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:

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

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

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

Dear Shareholders,

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

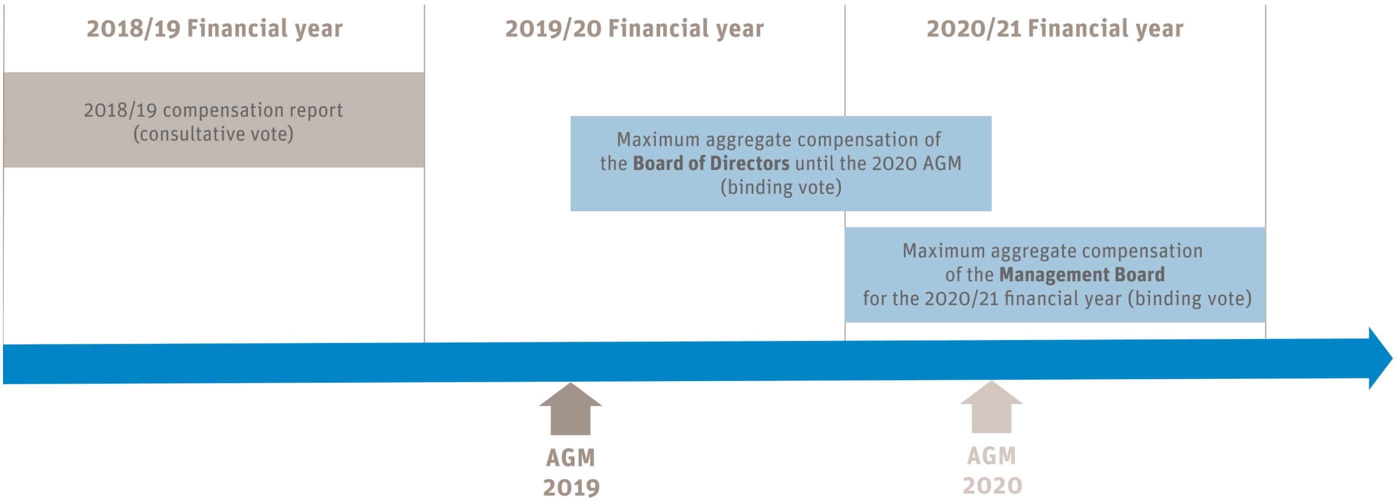
The NCC may decide to consult external advisors for specific compensation matters. In the reporting year, Willis Towers Watson was mandated to conduct the above mentioned two compensation benchmarking analyses. Aon Hewitt is tasked with the PSU valuation and performance measurement under the EEAP and 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.

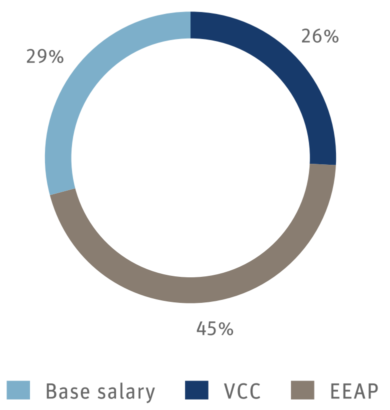
4.3 Management Board compensation system

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

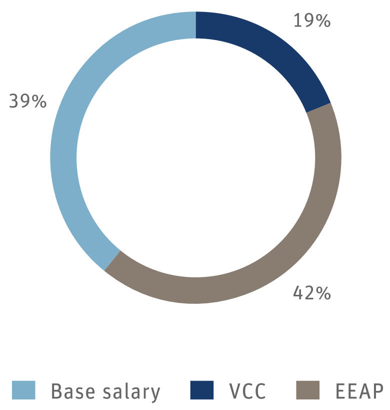
- A fixed base salary
- A short-term cash incentive award (VCC)
- A long-term equity incentive award (EEAP); and
- Employee benefits, such as pension benefits, flat rate cash car allowance, expense allowance, relocation benefits for certain affected members, as well as social security contributions.

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

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

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

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

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

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

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

in CHF									2017/18
	Fixed base salary	Variable compensation [1]	Fringe benefits	Employer's pension contribution	Total cash compen-sation	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.

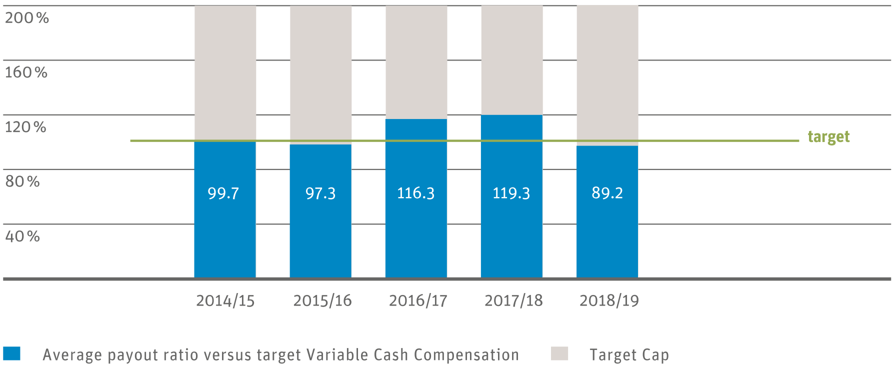
6) Including Sarah Kreienbühl and Franz Petermann for the full 2017/18 until contractual end date.

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

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	Dominik Hattrup
Audit expert	Audit expert
Auditor in charge	

Zürich, 17 May 2019

Enclosure:

- Compensation report