustainable Development Goal
All references refer to the 2016 version of the GRI Standards

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Disclaimer

This report contains forward-looking statements, which offer no guarantee with regard to future performance. These statements are made on the basis of management's views and assumptions regarding future events and business performance at the time the statements are made. They are subject to risks and uncertainties including, but not confined to, future global economic conditions, exchange rates, legal provisions, market conditions, activities by competitors and other factors outside Sonova's control. Should one or more of these risks or uncertainties materialize or should underlying assumptions prove incorrect, actual outcomes may vary materially from those forecasted or expected. Each forward-looking statement speaks only as of the date of the particular statement, and Sonova undertakes no obligation to publicly update or revise any forward-looking statements, except as required by law.

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Our brands

PHONAK unitron HANSATON AudioNova ADVANCED BIONICS