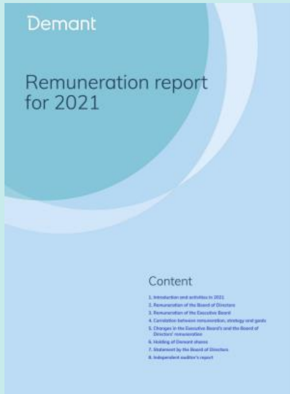
Demant

Annual Report 2021



Click on the reports
to read more

Contents

Key figures and financial ratios – year

(DKK million)	2021	2020	2019	2018	2017
Hearing Healthcare					
Revenue	17,235	13,163	14,946	13,937	13,189
Organic growth	31%	-13%	4%	7%	9%
Gross margin	77.0%	73.6%	75.8%	77.4%	76.0%
Operating profit (EBIT)	3,508	1,211	2,085	2,428	2,295
EBIT margin	20.4%	9.2%	14.0%	17.4%	17.4%
Communications					
Revenue	1,183	1,306	-	-	-
Organic growth	-9%	-	-	-	-
Gross margin	48.3%	50.3%	-	-	-
Operating profit (EBIT)*	-122	102	66	104	43
EBIT margin	-10.3%	7.8%	-	-	-
Group					
Income statement					
Adjusted revenue**	18,418	14,469	14,946	13,937	13,189
Revenue	18,388	14,469	14,946	13,937	13,189
Organic growth	27%	-13%	4%	7%	9%
Adjusted gross margin**	75.2%	71.5%	75.8%	77.7%	76.3%
Gross margin	74.8%	70.4%	75.8%	77.4%	76.0%
EBITDA	4,536	2,578	3,110	2,978	2,742
EBITDA margin	24.7%	17.8%	20.8%	21.4%	20.8%
Adjusted EBIT**	3,386	1,313	2,151	2,652	2,504
Adjusted EBIT margin**	18.4%	9.1%	14.4%	19.0%	19.0%
Operating profit (EBIT)	3,445	1,530	2,151	2,532	2,338
EBIT margin	18.7%	10.6%	14.4%	18.2%	17.7%
Net financial items	-202	-194	-240	-164	-111
Profit for the year	2,528	1,134	1,467	1,830	1,759

*EBIT for Communications in 2017-2019 relates to the Group's share of profit after tax from our former joint venture Sennheiser Communications.
**Adjusted for costs related to the 2017-2018 restructuring programme, for EPOS one-offs in 2020 and for one-offs in 2021, cf. page 22.
***No available data for the period.
****Shareholder-elected members.

We refer to section 9.1 for a description of the accounting policies for key figures and financial ratios.

(DKK million)	2021	2020	2019	2018	2017
Balance sheet					
Total assets	24,860	21,927	21,798	17,935	16,222
Net interest-bearing debt (NIBD)	9,150	7,135	8,185	5,835	4,030
Equity	7,981	8,279	7,645	7,059	7,433
Cash flow statement					
Adjusted cash flow from operating activities (CFFO)**	3,275	2,710	2,149	1,765	2,023
Cash flow from operating activities (CFFO)	3,275	2,621	2,149	1,683	1,872
Investment in property, plant and equipment, net	542	493	561	409	292
Free cash flow	2,525	2,023	1,338	1,185	1,387
Share buy-backs	3,200	197	946	1,751	1,031
Other key figures					
Return on equity	30.7%	14.3%	19.5%	25.7%	24.0%
Equity ratio	32.1%	37.8%	35.1%	39.4%	45.8%
Gearing multiple (NIBD/EBITDA)	2.0	2.8	2.6	2.0	1.5
Earnings per share (EPS)	10.70	4.68	6.00	7.32	6.84
Free cash flow per share (FCFPS)	10.75	8.44	5.49	4.76	5.41
Price/earnings (P/E) ratio	31.3	51.4	35.0	25.3	25.4
Share price, end of period	335.10	240.60	209.80	184.90	173.50
Average number of shares outstanding	234.82	239.78	243.55	249.14	256.56
Market capitalisation	77,117	57,718	50,470	45,308	43,864
Average number of employees	17,500	16,155	15,352	14,250	13,280
Scope 1 & 2 CO2e emissions (tonnes)	30,588	23,140	27,596	24,811	24,265
CEO remuneration ratio	35	36	35	33	36
Gender diversity, all employees (women/men)	62/38%	60/40%	***	***	***
Gender diversity, management (women/men)	43/57%	42/58%	41/59%	37/63%	***
Gender diversity, Board of Directors (women/men)****	40/60%	40/60%	20/80%	20/80%	20/80%

Key figures and financial ratios – half-year

(DKK million)	H2 2021	H1 2021	H2 2020	H1 2020	H2 2019	H1 2019
Hearing Healthcare						
Revenue	8,844	8,391	7,631	5,532	7,596	7,350
Organic growth	14%	55%	2%	-27%	3%	5%
Gross margin	77.5%	76.5%	74.5%	72.3%	74.0%	77.6%
Operating profit (EBIT)	1,826	1,682	1,425	-214	1,000	1,085
EBIT margin	20.6%	20.0%	18.7%	-3.9%	13.2%	14.8%
Communications						
Revenue	562	621	760	546	-	-
Organic growth	-27%	16%	-	-	-	-
Gross margin	48.2%	48.3%	52.9%	46.7%	-	-
Operating profit (EBIT)*	-78	-44	81	21	38	28
EBIT margin	-13.9%	-7.1%	10.7%	3.8%	-	-
Group						
Income statement						
Adjusted revenue**	9,406	9,012	8,391	6,078	7,596	7,350
Revenue	9,376	9,012	8,391	6,078	7,596	7,350
Organic growth	10%	51%	2%	-27%	3%	5%
Adjusted gross margin**	75.8%	74.5%	72.5%	70.0%	74.0%	77.6%
Gross margin	75.0%	74.5%	72.1%	68.2%	74.0%	77.6%
EBITDA	2,374	2,162	1,949	629	1,528	1,582
EBITDA margin	25.3%	24.0%	23.2%	10.3%	20.1%	21.5%
Adjusted EBIT**	1,748	1,638	1,506	-193	1,038	1,113
Adjusted EBIT margin**	18.6%	18.2%	17.9%	-3.2%	13.7%	15.1%
Operating profit (EBIT)	1,807	1,638	1,416	114	1,038	1,113
EBIT margin	19.3%	18.2%	16.9%	1.9%	13.7%	15.1%
Net financial items	-100	-102	-106	-88	-121	-119
Profit for the period	1,345	1,183	1,013	121	700	767

*EBIT for Communications in 2017-2019 relates to the Group's share of profit after tax from our former joint venture Sennheiser Communications.
**Adjusted for costs related to the 2017-2018 restructuring programme, for EPOS one-offs in 2020 and for one-offs in 2021, cf. page 22.

	H2 2021	H1 2021	H2 2020	H1 2020	H2 2019	H1 2019
Balance sheet						
Total assets	24,860	23,579	21,927	22,067	21,798	20,759
Net interest-bearing debt (NIBD)	9,150	8,573	7,135	8,388	8,185	7,613
Equity	7,981	7,796	8,279	7,449	7,645	7,596
Cash flow statement						
Adjusted cash flow from operating activities (CFFO)**	1,764	1,511	1,944	766	1,102	1,047
Cash flow from operating activities (CFFO)	1,764	1,511	1,892	729	1,102	1,047
Investment in property, plant and equipment, net	339	203	251	242	310	251
Free cash flow	1,291	1,234	1,534	489	636	702
Share buy-backs	1,387	1,813	-	197	682	264
Other key figures						
Return on equity	31.3%	28.3%	25.7%	3.2%	18.0%	21.0%
Equity ratio	32.1%	33.1%	37.8%	33.8%	35.1%	36.6%
Gearing multiple (NIBD/EBITDA)	2.0	2.1	2.8	3.9	2.6	2.3
Earnings per share (EPS)	5.76	4.94	4.18	0.50	2.87	3.12
Free cash flow per share (FCFPS)	5.56	5.19	6.40	2.04	2.62	2.87
Price/earnings (P/E) ratio	58.8	71.5	57.6	349.8	73.1	65.4
Share price, end of period	335.10	353.00	240.60	174.90	209.80	204.10
Average number of shares outstanding	234.82	237.66	239.78	239.90	243.55	244.40
Market capitalisation	77,117	82,569	57,718	41,917	50,470	49,783
Average number of employees	17,817	17,184	16,203	16,107	15,660	15,044

Demant's sustainability performance is currently reported on a yearly basis and is therefore not included on this page.
We refer to section 9.1 for a description of the accounting policies for key figures and financial ratios.

CEO letter

2021 was a great year for Demant. Our employees delivered an extra-ordinary effort to keep activities running at a high pace, leading to excellent results. We are in a very strong position and enter 2022 with great confidence in our new ambitious financial and sustainability targets.

Interacting with the world enriches our life, and hearing is essential for our ability to share our thoughts, interact and connect with friends, family and colleagues. In short, to be actively engaged without constraints. In 2021, we once again saw that our purpose to create life-changing differences through hearing health is more meaningful than ever. The developments of the past year confirm our belief that the activities of this global hearing healthcare and audio technology Group are essential for people to be present and act in the world. Whether it is about helping people with hearing loss through diagnosis, care and cutting-edge technology or collaborating by means of audio and video solutions.

Despite high ambitions from the beginning of the year, we upgraded our expectations of operating profit for the year three times in 2021, ending with a record-high EBIT. We can look back on a year where the Demant Group has proven healthy and where we once again showed that when we pull together, we stand strong as a Group. Let me illustrate our progress through a few highlights from our business areas in 2021.

Providing the best care

Hearing Care – our global network of clinics – performed very well in 2021, as we continued to develop and train our staff, benefitted from the harmonisation of brands, exploited digital opportunities and expanded our clinic network. Our work to refine Audika Group, which comprises our well-reputed brands Audika, Hidden Hearing and HearingLife, and to disseminate personalised hearing care resulted in very strong performances in almost all countries.

The good results in Hearing Care were firmly backed by the positive trends resulting from the French hearing healthcare reform, which offers a public/private treatment setting that has equal focus on quality by offering high-quality hearing aids and on quantity by helping more people. The success of the reform is a testament to the strong model of combining personalised care with state-of-the-art technology.

High standards for innovation

The year's results were also lifted considerably by our innovation power in Hearing Aids. For the benefit of our customers and users, we completed the roll-out of premium products, Oticon More, Philips HearLink, Bernafon Alpha and Sonic Radiant, all based on a new technology platform. Towards the end of the year, we had shipped more than one million premium hearing aids powered by an on-board Deep Neural Network that mimics the way the brain works – a major advancement in artificial intelligence in hearing aid technology, I am proud to say. We are now looking forward to expanding and completing the product families, enabling us to help even more people hear better and experience the joy of a rich soundscape.

Market leader in Diagnostics

Having performed well for many years, our Diagnostics business has seen very positive development in 2021. If we look at the different areas, particularly balance equipment, hearing aid fitting equipment as well as service and calibration stood out in 2021 and contributed to the further consolidation of our Diagnostics business area as market leader.

Committed to high quality

Up until the fourth quarter, Hearing Implants focused largely on product launches, most prominently the very successful introduction of Ponto 5 mini, the world's smallest bone anchored sound processor, and on the Food and Drug Administration's approval of our cochlear implants system Neuro in the US. In the second half-year, however, we had to shift focus in our cochlear implants business, and for the first time ever, the Group performed a voluntary field corrective action in relation to performance issues in a small subset of cochlear implants.

We recalled a number of non-implanted Neuro Zti cochlear implants and by doing so, we stayed true to the Group's commitment to only deliver products of the highest quality. We deeply regret the inconvenience this has caused our stakeholders and users, but we have done our utmost to handle the situation, and after having identified the root cause, we have initiated the implementation of a solution to the issue.

Expanding the business

Our plans for the Communications business area revolve around expanding the business in several markets by establishing the EPOS brand as a strong premium brand in audio and also by offering video collaboration solutions. Our ambitious plans for EPOS are intact in a long-term perspective, but in a short-term perspective, they have turned out to be more difficult to realise than anticipated, so, on the back of an exceptional 2020, we saw a decline in revenue in 2021, albeit with an increase in the number of orders towards the end of the year.

> We owe our customers, shareholders and employees a very special thank you for their tireless and impressive commitment and support in 2021.

Sustainability progress

At Demant, sustainability is embedded in our solutions and culture: Our core commitment to society is to help people overcome hearing loss and improve their quality of life through care and innovative solutions. Our priority in 2021 has been to continue to implement our sustainability strategy and to further develop our two main priorities, diversity and climate action. Sustainability is becoming an increasingly integrated part of the way we work, which can be illustrated by the progress we have made with our two main priorities:

We aspire to have zero environmental impact by 2050, and in 2021, we committed to the Science Based Targets initiative. With this Annual Report, we disclose our ambitious targets to reduce greenhouse gas emissions: By 2030, we must reduce our carbon footprint from own direct and indirect emissions by a minimum of 50% from a 2019 baseline year. We have also taken ambitious steps to assess and disclose emissions from our entire value chain, which gives us a platform for submission of our targets and for validation of the targets against the Science Based Targets initiative in 2022.

The promotion of diversity was high on our agenda in 2021. The Demant Group employs a diverse group of people from all parts of the world and with many different backgrounds, and our ability to embrace the strengths that this diversity brings to the table is one of the pillars of our success. Our key achievement in 2021 was the development of a diversity, equity and inclusion programme, which will – along with an inclusion survey – form the basis of policy-making and target-setting in the area of diversity in 2022.

An aspect of inclusion is to succeed in promoting a unique culture, and to that end, we have adopted new ways of organising and leading by introducing global guidelines on workplace flexibility in 2021. Developing and engaging employees is becoming increasingly important in relation to the recruitment and retention of talent, and also in this area, we keep increasing our focus and activities.

Positive outlook

We owe our customers, shareholders and employees a very special thank you for their tireless and impressive commitment and support in 2021.

Having now entered a new financial year, we continue, despite continuous coronavirus dynamics, to see a resilient hearing healthcare market with intact fundamental market drivers. In 2022, and in the years to come, we expect to see strong growth and market share gains.

With an ambition to become world-leading and a purpose to create life-changing differences through hearing health, we promise to keep delivering high-quality and individualised support to our users to enable them to get the maximum benefit of our solutions.

Søren Nielsen

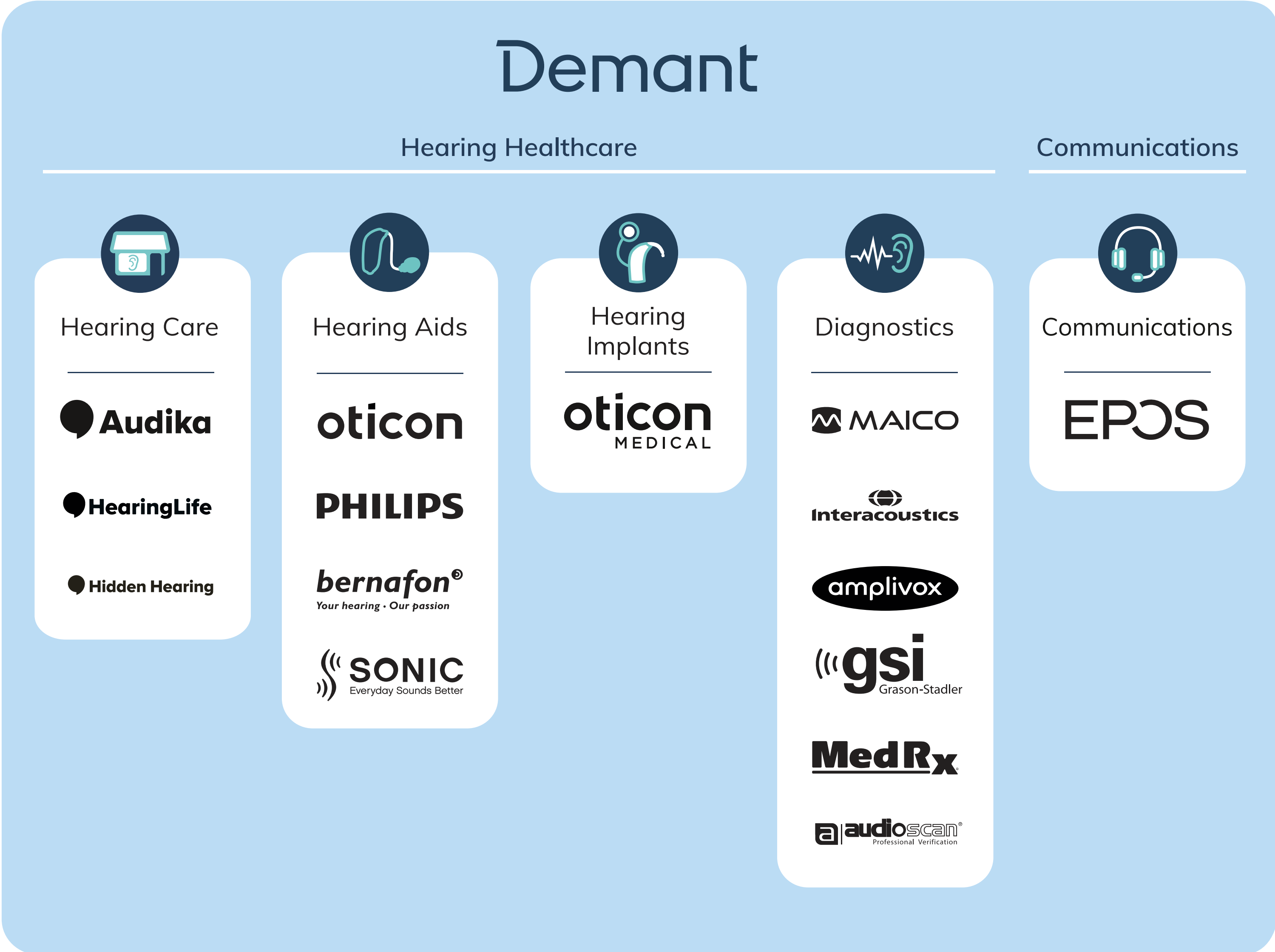
This is Demant

Demant is a global hearing healthcare and audio technology Group that offers people the possibility to be actively engaged without constraints.

We operate in niche markets with a number of major players, intense competition and a high level of innovation. From this platform, we have added a growing business in premium audio and video solutions.

As a Group, we have the scale necessary to compete effectively, and each of our business areas pursues its own strategy in such a way that we ensure a customer-centric approach, while leveraging synergies across the business.

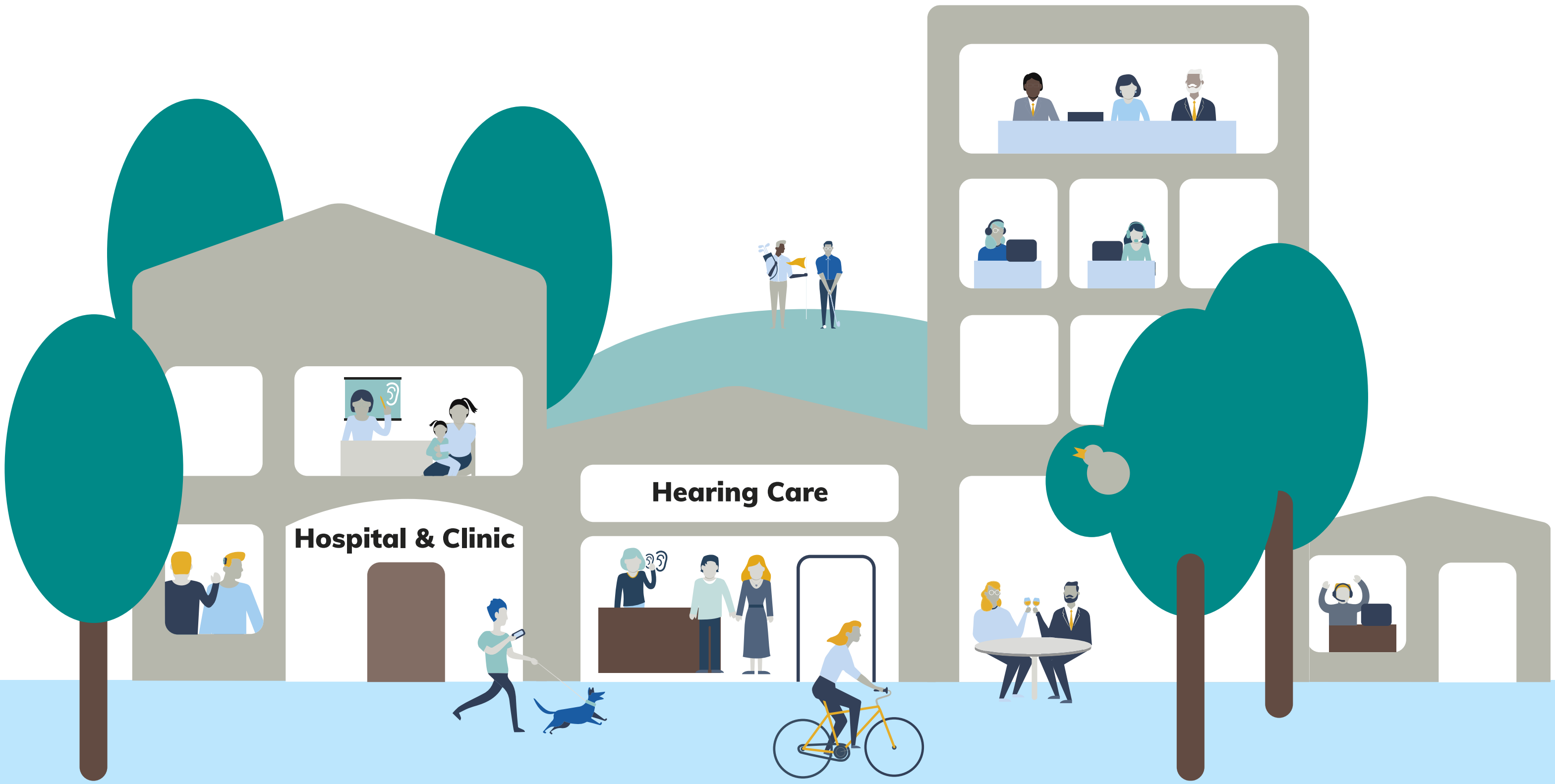
Demant thus has a unique position from which to grow and develop.



At every touchpoint, Demant is active and engaged

Hearing Care

- Global network of more than 2,600 clinics, providing hearing care to people with hearing loss in more than 20 countries
- Performing hearing tests and fitting hearing aids to help users get the right hearing aid for their specific hearing loss
- Providing individualised counselling and service as well as care and aftercare to ensure that every user gets the best solution and every hearing aid provides maximum benefits for the user



Hearing Aids

- Covering all ranges of hearing loss from mild to profound
- Boasting the industry's most advanced centre of excellence for research in audiology and hearing loss and the development of hearing aids
- Manufacturing and distributing hearing aids to hearing clinics, benefitting people in more than 100 countries
- Providing local service, support and training of hearing care professionals

Hearing Implants

- Providing implantable hearing solutions to patients facing the hardest hearing challenges
- Helping people hear better by means of cochlear implants and bone anchored hearing systems that can bypass the challenged parts of the inner, outer or middle ear
- Performing surgical procedures at hospitals or in outpatient settings

Diagnostics

- Developing, manufacturing and marketing a wide range of solutions for hearing and balance assessment, including instruments, consumables, services and installation
- Offering products that include audiometers, ABR equipment for hearing screening of new-borns, tympanometers, hearing aid fitting solutions, balance equipment, otoacoustic emission instruments and other solutions used by audiologists, ENT doctors and healthcare professionals

Communications

- Designing, manufacturing and selling pioneering high-end audio and video solutions for business professionals and serious gamers, including headsets, speakerphones, video conferencing devices, software and accessories
- Building on more than 115 years' audio expertise and operating under the EPOS brand in a global market with offices and partners in more than 60 countries

Purpose and strategy

To create life-changing differences through hearing health

Demant is a global hearing healthcare and technology Group built on a heritage of care, health and innovation since 1904. The Group offers solutions and services to help people connect and communicate with the world around them.

In the Demant Group, our roots are in hearing health, and our shared purpose is to create life-changing differences through hearing health. Our purpose is based on our past, present and future. It sums up why Demant exists and our legacy to the world. And it captures that what we deliver to individuals and society matters.

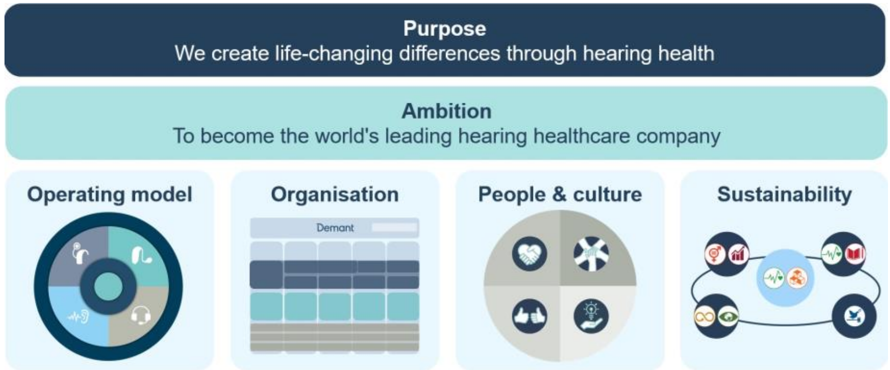
Strategic ambition: Becoming the world's leading hearing healthcare company

Our ambition is to further expand our position as a leading global hearing healthcare company with the broadest, deepest and most innovative product and service offerings in the industry. Historically and currently, our strategy is to operate multiple businesses that share important synergies in such areas as technology, distribution and global infrastructure.

We build on four enablers: a strong organisation, focus on people & culture, commitment to sustainability and a well-founded operating model, all designed to serve our purpose and enable us to execute our strategy:

Organisation

All our business areas have dedicated organisations to enable them to service their individual markets, ensure a customer-centric approach and execute their specific strategic initiatives. Each business area is supported by a global shared service set-up to enable the business area to exploit the competitive advantages and economies of scale that derive from being part of a large Group.



People & culture

Our employees are our most valuable resource and key to executing our strategy. The people & culture agenda is based on a set of global focus areas and initiatives. We strive to drive strong employee engagement, and we believe that world-class leadership is key to attracting and retaining the brightest minds in the industry, including leaders that do their utmost to create engagement and an innovative work environment. Furthermore, diversity, equity and inclusion are important drivers for us, not only with a view to attracting talent broadly but also to remaining an open, fair and inclusive Group that nurtures diversity.

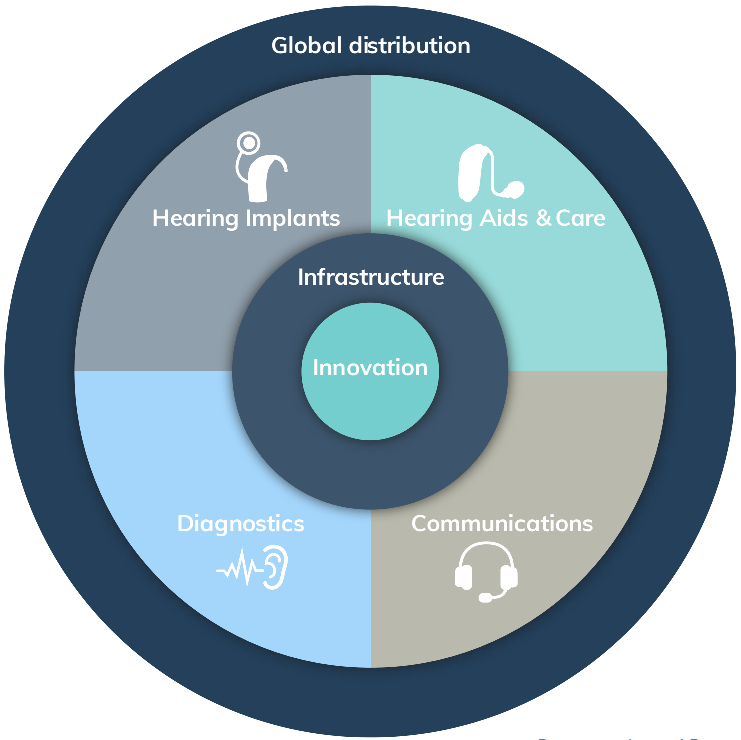
Sustainability

We are an impact business and contribute positively to society. By contributing directly and indirectly to the sustainable development goals, we take part in solving global challenges, while ensuring sustainability in our operational practices. Our strategy entails a range of sustainability efforts that we elaborate on in the Sustainability section.

Operating model

Our operating model is based on a strategy to ensure dedicated focus on excelling in the different business areas and equally important to harvest synergies across the Group in innovation, infrastructure and distribution. The operating model supports a strong collaboration culture across business areas. There is a clear technology overlap between hearing aids and hearing implants and also between hearing aids and headsets, and we exploit the synergies, but essentially, Hearing Healthcare and Communications address different markets in different ways and are run as two individual segments.

Innovation is the core driver of our operating model, and it is a key objective for Demant to become the leading global hearing healthcare company. Hence, Demant will continue to invest heavily in R&D and focus on harvesting synergies across our R&D functions. In the coming years, we will therefore keep a steady and high cadence when it comes to launching new and innovative products.



Sustainability

Founded on a desire to help people with hearing loss, Demant's positive contribution to a healthy society has always driven our business, and every day, our employees strive to make life-changing differences for millions of people.

As a hearing healthcare and technology Group with a broad range of business activities, our Sustainability Strategy must embrace both the similarities and differences between our individual business areas, company brands and geographical locations.

Our Sustainability Strategy at a glance

Purpose and core contribution

Life-changing differences through hearing health

3 GOOD HEALTH AND WELL-BEING

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

Main priorities

Strategic sustainability projects

5 GENDER EQUALITY

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

13 CLIMATE ACTION

Continuous improvement

Other areas of special attention

4 QUALITY EDUCATION

8 DECENT WORK AND ECONOMIC GROWTH

16 PEACE, JUSTICE AND STRONG INSTITUTIONS

Sustainability highlights

With a new Group Sustainability Strategy in hand, we have strengthened our sustainability performance and continued our work to integrate sustainability considerations in everything we do.

Important milestones of the year were the advancements we have made on our two main sustainability priorities: diversity, equity and inclusion and climate impact (see next page). However, the Group made progress in all material areas of our strategy.

11 million years
with improved quality of life based on the lifetime of fitted hearing aids

Facilitated the hearing screening of approx.
20 million
children

Supported more than
4 million
with headsets for collaborative work and gaming

Above
75,000
hearing implant users living with profound, conductive or single-sided hearing loss had an Oticon Medical implant

Facilitated the screening and diagnosing of over
200 million
people with suspected hearing loss

More than
100
bachelor and master projects and 73 PhD studies across different fields

New position on diversity, equity and inclusion

To guide our work and form the basis for a new policy and target-setting for diversity, equity and inclusion (DE&I), we launched a global DE&I position, which identifies initial activities and focus areas for the policy and programme work ahead. The work includes the development of a DE&I baseline check, DE&I leadership training and initiatives to increase the number of female managers in senior management.

Commitment to the Science Based Targets initiative

Demant joined the Science Based Targets initiative (SBTi), committing the company to set targets in line with what climate science deems necessary to limit global warming to 1.5°C.

Based on this scenario and our baseline data, Demant targets minimum 50% reduction of scope 1 and 2 emissions in 2030 with 2019 as the baseline year and net-zero emissions in scope 1, 2 and 3 before 2050.

Overview of scope 3 emissions

We conducted a thorough materiality assessment to identify the categories that are most material for Demant to work on to reduce our scope 3 emissions.

The assessment showed that our scope 3 emissions amount to approx. 500,000 tonnes of CO2e a year. Of the 15 categories defined by the greenhouse gas (GHG) protocol, our purchased goods and services account for most of our scope 3 emissions.

Large donations by William Demant Foundation

William Demant Foundation granted a total of DKK 124.1 million to 1,627 projects in 2021 of which amount DKK 71.4 million was allocated to projects to prevent and alleviate hearing loss. The remaining amount was allocated to cultural, social and humanitarian causes and education.

William Demant Foundation reinvests in society by donating to altruistic causes and by expanding its sustainable investments. Since 1957, the Foundation has donated more than DKK 1 billion.

New Data Ethics Policy

Our new Data Ethics Policy adds an extra layer of protection to Demant's data privacy work by going beyond legal requirements and comprising all types of data – beyond personal data. The Data Ethics Policy applies globally, and it is mandatory for management and employees in the companies belonging to the Demant Group to comply with the policy.

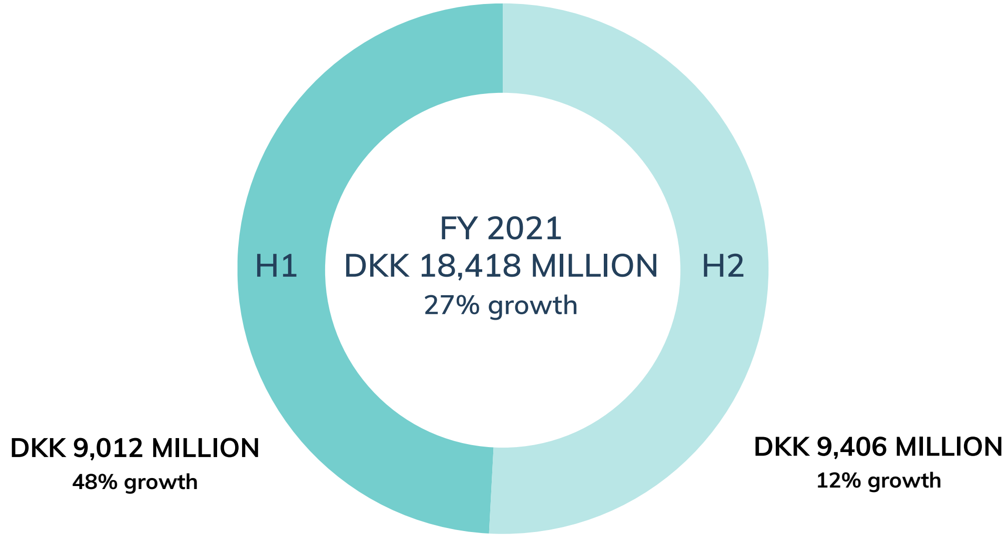
Sustainability reporting

In the context of our annual reporting, Demant publishes a separate Sustainability Report that serves as Demant's Communication on Progress report to the United Nations Global Compact and as the statutory report to be presented under sections 99a, 99b, 99d and 107d of the Danish Financial Statements Act. It also includes the disclosure requirements of the EU taxonomy for sustainable activities. The full report is available on our website: www.demant.com/about/sustainability

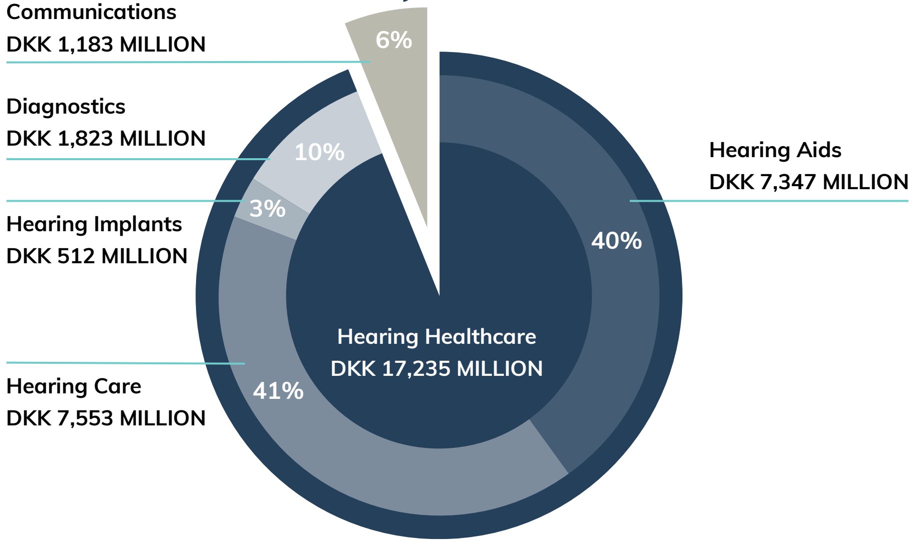
2021 in brief

Financial results are based on adjusted figures, i.e. figures are shown before net positive one-offs.

Group revenue



Revenue by business area

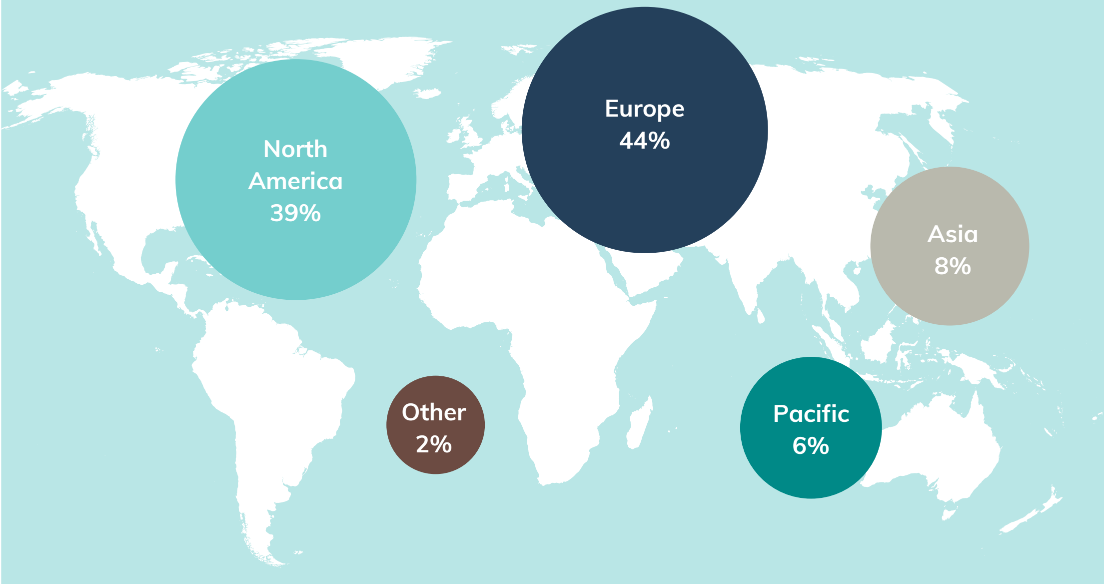


Gross margin
75.2%

EBIT
3,386
DKK MILLION

EBIT MARGIN
18.4%

Revenue by geographic region FY 2021



Hearing Healthcare

GROWTH
32%
IN LOCAL CURRENCIES

EBIT
3,508
DKK MILLION

EBIT MARGIN
20.4%

Hearing Healthcare saw high growth throughout the year, reflecting very strong business performance and low comparative figures.

Communications

GROWTH
-9%
IN LOCAL CURRENCIES

EBIT
-122
DKK MILLION

EBIT MARGIN
-10.3%

Communications saw a slowdown in revenue compared to the strong 2020, resulting in negative EBIT, but momentum improved towards the end of the year.

1.35
DKK BILLION INVESTED IN R&D

18,116
EMPLOYEES

Earnings per share (Group)

EPS
10.70
DKK

Cash flow from operating activities (Group)

CFFO
3.3
DKK BILLION

Outlook for the Group in 2022

ORGANIC GROWTH
5-9%

EBIT
3,450-3,750
DKK MILLION

SHARE BUY-BACKS
>2.5
DKK BILLION

Highlights in 2021

Read more at demant.com/investor-relations/annual-report-2021

Interacoustics launches Luna, a ground-breaking audiometer built into a headset

Oticon More sparks US success within Veterans Affairs

Audika: At the forefront of digital innovation within digital marketing and modern learning

EPOS teams up with Aston Martin Cognizant Formula One Team

Oticon Medical receives FDA pre-market approval of the Neuro cochlear implant system

January to June 2021

Bernafon celebrates its 75-year anniversary

EPOS takes the first steps into the video collaboration space with EXPAND Vision 3T

Hearing Aids reduces plastic waste by 11.5 tonnes

New Oticon research shows that wearing effective hearing aids could reduce stress

Demant signs pledge to increase gender diversity

[Read more at demant.com/investor-relations/annual-report-2021](demant.com/investor-relations/annual-report-2021)

Visual reinforcement helps screen difficult-to-test children

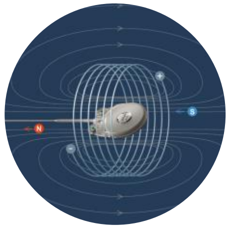
Demant expands production capacity in the North American region with new factory

Oticon Medical launches new processor for Bone Anchored Hearing Systems

Oticon MyMusic captures CES 2022 Innovation Award

William Demant Foundation donates DKK 3.5 million to UNICEF to fight coronavirus

July to December 2021



New device ensures CI users' access to 3T MRI scans

EPOS launches gaming headset series H6PRO – the hero product in the portfolio

Oticon Medical introduces one-step drilling procedure for Bone Anchored Hearing Systems

Demant commits to setting ambitious climate targets through the Science Based Targets initiative

Audika continues to expand the business through acquisitions

Group financial review

FY

(DKK million)	Hearing Healthcare 2021	Communi-cations 2021	Group adjusted 2021	Group adjusted 2020	Group adjusted growth	Group one-offs 2021	Group reported 2021	Group reported 2020	Group reported growth
Revenue	17,235	1,183	18,418	14,469	27%	-30	18,388	14,469	27%
Production costs	-3,962	-612	-4,574	-4,129	11%	-60	-4,634	-4,276	8%
Gross profit	**13,273**	**571**	**13,844**	**10,340**	**34%**	**-90**	**13,754**	**10,193**	**35%**
Gross margin	77.0%	48.3%	75.2%	71.5%		-	74.8%	70.4%	
R&D costs	-1,153	-197	-1,350	-1,261	7%	-	-1,350	-1,261	7%
Distribution costs	-7,837	-464	-8,301	-6,978	19%	60	-8,241	-7,067	17%
Administrative expenses	-895	-32	-927	-840	10%	-10	-937	-840	12%
Share of profit after tax, associates and joint ventures	120	-	120	52	131%	-	120	505	-76%
Other operating income	-	-	-	-	-	99	99	-	-
Operating profit (EBIT)	**3,508**	**-122**	**3,386**	**1,313**	**158%**	**59**	**3,445**	**1,530**	**125.2%**
Operating EBIT margin	20.4%	-10.3%	18.4%	9.1%		-	18.7%	10.6%	-

H1

(DKK million)	Hearing Healthcare 2021	Communi-cations 2021	Group adjusted 2021	Group adjusted 2020	Group adjusted growth	Group one-offs 2021	Group reported 2021	Group reported 2020	Group reported growth
Revenue	8,391	621	9,012	6,078	48%	-	9,012	6,078	48%
Production costs	-1,973	-321	-2,294	-1,823	26%	-	-2,294	-1,932	19%
Gross profit	**6,418**	**300**	**6,718**	**4,255**	**58%**	**-**	**6,718**	**4,146**	**62%**
Gross margin	76.5%	48.3%	74.5%	70.0%			74.5%	68.2%	
R&D costs	-564	-91	-655	-618	6%	-	-655	-618	6%
Distribution costs	-3,807	-233	-4,040	-3,455	17%	-	-4,040	-3,492	16%
Administrative expenses	-422	-20	-442	-388	14%	-	-442	-388	14%
Share of profit after tax, associates and joint ventures	57	-	57	13	338%	-	57	466	-88%
Other operating income	-	-	-	-	-	-	-	-	-
Operating profit (EBIT)	**1,682**	**-44**	**1,638**	**-193**	**-**	**-**	**1,638**	**114**	**1337%**
EBIT margin	20.0%	-7.1%	18.2%	-3.2%			18.2%	1.9%	-

H2

(DKK million)	Hearing Healthcare 2021	Communi-cations 2021	Group adjusted 2021	Group adjusted 2020	Group adjusted growth	Group one-offs 2021	Group reported 2021	Group reported 2020	Group reported growth
Revenue	8,844	562	9,406	8,391	12%	-30	9,376	8,391	12%
Production costs	-1,989	-291	-2,280	-2,306	-1%	-60	-2,340	-2,344	-0%
Gross profit	**6,855**	**271**	**7,126**	**6,085**	**17%**	**-90**	**7,036**	**6,047**	**16%**
Gross margin	77.5%	48.2%	75.8%	72.5%			75.0%	72.1%	
R&D costs	-589	-106	-695	-643	8%	-	-695	-643	8%
Distribution costs	-4,030	-231	-4,261	-3,523	21%	60	-4,201	-3,575	18%
Administrative expenses	-473	-12	-485	-452	7%	-10	-495	-452	10%
Share of profit after tax, associates and joint ventures	63	-	63	39	62%	-	63	39	62%
Other operating income	-	-	-	-	-	99	99	-	-
Operating profit (EBIT)	**1,826**	**-78**	**1,748**	**1,506**	**16%**	**59**	**1,807**	**1,416**	**28%**
EBIT margin	20.6%	-13.9%	18.6%	17.9%			19.3%	16.9%	-

HEARING HEALTHCARE
17,235
DKK MILLION
(+31%)

COMMUNICATIONS
1,183
DKK MILLION
(-9%)

GROUP REVENUE
18,418
DKK MILLION
(+27%)

Introduction

Unless otherwise indicated, the commentary below on our financial results is based on adjusted figures, i.e. 2021 and 2020 figures are shown before one-offs. For detailed financial reviews of our Hearing Healthcare and Communications segments, please refer to page 27 and 39, respectively.

Revenue

After seeing strong growth in H1 driven primarily by Hearing Healthcare due to strong market recovery, strong performance and low comparative figures, growth naturally moderated in H2 from the high level at the beginning of the year. Revenue for H2 amounted to DKK 9,406 million, corresponding to a growth rate of 11% in local currencies. Organic growth was 10% and growth from acquisitions was 1%. Exchange rates (FX) had an impact of 1%, including exchange rate hedging, and total reported growth for H2 was 12%.

For the full year, Group revenue amounted to DKK 18,418 million, corresponding to a growth rate of 28% in local currencies. Organic growth was 27%, which is within the updated organic growth guidance of 26-30% for 2021. Acquisitive growth was 1%. Exchange rates had an impact on revenue of -1%, and total reported growth for the period was 27%.

In terms of geography, revenue in Europe continued to see growth in H2, albeit at a lower growth rate than in H1. The growth rate in H1 was driven particularly by a low comparative base and the significant positive impact of increased hearing aid reimbursement in France. During H2, we saw continuous improvement in many commercial markets, whereas the public channels remained a drag on growth.

In North America, we saw the strongest growth in H2, primarily due to market share gains in Hearing Aids and Diagnostics. Our Asia and Other countries regions also delivered solid growth throughout H2,

Growth rates by business segment

	H1 2021	H2 2021	FY 2021
Hearing Healthcare			
Organic	55%	14%	31%
Acquisitions	2%	1%	1%
LCY	**57%**	**15%**	**32%**
FX	-5%	1%	-1%
Total	**52%**	**16%**	**31%**
Communications			
Organic	16%	-27%	-9%
Acquisitions	0%	0%	0%
LCY	**16%**	**-27%**	**-9%**
FX	-2%	1%	0%
Total	**14%**	**-26%**	**-9%**
Group			
Organic	51%	10%	27%
Acquisitions	2%	1%	1%
LCY	**53%**	**11%**	**28%**
FX	-5%	1%	-1%
Total	**48%**	**12%**	**27%**

Revenue by geographic region

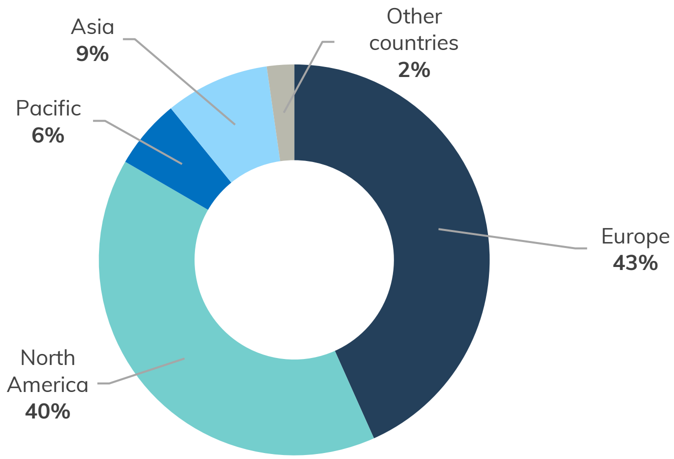
(DKK million)	H2 2021	H2 2020	Change DKK	Change LCY	Change Org.
Europe	4,074	3,850	6%	6%	5%
North America	3,768	3,082	22%	21%	20%
Pacific	541	526	3%	0%	0%
Asia	811	738	10%	10%	10%
Other countries	212	195	9%	6%	5%
Total	**9,406**	**8,391**	**12%**	**11%**	**10%**

whereas our Pacific region was impacted by lockdowns at the beginning of H2.

Gross profit

The Group's gross profit increased by 17% to DKK 7,126 million in H2, corresponding to a gross margin of 75.8%. This is an increase of 3.3 percentage points compared to H2 2020 driven by continuously good performance in Hearing Healthcare, which delivered efficiency improvements. The gross margin in Communications declined due to the slowdown in revenue and a high comparative base from H2 2020. Relative to H1, our gross margin increased by 1.3 percentage points driven by strong performance in Hearing Healthcare. Both our business segments saw an increased

Revenue by geographic region H2 2021



Operating expenses (OPEX) by function

(DKK million)	H2 2021	H2 2020	Change DKK	Change LCY	Change Org.
R&D costs	695	643	8%	8%	8%
Distribution costs	4,261	3,523	21%	18%	16%
Admin. expenses	485	452	7%	6%	6%
Total	**5,441**	**4,618**	**18%**	**15%**	**14%**

impact of the current supply chain dynamics, which we estimate had a negative impact on the gross margin for the Group of approx. 0.5 percentage point in H2.

For the full year, the Group's gross profit amounted to DKK 13,844 million, corresponding to a gross margin of 75.2%, or an increase of 3.7 percentage points. The increase is primarily related to improved performance in Hearing Healthcare and a low comparative base in 2020 due to coronavirus.

Operating expenses (OPEX)

Through 2021, we have gradually scaled up OPEX spending, as the hearing healthcare market has further normalised. In H2, OPEX growth was 15% in local currencies compared to 2020. In organic terms, OPEX increased by 14% in H2, which first and foremost reflects significant coronavirus-related cost savings in the comparative period, including government support schemes, and a gain from the reversal of part of a provision for bad debt. Distribution costs were the primary driver, but we also continued to increase spending on R&D and administrative activities.

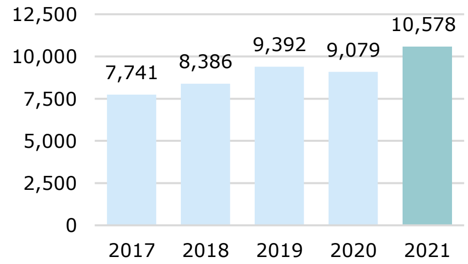
Acquisitions added slightly to distribution costs as we continued our strategic acquisitions in Hearing Care.

As previously communicated, we realised temporary savings of approx. DKK 150-200 million in H1 due to the coronavirus pandemic, but our cost base was largely normalised at the beginning of H2.

For the full year, OPEX increased by 17% in local currencies of which 15 percentage points were organic growth and 2 percentage points relate to acquisitions.

Five-year OPEX

(DKK million)

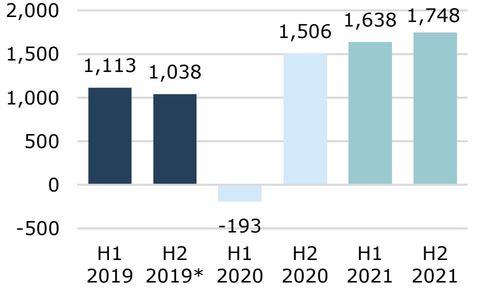


Operating profit (EBIT)

EBIT for H2 amounted to DKK 1,748 million. Hearing Healthcare contributed DKK 1,826 million and Communications DKK -78 million. Compared to H2 2020, growth in EBIT was 16%. The resulting EBIT margin for H2 was 18.6%, which is an increase of 0.7 percentage point. The EBIT margin was negatively affected by a slowdown in our Communications business from around mid-March, which carried into H2, and by our voluntary field corrective action in Hearing Implants in October 2021.

Adjusted half-year EBIT

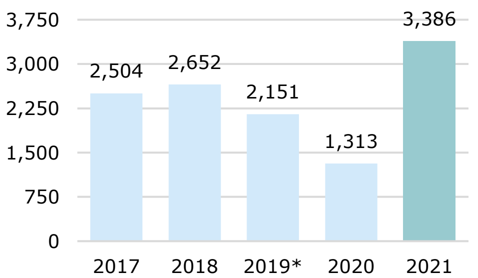
(DKK million)



* EBIT for H2 2019 was negatively impacted by DKK 550 million as a result of the IT incident.

Adjusted full-year EBIT

(DKK million)



* EBIT for 2019 was negatively impacted by DKK 550 million as a result of the IT incident.

However, very strong performance in the remaining part of Hearing Healthcare, including material tailwind from the hearing healthcare reform in France and an improving gross margin despite supply chain headwinds, substantially outweighed these negative impacts, and the Group delivered the strongest EBIT in any half-year in the history of the company. EBIT for the full year amounted to DKK 3,386 million, corresponding to an EBIT margin of 18.4%.

In 2021, we recognised certain one-off items with a combined net positive impact on EBIT of DKK 59 million. These items all relate entirely to H2 and comprise the following elements:

- A gain of DKK 99 million related to the divestment of our 75% ownership of FrontRow Calypso LLC. The divestment had a positive effect of DKK 161 million on the cash flow. The gain from this divestment is recognised in Other operating income.
- A net negative effect of DKK -100 million from the voluntary field corrective action in our Hearing Implants business. The adjustments are recognised with DKK -30 million in revenue, DKK -60 million in production costs and DKK -10 million in administrative expenses but had no cash flow effect in 2021.
- A positive impact of DKK 60 million from the reversal of part of a provision for additional bad debt recognised in H1 2020, which is no longer deemed appropriate. Originally, the provision amounted to DKK 150 million, but DKK 50 million was reversed in H2 2020, and DKK 40 million has been realised. The reversal is recognised in distribution costs and has no cashflow effect.

Consequently, the Group's reported EBIT after one-offs amounted to DKK 1,807 million in H2 and to DKK 3,445 million for the full year.

As a consequence of our acquisition strategy, we realised certain fair value adjustments of non-controlling interests in step acquisitions, of contingent considerations etc. These totalled a net positive fair value adjustment of DKK 64 million (DKK 17 million in 2020, excluding the effect of the consolidation of EPOS). Please refer to Note 6.1 for more details.

Financial items

Reported net financial items for H2 amounted to DKK -100 million, or a decrease of DKK 6 million on the same period in 2020. For the full year, net financial items amounted to DKK -202 million, or an increase of DKK 8 million on 2020.

Profit for the year

The Group's reported profit before tax for H2 amounted to DKK 1,707 million, or an increase of 30% compared to the same period in 2020. Tax amounted to DKK 362 million, resulting in an effective tax rate of 21.2%, which was positively impacted by certain R&D tax credits.

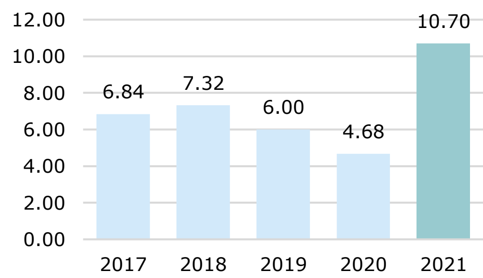
For the full year, profit before tax amounted to DKK 3,243 million, or an increase of 143% on 2020, while tax amounted to DKK 715 million. The resulting effective tax rate was 22.0%, which is slightly below our guidance of 23%. This is a significant increase of 6.4 percentage points from 2020, which reflects that in 2020, the Group was exempt from paying tax on the positive one-off fair value adjustment related to the consolidation of EPOS.

Reported net profit for H2 was DKK 1,345 million, or an increase of 33% on H2 2020, resulting in earnings per share (EPS) of DKK 5.76, which is an increase of 38% from DKK 4.18 in H2 2020. For the full year, net profit was DKK 2,528 million, or an increase of 123%, resulting in EPS of DKK 10.70. As outlined earlier, growth rates in net profit and EPS were driven by low comparative figures, continued recovery after the coronavirus pandemic and strong business performance.

At the annual general meeting, the Board of Directors will propose that the entire profit for the year be retained and transferred to the company's reserves.

Earnings per share (EPS)

(DKK per share)



Cash flow statement

In H2 2021, the Group's cash flow from operating activities (CFFO) declined by 7% to DKK 1,764 million, and we saw an increase in net working capital, as revenue continued to grow in H2. CFFO for the full year amounted to DKK 3,275 million, corresponding to an increase of 25% compared to 2020. One-offs did not have any effect on CFFO in 2021.

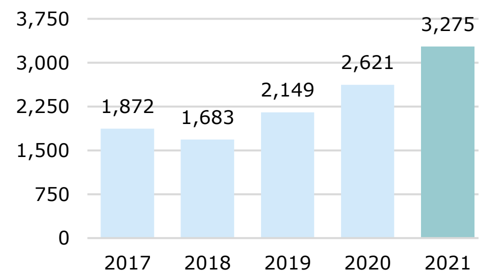
In H2, our net investments in tangible and intangible assets (CAPEX) amounted to DKK 432 million, which is an increase of 27% on H2 2020. The increase is mainly related to timing. For 2021 as a whole, CAPEX increased by 3% to DKK 706 million and ended slightly below 4% of revenue, which we view as the medium- to long-term level.

Net investments in other non-current assets, which comprise customer loans, amounted to DKK 41 million in H2, a minor increase compared to DKK 18 million in H2 2020. For the full year, net investments in other non-current assets amounted to DKK 44 million. Our net investments totalled DKK 750 million in 2021.

Free cash flow before acquisitions and divestments decreased by 16% to DKK 1,291 million in H2 but increased by 25% to DKK 2,525 million for the year as a whole.

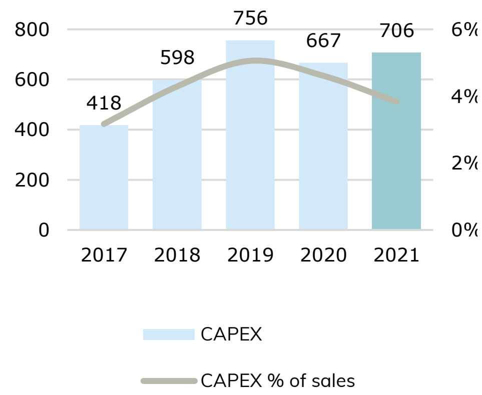
Cash flow relating to acquisitions and divestments increased by 40% to DKK 141 million in H2. This includes the divestment of FrontRow Calypso LLC, which benefitted our cash flow by DKK 161 million. Adjusted for this, cash flow related to acquisitions and divestments increased by 199% to DKK 302 million, as the comparative period saw a temporary pause in transactions during the coronavirus pandemic. This level has now normalised.

CFFO



For the full year, cash flow relating to acquisitions and divestments amounted to DKK 547 million, an increase of 39%. Adjusted for the divestment of FrontRow Calypso LLC, cash flow from acquisitions and divestments increased by 80% due to the temporary pause in M&A activities in 2020.

CAPEX



Share buy-backs amounted to DKK 1,387 million in H2 and DKK 3,200 million for 2021 as a whole.

Other financing activities amounted to DKK 179 million in H2, which mainly stems from changes in short-term bank facilities. The net cash flow in H2 was DKK -58 million. For the full year, the net cash flow was DKK 199 million.

Cash flow by main items

	H2		FY		Change	
(DKK million)	2021	2020	2021	2020	H2	FY
CFFO before one-offs	**1,764**	**1,944**	**3,275**	**2,673**	**-9%**	**23%**
Cash flow from one-offs	-	-52	-	-52	n.a	n.a
CFFO	**1,764**	**1,892**	**3,275**	**2,621**	**-7%**	**25%**
Net investments	-473	-358	-750	-598	32%	25%
Free cash flow before acquisitions and divestments	**1,291**	**1,534**	**2,525**	**2,023**	**-16%**	**25%**
Acquisitions and divestments etc.	-141	-101	-547	-394	40%	39%
Share buy–backs	-1,387	-	-3,200	-197	n.a	1524%
Other financing activities	179	-1,381	1,421	-1,238	n.a	n.a
Cash flow for the period	**-58**	**52**	**199**	**194**	**n.a**	**3%**

Balance sheet

As of 31 December 2021, the Group's total assets amounted to DKK 24,860 million, which is an increase of 5% compared to 30 June 2021. The increase is primarily due to an increase in goodwill, mostly related to acquisitions, and higher inventories. The increase in total assets relative to sales remained largely unchanged in H2 compared to H1.

Relative to the end of 2020, total assets increased by 13%, partly driven by acquisitive growth of 4%, primarily in the form of goodwill. Organic growth in total assets was 6%, driven mainly by higher inventories and receivables, which increased concurrently with the Group's revenue. Exchange rate effects were 3%.

Reflecting continued tight working capital management, the Group's net working capital was DKK 3,025 million at the end of 2021, an increase of 5% since 30 June 2021. Relative to the end of 2020, our net working capital increased by 23%. The higher net working capital levels reflect the Group's increased activity level. Please refer to Note 9.1 for our definition of net working capital.

In 2021, our net interest-bearing debt (NIBD) increased by 7% in H2 and by 28% for the full year and amounted to DKK 9,150 million at 31 December 2021. Despite the increase during 2021, our current gearing (NIBD/EBITDA) was 2.0, which is at the lower end of our gearing target of 2.0-2.5. The significant decrease in our gearing from 2.8 in 2020 is driven by strong development in our profits. The increase in net interest-bearing debt can mainly be attributed to short- to medium-term financing.

Total equity increased by 2% in H2 to DKK 7,981 million of which DKK 4 million is attributable to non-controlling interests and DKK 7,977 million to the shareholders of Demant A/S. The increase was mainly a result of the Group's profit and positive customary currency translation adjustments of subsidiaries reported as other comprehensive income, which more than offset share buy-backs during the period. Positively impacted by strong profit and currency translation but offset by increased share buy-backs, equity for the full year decreased by 4%.

Share buy-backs recognised in the Group's balance sheet totalled 9,763,327 shares bought at an average price of DKK 321.97, totalling DKK 3,143 million. The difference between this amount and the DKK 3,200 million stated in the Group's cash flow statement relates to shares bought back as part of a voluntary share salary arrangement offered to most Danish employees. These shares are expensed as OPEX in the income statement and amounted to DKK 57 million in 2021.

Balance sheet by main items

(DKK million)	FY 2021	H1 2021	FY 2020	Change H2 2021	Change FY 2021
Lease assets	2,079	2,024	1,847	3%	13%
Other non-current assets	14,895	14,064	13,393	6%	11%
Inventories	2,366	2,088	1,968	13%	20%
Trade receivables	3,203	3,140	2,808	2%	14%
Cash	1,172	1,221	952	-4%	23%
Other current assets	1,145	1,042	959	10%	19%
Total assets	**24,860**	**23,579**	**21,927**	**5%**	**13%**
Equity	7,981	7,796	8,279	2%	-4%
Lease liabilities	2,121	2,077	1,893	2%	12%
Other non-current liabilities	4,296	4,728	4,837	-9%	-11%
Trade payables	808	753	802	7%	1%
Other current liabilities	9,654	8,225	6,116	17%	58%
Total equity and liabilities	**24,860**	**23,579**	**21,927**	**5%**	**13%**

Employees

As of 31 December 2021, the Group had 18,116 employees (2,171 in Denmark) compared to 17.556 (2,069 in Denmark) as of 30 June 2021, an increase of 3% of which 2 percentage points were organic.

The total number of employees increased by 9% for the full year relative to the 16,591 employees (2,016 in Denmark) at the end of 2020. The increase relates to staffing at our production sites and to acquisitions.

Events after the balance sheet date

There have been no events that materially change the assessment of this Annual Report 2021 from the balance sheet date and up to today.

Outlook for 2022

Metric	Outlook for 2022
Organic growth	5-9%
Acquisitive growth	1% based on revenue from acquisitions completed as of 7 February 2022
FX growth	2% based on exchange rates as of 7 February 2022 and including the impact of exchange rate hedging
EBIT	DKK 3,450-3,750 million
Effective tax rate	22-23%
Gearing	Gearing in line with medium- to long-term target of 2.0-2.5 (NIBD relative to EBITDA)
Share buy-backs	At least DKK 2.5 billion

Our outlook for 2022 is summarised in the table above. In the following sections, we provide commentary on recent developments in our markets as well as on the key expectations on which the outlook is based.

Recent developments

In 2021, the hearing healthcare market saw strong recovery, albeit with large differences between regions and between the three market segments that we address: hearing aids, hearing implants and diagnostic solutions. At the very end of the year, however, we saw a slight softening of demand in some markets due to rapid increases in infection rates, and in some areas, coronavirus also made it difficult to fully staff hearing aid clinics. At the beginning of 2022, we have seen impacts of coronavirus in some markets, but we consider these impacts to be temporary and underlying market fundamentals to be intact.

The market for audio and video solutions for enterprises and gaming saw mixed developments in 2021, but we consider demand to have largely normalised at the beginning of 2022. In the first part of the year, the market may, however, be negatively impacted by the current global supply chain dynamics.

Outlook expectations

Given these recent developments, our outlook for 2022 is clearly subject to greater uncertainty than usually. Below, we highlight the key expectations on which our outlook is based:

- The hearing healthcare market to normalise, resulting in unit growth in the hearing aid market of 4-6% and additional growth due to the release of some pent-up demand, albeit with significant differences between individual markets and channels. Such differences will not least be driven by different comparative bases going into the year. Due to changes in geography and channel mixes, we expect ASP growth in the hearing aid market to be slightly more negative in 2022 than the normal 1-2% annual decline.
- Growth in the French hearing aid market to be negative in 2022 following the extraordinary demand in 2021, which we estimate benefitted the Group's revenue by DKK 300 million and EBIT by DKK 150 million. We do not expect this benefit to recur.
- The market for enterprise and gaming headsets and video solutions to grow in line with the estimated structural growth level of around 12%.
- Both segments, Hearing Healthcare and Communications, to gain market share in 2022, but Communications to realise double-digit negative organic revenue growth in Q1 2022 due to very high comparative figures.
- The supply chain situation to remain dynamic throughout the year and to result in higher-than-normal component costs and freight charges with an impact that is roughly similar to the impact in 2021 but with no material disruption to sales activities.
- The Group's OPEX base to see no benefit from temporary cost savings in 2022, which we estimate amounted to DKK 150-200 million in H1 2021.
- Sales of new cochlear implants to be resumed in Q3 2022 and to be gradually ramped up.
- Communications to realise a slightly negative EBIT in 2022.

Medium- to long-term outlook

At Demant, a key objective is to continue our long-standing track record of growing our business. Thus, our ambition is to further expand our position as a leading global hearing healthcare company by offering the broadest, deepest and most innovative portfolios of products and services, while succeeding in the highly attractive and fast-growing market for premium audio and video solutions.

Our markets

At their core, the two markets that we address today, hearing healthcare and audio and video solutions for enterprises and gaming, both benefit from strong structural drivers of demand:

As regards our **Hearing Healthcare** segment, the market is first and foremost driven by favourable demographic trends, including the increasing size of the ageing population and the increasing average life expectancy. At the same time, penetration rates are increasing in several emerging markets, as awareness of hearing deficiencies grows, hearing healthcare infrastructures improve and purchasing power increases.

The coronavirus pandemic has naturally impacted the market in 2020 and 2021, but we believe that the structural growth drivers are intact and that the market could even see tailwind from the release of some pent-up demand in the coming years.

With regard to our **Communications** segment, the market for audio and video solutions for enterprises is driven by the secular trend of increasing virtual collaboration and digital communication. The coronavirus pandemic has significantly accelerated the adoption of virtual collaboration tools, and we expect continuous growth due to this “new normal”. As far as gaming headsets are concerned, the key driver is increasing focus on home entertainment, including gaming, and the increasing extent to which gaming involves live communication between players.

Our ambitions

In **Hearing Healthcare**, we aim to gain market share in organic terms in all our business areas in the medium to long term. This translates into an organic growth rate of at least 5% p.a.

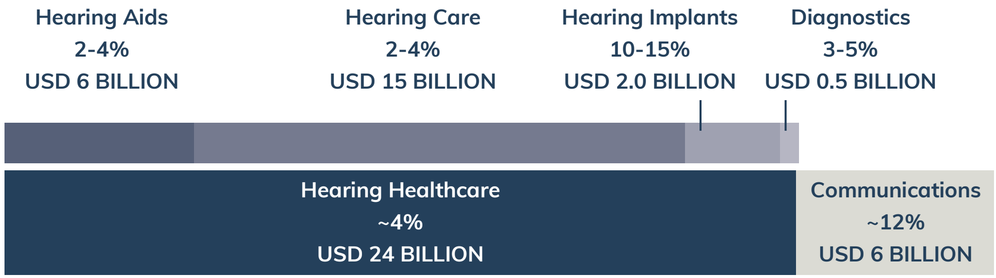
In **Communications**, we aim to grow revenue in organic terms at least in line with the market growth rate, implying an organic growth rate of at least 12% p.a.

For the **Group**, we aim to deliver organic growth of 6-8% p.a., which is in line with our historical performance. Additionally, we expect to add 1-2% p.a. to growth from bolt-on acquisitions, primarily in our Hearing Care business. Consequently, we aim to grow the Group’s revenue by 7-10% p.a. in local currencies.

We aim to increase EBIT margins in each of our business areas. In Hearing Aids, Hearing Care and Diagnostics, we expect the potential for improvement to be incremental as we further grow these businesses, whereas the potential is transformative in Hearing Implants and Communications, which were both loss-making in 2021. For the Group, the EBIT margin is subject to changes in our business mix.

We expect to invest around 4% of the Group’s revenue in tangible and intangible assets, and we will continue to prioritise value-adding acquisitions. We target a gearing of 2.0-2.5, and subject to this, we will return any excess free cash flow after acquisitions to our shareholders in the form of share buy-backs.

Estimated value growth rate and market size by business area



Metric	Medium- to long-term outlook
Revenue growth	7-10% p.a. in local currencies with organic growth of 6-8% p.a. and acquisitive growth of 1-2% p.a.
EBIT margin	We aim to increase EBIT margins in each of our business areas over time. For the Group as a whole, the EBIT margin is subject to changes in business mix as well as to acquisitions and exchange rate effects
CAPEX	On an annual basis, we expect to invest around 4% of the Group’s revenue in tangible and intangible assets (excluding customer loans and acquisitions)
Gearing	We target a gearing of 2.0-2.5 (NIBD/EBITDA)
Capital allocation	Subject to our gearing target, we will return any excess free cash flow after acquisitions to shareholders in the form of share buy-backs

Our business

Hearing Healthcare

Hearing Aids | Hearing Care | Hearing Implants | Diagnostics

Communications

EPOS

Hearing Healthcare

Financial review

REVENUE
17,235
DKK MILLION

GROWTH
32%
IN LOCAL CURRENCIES

Income statement

	H1			H2			FY		
(DKK million)	2021	2020	Growth	2021	2020	Growth	2021	2020	Growth
Revenue	8,391	5,532	52%	8,844	7,631	16%	17,235	13,163	31%
Production costs	-1,973	-1,532	29%	-1,989	-1,948	2%	-3,962	-3,480	14%
Gross profit	**6,418**	**4,000**	**60%**	**6,855**	**5,683**	**21%**	**13,273**	**9,683**	**37%**
Gross margin	76.5%	72.3%		77.5%	74.5%		77.0%	73.6%	
R&D costs	-564	-540	4%	-589	-552	7%	-1,153	-1,092	6%
Distribution costs	-3,807	-3,311	15%	-4,030	-3,310	22%	-7,837	-6,621	18%
Administrative expenses	-422	-376	12%	-473	-435	9%	-895	-811	10%
Share of profit after tax, associates and joint ventures	57	13	338%	63	39	62%	120	52	131%
Operating profit (EBIT)	**1,682**	**-214**	**n.a**	**1,826**	**1,425**	**28%**	**3,508**	**1,211**	**190%**
EBIT margin	20.0%	-3.9%		20.6%	18.7%		20.4%	9.2%	

Revenue by business area

	H1			H2			FY		
(DKK million)	2021	2020	Growth	2021	2020	Growth	2021	2020	Growth
Hearing Aids	4,416	2,937	50%	4,564	3,886	17%	8,980	6,823	32%
Hereof sales to Hearing Care	-871	-465	87%	-762	-657	16%	-1,633	-1,122	46%
Hearing Care	3,737	2,154	73%	3,816	3,310	15%	7,553	5,464	38%
Hearing Implants	266	246	8%	246	277	-11%	512	523	-2%
Diagnostics	843	660	28%	980	815	20%	1,823	1,475	24%
Hearing Healthcare	**8,391**	**5,532**	**52%**	**8,844**	**7,631**	**16%**	**17,235**	**13,163**	**31%**

Growth rates

	H1 2021	H2 2021	FY 2021
Hearing Aids			
Organic	55%	19%	34%
Acquisitions	0%	-1%	0%
LCY	**55%**	**18%**	**34%**
FX	-5%	-1%	-2%
Total	**50%**	**17%**	**32%**
Hearing Care			
Organic	72%	10%	34%
Acquisitions	5%	4%	4%
LCY	**78%**	**13%**	**38%**
FX	-4%	2%	0%
Total	**74%**	**15%**	**38%**
Hearing Implants			
Organic	11%	-13%	-2%
Acquisitions	0%	0%	0%
LCY	**12%**	**-13%**	**-2%**
FX	-3%	2%	-1%
Total	**8%**	**-11%**	**-2%**
Diagnostics			
Organic	34%	17%	25%
Acquisitions	1%	1%	1%
LCY	**35%**	**18%**	**25%**
FX	-7%	2%	-2%
Total	**28%**	**20%**	**24%**
Hearing Healthcare			
Organic	55%	14%	31%
Acquisitions	2%	1%	1%
LCY	**57%**	**15%**	**32%**
FX	-5%	1%	-1%
Total	**52%**	**16%**	**31%**

Revenue

For H2 2021, revenue in our Hearing Healthcare segment amounted to DKK 8,844 million, corresponding to a growth rate of 15% in local currencies with organic growth of 14% and acquisitive growth of 1%. Exchange rates had a positive impact of 1%, and total reported growth for the period was 16%. For the full year, growth in Hearing Healthcare was 32% in local currencies with organic growth of 31% and acquisitive growth of 1%. Exchange rates impacted reported growth by -1%. As such, reported growth in Hearing Healthcare was 31% in 2021.

After a strong start to H1, we saw further normalisation in Hearing Healthcare in H2. In both periods, France contributed very significantly to growth, predominantly in Hearing Care, due to the new hearing healthcare reform. Besides growth in the structural demand for hearing aids in France, we estimate that the increased reimbursement also resulted in extraordinary revenue of around DKK 200 million in H1 and DKK 100 million in H2, which will not recur in 2022.

Growth in local currencies in Hearing Aids amounted to 18% in H2 with strong performance in sales to independent hearing care professionals and chains, particularly in the US. Sales to government systems, including the NHS and VA, improved gradually during 2021, but volumes have not yet normalised to pre-pandemic levels.

In Hearing Care, we saw strong performance in a number of European markets, especially in France. Revenue grew by 13% in local currencies in H2, including acquisitive growth of 4%.

Revenue in Hearing Implants posted organic growth of -13% in H2. In connection with our voluntary field corrective action in October 2021, we halted sales of new cochlear implants, which impacted growth negatively in the last three months of 2021.

In H2, Diagnostics realised a very strong growth rate of 18% in local currencies, which was significantly above the market growth rate. This was driven by both our service and our instruments business.

Gross profit

Gross profit increased by 1% to DKK 6,855 million in H2, resulting in a gross margin of 77.5%, or an increase of 3.0 percentage points compared to 2020. The gross margin expansion was primarily driven by the higher activity level, resulting in efficiency improvements. These improvements, which were primarily driven by Hearing Aids and Diagnostics, more than outweighed the headwinds from supply chain dynamics.

Operating expenses (OPEX)

OPEX amounted to DKK 5,091 million in H2, corresponding to an increase in local currencies of 17%. The increase in OPEX can be attributed to increased activity levels but also to significant coronavirus-related cost savings in the comparative period, including support from government support schemes, and a gain from the reversal of part of a provision for bad debt.

The increase in OPEX was mainly driven by Hearing Care where strong revenue growth was accompanied by increased distribution costs. This also includes the impact of further acquisitions made by Hearing Care. R&D costs and administrative expenses also increased in H2, albeit to a lesser extent.

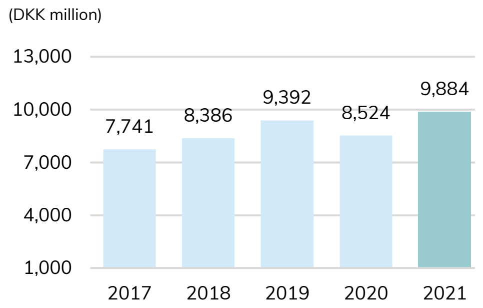
Following temporary cost savings in H1 of DKK 150-200 million related to coronavirus, our cost base had largely normalised at the beginning of H2.

OPEX increased by 17% in local currencies and reached DKK 9,884 million for the full year.

OPEX by function

(DKK million)	H2 2021	H2 2020	Change DKK	Change LCY	Change Org.
R&D costs	589	552	7%	7%	7%
Distribution costs	4,029	3,310	22%	20%	18%
Administrative expenses	473	435	9%	8%	8%
Total	**5,091**	**4,297**	**18%**	**17%**	**15%**

Full-year OPEX

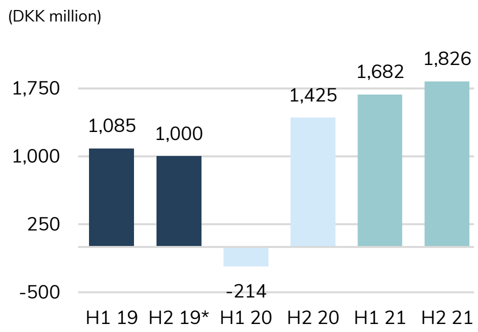


Operating profit (EBIT)

EBIT in H2 amounted to DKK 1,826 million, corresponding to a growth rate of 28% compared to the same period in 2020. The resulting EBIT margin was 20.6%, or an increase of 1.9 percentage points. The increase in EBIT margin was first and foremost driven by strong performance in Hearing Care, which saw very strong tailwind from the hearing healthcare reform in France. Specifically, we estimate that the reform had an extraordinary positive impact on EBIT in Hearing Healthcare of DKK 100 million in H1 and DKK 50 million in H2, which will not recur in 2022. Our Hearing Aids business area also performed very well thanks to excellent traction with launches of new flagship hearing aids, and in addition, Diagnostics delivered strong profitability improvements thanks to operating leverage following significant revenue growth. However, Hearing Implants had a negative impact on EBIT – a development that was exacerbated by the temporary halt in sales of cochlear implants due to the voluntary field corrective action.

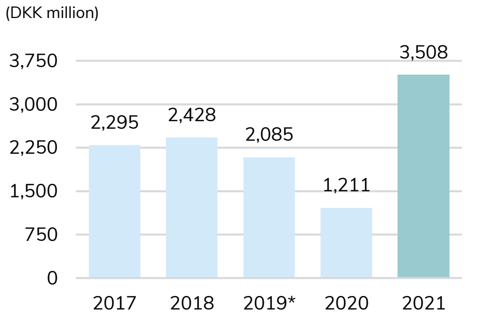
For the full year, EBIT reached DKK 3,508 million, corresponding to an EBIT margin of 20.4%.

Half-year EBIT



Reported EBIT for H2 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.

Full-year EBIT



Reported EBIT for 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.

Hearing Aids

REVENUE
8,980
DKK MILLION

GROWTH
34%
IN LOCAL CURRENCIES

Oticon
BrainHearing™ test in anechoic chamber

Core SDG impact

Based on the estimated lifetime of the total number of hearing aids fitted by the Group in 2021, we facilitated 11 million years with improved quality of life.

The Eriksholm Research Centre found that wearing effective hearing aids could reduce stress.

Key 2021 sustainability results

We eliminated 11.5 tonnes of plastic from our production of hearing aid filter containers and started reusing plastic waste from other accessories to produce new elements.

Market developments

Based on available market statistics, covering slightly less than two-thirds of the market, and on our own assumptions, we estimate that the global hearing aid market saw unit growth of around 13% in Q4 and around 27% in 2021 as a whole. Compared to pre-pandemic levels in 2019, we estimate that unit growth was around 9% in Q4 and around 8% for the full year. As expected, recovery in government channels and in some emerging markets lagged behind the recovery in commercial channels in developed markets. Looking only at the latter – and even when excluding France, which saw extraordinary growth due to the hearing healthcare reform – we estimate that unit growth rates in both Q4 and in 2021 as a whole were in line with the structural growth of 4-6% per year compared to 2019 levels. This includes large differences between individual markets and channels where growth in some was below normal and in others above normal due to support from pent-up demand.

Compared to the same period in 2019, growth in Europe in Q4 was first and foremost driven by very strong growth in France due to the hearing healthcare reform, which significantly boosted unit sales of fully reimbursed products. In the UK, market growth was more or less normalised with very strong growth in the commercial market and positive growth in sales to the NHS following the gradual recovery of this channel during 2021.

Estimated market unit growth in 2021 vs 2020 by region

	Q1	Q2	Q3	Q4	Total
Europe	10%	130%	12%	14%	30%
North America	9%	182%	18%	16%	35%
US (commercial)	12%	156%	17%	15%	34%
US (VA)	-7%	522%	52%	22%	51%
Rest of world	0%	64%	11%	8%	16%
Global	**6%**	**116%**	**14%**	**13%**	**27%**

Estimated market unit growth in 2021 vs 2019 by region

	Q1	Q2	Q3	Q4	Total
Europe	-1%	16%	13%	14%	11%
North America	9%	16%	13%	8%	11%
US (commercial)	12%	22%	17%	9%	15%
US (VA)	-7%	3%	-1%	4%	0%
Rest of world	-6%	7%	5%	3%	2%
Global	**0%**	**13%**	**10%**	**9%**	**8%**

Compared to 2019, growth in Germany was solid in Q4, but the German market generally recovered at a slow pace and remained below normal levels in 2021.

Driven mostly by the US commercial market and compared to 2019, the market saw solid unit growth rates in North America in Q4, albeit a slight deceleration compared to Q3. Unit sales to VA were slightly above pre-pandemic levels in Q4. Growth in Canada was solid.

Looking beyond North America and Europe, we estimate that unit growth in Australia was flattish in Q4 compared to 2019 with limited recovery from lockdowns in Q3. We estimate that both Japan and South Korea saw solid growth in Q4 compared to 2019, whereas growth in China was weaker and still impacted by coronavirus. Several other emerging markets remained impacted by coronavirus.

In mid-October, the US Food and Drug Administration (FDA) issued a long-awaited proposed rule to establish a new over-the-counter (OTC) category of hearing aids in the US, which will be finalised by the FDA in 2022. Once effective, adults aged 18 and older with perceived mild to moderate hearing loss will be able to purchase OTC hearing aids online or at retail outlets without a medical exam or fitting by a hearing care professional. As previously communicated, the content of the proposed rule does not change our fundamental belief in the importance of providing a combination of personal counselling, individual fitting, life-long service and highly advanced technology, but the new category may supplement the existing market well.

During 2021, there were also political discussions in the US to expand Medicare to also cover hearing aids, which could potentially impact the US hearing aid market either positively or negatively. So far, the outcome of these discussions remains unclear.

Business update

In 2021, total revenue in Hearing Aids amounted to DKK 8,980 million, corresponding to a growth rate of 34% in local currencies. This growth, which consisted almost exclusively of organic growth and only of a minor negative impact from

Hearing Aids

(DKK million)	H1 2021	H2 2021	FY 2021
Revenue	4,416	4,564	8,980
Growth			
Organic	55%	19%	34%
Acquisitions	0%	-1%	0%
Local currencies	**55%**	**18%**	**34%**
FX	-5%	-1%	-2%
Total	**50%**	**17%**	**32%**

Revenue and growth

(DKK million)	H1 2021	H2 2021	FY 2021	H1 2020	H2 2020	FY 2020	Growth (local currencies) H1 2021	H2 2021	FY 2021
Total revenue	4,416	4,564	8,980	2,937	3,886	6,823	55%	18%	34%
Internal sales to Hearing Care*	871	762	1,633	465	657	1,122	94%	14%	46%
Sales to external customers	3,545	3,802	7,347	2,472	3,229	5,701	48%	19%	31%

* Revenue from internal sales to Hearing Care is eliminated from the reported revenue for Hearing Healthcare and for the Group, i.e we only include revenue from external customers. The pricing used in internal transactions is made on an arm's lengths basis and thus reflects normal commercial terms.

acquisitions, was thus materially above the estimated market growth rate. Internal revenue from sales to our Hearing Care business accounted for 18% of total revenue. Our commentary below focuses on total revenue, including revenue from sales through our own retail clinics, and thus encompasses our total wholesale activities. However, internal revenue is eliminated from the reported revenue for our Hearing Healthcare segment and thus for the Group.

Our Hearing Aids business performed strongly in 2021 thanks to a combination of market recovery, following the severe impacts of coronavirus and a highly successful launch of new flagship hearing aids in all brands: Oticon, Philips HearLink, Bernafon and Sonic. The pace of recovery varied significantly between individual channels and regions, but we saw market share gains in many markets. Particularly, sales to independent hearing care professionals were strong – not least in the important US market – driven by the success of Oticon More. Sales to Hearing Care were positively impacted by the strong performance of this business, particularly in France.

Unit and ASP growth

	H1 2021	H2 2021	FY 2021
Units	50%	17%	31%
ASP	4%	1%	2%
Total	**55%**	**18%**	**34%**

In H2, growth was 18% in local currencies of which organic growth contributed 19% and acquisitive growth -1%. The deceleration in organic growth relative to H1 is entirely attributable to higher comparative figures, and our product portfolio continued to enjoy strong momentum in H2 supported by the launch of non-rechargeable miniRITE form factors. Growth in H2 was mostly driven by unit growth but was also supported by ASP growth due to our strong performance in the US, which more than offset increased sales of low-priced units to the NHS.

In terms of geographies, North America was the key growth driver in H2 and in 2021 as a whole. This was mostly due to strong development in sales to independent hearing care professionals in the US but also to growth in sales to large chains and to VA. Following the introduction of Oticon More in May 2021, we succeeded in increasing our market share with VA, which stood at 15.2% in December 2021. Sales in Canada were negatively impacted by coronavirus-related restrictions in the first part of the year but recovered in the latter part of H2.

In Europe, we saw strong growth driven by France where demand was boosted by the new hearing healthcare reform, particularly in H1. In H2, we also saw strong growth in the UK where sales to the NHS recovered somewhat after several quarters of subdued sales. The recovery in Germany was relatively slow throughout most of the year.

Sales in the Pacific region recovered well in H1 but slowed down in H2, as new local lockdowns related to coronavirus took effect at the beginning of the period. In Asia, sales in Japan and China were slow to recover due to continued restrictions for most of the year, whereas sales in South Korea saw positive development. Our Other countries region, which mostly comprises emerging markets, remained impacted by coronavirus, and as expected, recovery in this region was slow.

Product update

Within a few weeks, we will start the roll-out of our latest and industry-leading hearing aid platform in new miniBTE form factors in all four hearing aid brands. At the same time, all brands will expand the platform to the mid-priced product categories in all the currently available form factors. Furthermore, Oticon will expand its latest Polaris platform to a new family of paediatric products called Oticon Play PX.

Thanks to a new software update, all brands will also start offering two-way audio streaming for iOS devices and thus enable hands-free phone calls. This solution will be available in all hearing aids based on the latest platform, including Oticon More and Philips HearLink.

Hearing Care

REVENUE
7,553
DKK MILLION

GROWTH
38%
IN LOCAL CURRENCIES

Core SDG impact

3 GOOD HEALTH AND WELL-BEING

Through our clinics, we offer free yearly hearing assessment to people over 60 years and aim to increase the number of assessments by at least 5% each year.

Key 2021 sustainability result

3 GOOD HEALTH AND WELL-BEING

1,609 hearing aids were donated as part of the global Campaign for Better Hearing. Every time someone gets their hearing tested in one of the clinics enrolled in the campaign, the clinic donates a specific amount of money to the Campaign for Better Hearing. The donations are allocated to provide free hearing aids to people who need hearing aids but have low purchasing power.

Market developments

Please refer to Market developments in the Hearing Aids section above for details on developments in the hearing aid market in 2021. Under normal circumstances, growth rates in the hearing aid retail and wholesale markets are relatively similar, but we have seen some differences in 2020 and 2021, as different channels have recovered at different paces. Most notably, our Hearing Care business is not exposed to the two large government channels, VA in the US and the NHS in the UK, which have recovered at a slower pace than most commercial channels.

Business update

In 2021, revenue in Hearing Care amounted to DKK 7,553 million, corresponding to a growth rate of 38% in local currencies. Organic growth was 34% and growth from acquisitions was 4%, the latter predominantly relating to acquisitions made in Europe and in North America.

The high organic growth rate can be attributed to the fact that most markets recovered strongly from coronavirus, as restrictions were gradually eased, albeit with material regional differences. Growth was first and foremost driven by France, which is our second-largest market in Hearing Care where our strong position enabled us to leverage the extraordinary demand created by the hearing healthcare reform.

Revenue growth in Hearing Care was mostly driven by unit growth, but we also saw growth in the ASP, driven by the launch of Oticon More, which resulted in a positive development in the product mix.

Following very high growth rates in H1 due to low comparative figures, growth in H2 was 13% in local currencies, with 10% organic growth and 4% acquisitive growth. Besides the effect of low comparative figures, the growth deceleration in H2 relative to H1 reflects the fact that the extraordinary growth in France, as expected, levelled off during H2, as demand began to trend towards a "new normal", which is below the level seen in H1 but still well above the level in previous years. In H2, we also began to see a more normal mix of new and existing users, and we fine-tuned our marketing activities accordingly. We remain encouraged by the resilience of the market and our distribution model to the highly dynamic conditions.

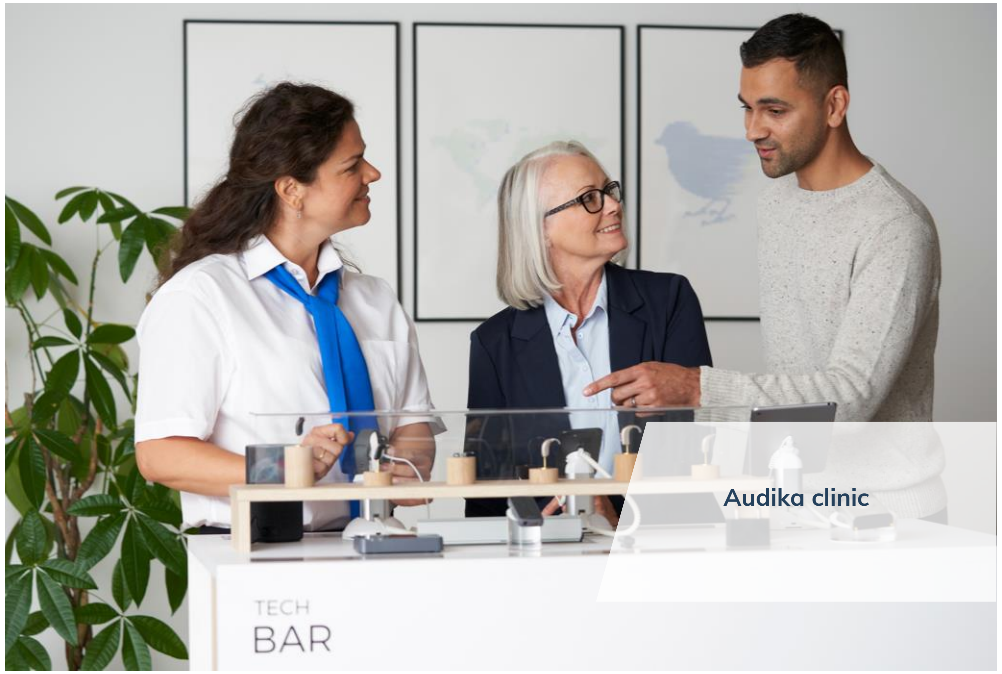
Compared to 2020, North America was the fastest growing region thanks to a combination of high organic growth and growth from acquisitions in both the US and Canada. In the US, organic growth was first and foremost driven by the combination of low comparative figures in H1 and strong market recovery from March. As expected, we continued to see a negative impact of growth in the managed care segment of the market, which has a dilutive impact on the aggregate revenue generated per sale. In Canada, restrictions impacted revenue negatively in part of H1 and in the early part of H2, but revenue and organic growth then accelerated in the remainder of the year.

Driven mainly by the extraordinary growth in France, revenue in Europe was very strong, particularly in H1. We also saw strong recovery in most other European markets during the year, not least in the UK, Ireland, Spain and Poland. Growth was supported by acquisitions in several European markets, now also including Germany.

In Australia, revenue recovered strongly at the beginning of H1 and neared normalisation, but temporary local lockdowns at the end of H1 and the beginning of H2 weighed down growth.

Hearing Care

(DKK million)	H1 2021	H2 2021	FY 2021
Revenue	3,737	3,816	7,553
Growth			
Organic	72%	10%	34%
Acquisitions	5%	4%	4%
Local currencies	78%	13%	38%
FX	-4%	2%	0%
Total	**74%**	**15%**	**38%**



Audika clinic

Hearing Implants

REVENUE
512
DKK MILLION

GROWTH
-2%
IN LOCAL CURRENCIES

Core SDG impact

Every year, we help well above 75,000 hearing implant users living with profound, conductive and single-sided hearing loss.

Key 2021 sustainability activities

We are involved in research that aims to uncover knowledge of how we can better enable cochlear implant users to enjoy music.

We released tools that allow us to do research with partners with a view to delivering personalised hearing solutions, for instance a medical image modelling tool to be used in surgery and a CI fitting tool to be used when fitting individual patients' inner ears.

Oticon Medical
BAHS Ponto5Mini

Market developments

Under normal circumstances, the market for hearing implants is the fastest growing area of hearing healthcare, as it benefits from a combination of favourable demographic drivers and increasing penetration. Fundamentally, we believe that these factors are intact, but since the beginning of the pandemic in 2020, the market has seen material headwinds, as implantations require surgery, and as a wide range of elective surgeries have been postponed. Overall, we estimate that growth in the hearing implants market was 15-20% in 2021 and that the market was more or less back to its pre-pandemic level in 2019, albeit still well below the normal growth rate of 10-15% per year.

Particularly in the cochlear implants (CI) market, activity levels in our core markets in Europe and a number of emerging markets remained low throughout most of 2021 due to continued postponements of elective surgeries. We began to see signs of improvements in the market in H2, but the recovery remained slow. In terms of geographies, we estimate that recovery in the US and in Asia was faster than in Europe.

The market for bone anchored hearing solutions (BAHS) recovered at a slightly faster pace than the CI market due to the lower surgical footprint, but it has yet to fully normalise.

Business update

Revenue in Hearing Implants amounted to DKK 512 million in 2021. This corresponds to growth of -2% in local currencies, all of which was organic growth. After seeing positive growth in H1, mostly as a result of low comparative figures, Hearing Implants saw growth of -13% in H2 due to higher comparative figures and the voluntary field corrective action initiated by our CI business as announced in mid-October.


Fitting softband for BAHS users

Hearing Implants

(DKK million)	H1 2021	H2 2021	FY 2021
Revenue	266	246	512
Growth			
Organic	11%	-13%	-2%
Acquisitions	0%	0%	0%
Local currencies	11%	-13%	-2%
FX	-3%	1%	-1%
Total	**8%**	**-11%**	**-2%**

Cochlear implants

Facing several headwinds in 2021, our CI business had a difficult year and organic growth was negative. In H1 and in the first part of H2, revenue was hampered by the slow pace of recovery in many of our core markets and in emerging markets, in particular. In mid-October, our CI business furthermore initiated a voluntary field corrective action, resulting in the recall of a number of non-implanted Neuro Zti implants and a temporary halt in sales of new cochlear implants. This action was taken due to an issue with loss of hermiticity in a small number of implants, causing them to shut down and stop working. There have been no reported safety events in relation to the implants, and there are still no safety concerns for existing users.

The root cause of the issue has been identified, and work is progressing to implement and verify a solution. We expect sales activities to be resumed in Q3 2022 and ramped up in the subsequent months. This expected timeline is subject to final verification and validation, including approval by relevant external bodies. Later in 2022, we expect to re-initiate our launch of cochlear implants in the important US market. Once sales activities are resumed, we expect to see strong growth – not least after the introduction in H2 2021 of Neuro Zti 3T, a cochlear implant approved for 3 Tesla MRI scanning.

Bone anchored hearing systems

Our BAHS business delivered positive, albeit modest, organic growth in 2021, as it remained unaffected by the headwinds experienced by the CI business, even though it still had not fully normalised post-coronavirus. Revenue was supported by sales of sound processors, including upgrades for existing users, which were less impacted by the pandemic than sales of new implants. We saw solid performance in many European markets, whereas growth in the large US market was slower.

Overall, we saw an improvement towards the end of the year, as sales were supported by the successful launch in autumn of Ponto 5 Mini, a new BAHS sound processor that delivers strong audiological improvements and enables the use of RemoteCare for online appointments. Additionally, the introduction of MONO, a next-generation surgical procedure to further enhance clinical efficiency, supported our commercial positioning. Towards the end of Q1, we will launch a Super Power version of the Ponto 5 sound processor, which will contribute to further growing BAHS sales in 2022.

Diagnostics

REVENUE
1,823
DKK MILLION

GROWTH
25%
IN LOCAL CURRENCIES

Core SDG impact

3 GOOD HEALTH AND WELL-BEING

Every year, our technology helps screen and diagnose over 200 million people with suspected hearing loss and screen approx. 20 million new-borns.

Key 2021 sustainability results

3 GOOD HEALTH AND WELL-BEING

We improved the method to validate hearing aid fitting of children aged 3-12 months when speech development is crucial.

12 RESPONSIBLE CONSUMPTION AND PRODUCTION

We prepared for the 14001 certification scheduled for March 2022 by focusing on reducing the footprint from new products.

Interacoustics
Pump system testing

Market developments

Compared with other markets for hearing healthcare products, the market for diagnostic instruments and services has proven very resilient throughout the pandemic. We estimate that in 2021, market growth was around 10-15% and thus significantly above the estimated structural growth rate of 3-5% per year. We believe that this was largely due to the effect of some pent-up demand from 2020 being released, and compared to 2019, we estimate that the market has seen growth of 0-5%.

Business update

Diagnostics generated revenue of DKK 1,823 million in 2021, corresponding to growth of 25% in local currencies. This comprises 25% organic growth and less than 1% growth from acquisitions.

The strong organic growth is the result of an exceptionally successful year with significant market share gains in most geographies coupled with a positive market environment that has only seen rather limited impacts of coronavirus. Building on a strong foundation of innovation, a complete product portfolio in several brands and truly global distribution, Diagnostics has seen several years of good performance, leading to a number of scale advantages.

After seeing unusually strong organic growth of 34% in H1, we continued to see strong organic growth in H2 of 17%. For 2021 as a whole, growth in instrument sales was higher than growth in sales of services and disposables, and all instrument categories and all brands saw double-digit growth. The order intake remained at a high level throughout the year, resulting in a strong order book at the end of the year.

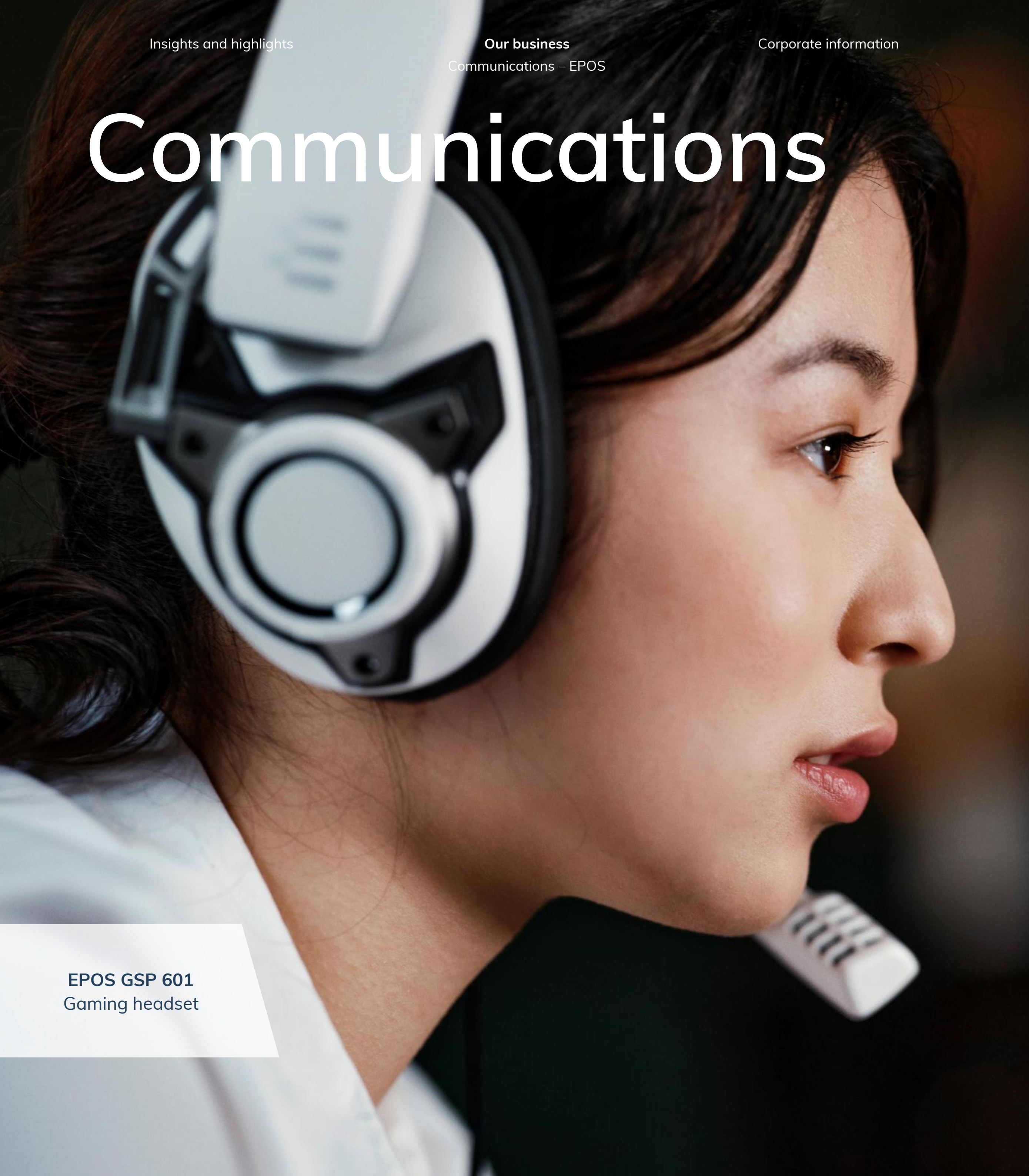
From a geographical perspective, we saw strong performances and double-digit growth rates in all regions. In the US, which is our largest market, growth was driven by our e3 Diagnostics network. In Europe, growth was broadly based with the highest relative growth seen in France due to tailwind from the hearing healthcare reform. The UK, Spain and Italy also saw high growth rates, and in addition, we saw strong growth in our other regions driven by Australia, Japan and a number of tender orders.

Diagnostics

(DKK million)	H1 2021	H2 2021	FY 2021
Revenue	843	980	1,823
Growth			
Organic	34%	17%	25%
Acquisitions	1%	1%	1%
Local currencies	35%	18%	25%
FX	-7%	2%	-2%
Total	**28%**	**20%**	**24%**

Interacoustics
Orion balance chair

Communications



REVENUE
1,183
DKK MILLION

GROWTH
-9%
IN LOCAL CURRENCIES

Core SDG impact

Through pioneering audio excellence, EPOS solutions help prevent stress and listening fatigue that can be caused by imperfect audio experiences, and help improve concentration and the ability to focus for longer.

Key 2021 sustainability results

We continuously work to reduce the footprint of our operations. In 2021, we mapped our scope 3 emissions and started preparing for ISO 14001 certification of our headquarters. All tier 1 manufacturers already hold ISO 14001 certification.

EPOS GSP 601
Gaming headset

EPOS

Financial review

REVENUE
1,183
DKK MILLION

GROWTH
-9%
IN LOCAL CURRENCIES

Income statement

Communications	H1			H2			FY		
(DKK million)	2021	2020	Growth	2021	2020	Growth	2021	2020	Growth
Revenue	621	546	14%	562	760	-26%	1,183	1,306	-9%
Production costs	-321	-291	10%	-291	-358	-19%	-612	-649	-6%
Gross profit	**300**	**255**	**18%**	**271**	**402**	**-33%**	**571**	**657**	**-13%**
Gross margin	48.3%	46.7%		48.2%	52.9%		48.3%	50.3%	
R&D costs	-91	-78	17%	-106	-91	16%	-197	-169	17%
Distribution costs	-233	-144	62%	-231	-213	8%	-464	-357	30%
Administrative expenses	-20	-12	67%	-12	-17	-29%	-32	-29	10%
Operating profit (EBIT)	**-44**	**21**	**n.a**	**-78**	**81**	**n.a**	**-122**	**102**	**n.a**
EBIT margin	-7.1%	3.8%		-13.9%	10.7%		-10.3%	7.8%	

Introduction

In the following sections, we review the income statement for our Communications segment, which comprises our audio and video business operating under the EPOS brand.

Revenue

In H2, revenue in Communications amounted to DKK 562 million. This corresponds to -27% growth in local currencies, all of which was organic growth. On a sequential basis, growth declined by 10% compared to H1, which is in line with our most recent expectations. The decline in revenue is the result of both very strong comparative figures following the extraordinary demand seen in 2020 and weak sales at the beginning of H2, but as expected, momentum improved towards the end of the period. For the full year, revenue amounted to DKK 1,183 million, corresponding to growth of -9% in local currencies. This is below our initial plans for the year but in line with our most recent expectations.

Gross profit

Gross profit was DKK 271 million in H2, resulting in a gross margin of 48.2%. Compared to H2 2020, the gross margin declined by 4.7 percentage points driven by the significant decline in revenue and further exacerbated by higher-than-normal supply chain costs. Compared to H1 2021, the margin only contracted slightly by 0.1 percentage point. For the full year, the gross margin was 48.3%.

EPOS
EXPAND Vision 3T

Operating expenses (OPEX)

OPEX amounted to DKK 349 million in H2, corresponding to growth of 9%. The increase reflects our continuous investments in R&D and distribution activities, including sales and marketing activities, despite the temporary slowdown in sales in H2. Administrative expenses declined, which largely reflects periodisation between H1 and H2. For 2021 as a whole, OPEX amounted to DKK 693 million, which is an increase of 25% compared to 2020. The increase reflects both the fact that we had originally geared our cost base for higher revenue and our long-term ambitions in terms of innovation and commercial positioning.

Operating profit (EBIT)

EBIT for H2 amounted to DKK -78 million, corresponding to an EBIT margin of -13.9%. This is in line with our most recent expectations but well below our original plans.

The significant decline in profitability compared to H2 2020 was the result of lower revenue combined with continued OPEX investments.

EBIT for the full year was DKK -122 million, corresponding to an EBIT margin of -10.3%, a significant decline compared to 2020.

Market developments

In 2021, growth in the markets for gaming and enterprise solutions was mixed. Growth was high at the beginning of the year due to a combination of strong demand related to remote working dynamics and low comparative figures. However, market growth decelerated from around mid-March and into H2, particularly in Europe, due to a significantly higher comparative base and a softening of the extraordinary demand in H1, not least when it comes to low-priced wired headsets.

Demand then improved gradually towards the end of the year, as the market continued to move towards wireless products and equipment for meeting rooms, including video equipment, even though certain supply chain constraints may have dampened market growth to some degree. We still consider the fundamental growth drivers of the market to be fully intact.

Overall, we estimate that in 2021, the market for enterprise headsets grew by mid- to high-single-digit percentages, whereas the market for gaming headsets saw flattish growth. The market for video solutions saw very strong growth, albeit with differences between subsegments. For all markets, we estimate that growth was stronger in the US and Asia than in Europe, which had the strongest comparative figures and saw the biggest slowdown in the middle of the year.

Business update

Revenue in our Communications business amounted to DKK 1,183 million in 2021, corresponding to a growth rate of -9% in local currencies, all of which was organic growth. This was substantially below the original plans for the year but in line with our most recent expectations. In broader terms, our Communications business has exceeded the plans made in connection with the demerger of the Sennheiser Communications joint venture, thus benefitting from increased focus on remote working.

Following high growth at the beginning of the year, growth decelerated from around mid-March, as higher comparative figures coincided with slowing sales momentum, particularly in Europe, which is by far the largest region for Communications. The slow momentum carried into H2, and despite an improving trend towards the end of the year, growth was -27%. This reflects very strong comparative figures following the extraordinary demand seen in 2020 in the wake of the initial working-from-home wave.

The negative growth was driven by Enterprise Solutions, which saw the most severe slowdown in momentum during the year, whereas Gaming delivered positive growth. However, the improvement towards the end of the year was also driven by Enterprise Solutions, which exited the year with more normalised momentum.

In terms of geographies, Europe and North America both saw negative growth in 2021, whereas we saw positive growth in the Pacific region and particularly in Asia.

After seeing some headwind in 2021, we have entered 2022 in an improved position, and we will continue to further promote and solidify the EPOS brand as a leading premium player in the industry. This includes maintaining and expanding our state-of-the-art product programme, spanning headsets and video solutions for enterprises and gaming.

Communications

(DKK million)	H1 2021	H2 2021	FY 2021
Revenue	621	562	1,183
Growth			
Organic	16%	-27%	-9%
Acquisitions	0%	0%	0%
Local currencies	16%	-27%	-9%
FX	-2%	1%	0%
Total	14%	-26%	-9%

Corporate information

Capital Markets Day
2021

Shareholder information

Specification of movements in share capital

(DKK 1.000)	2021	2020	2019	2018	2017
Share capital at 1.1.	48,138	49,057	50,474	51,793	53,216
Capital reduction	-113	-919	-1,416	-1,319	-1,423
Share capital at 31.12.	**48,025**	**48,138**	**49,057**	**50,474**	**51,793**
Nominal value per share, DKK	0.2	0.2	0.2	0.2	0.2
Total number of shares, thousand	240,127	240,691	245,287	252,368	258,966
Share information					
Highest share price, DKK	394.7	244.4	237.2	318.6	188.9
Lowest share price, DKK	219.6	132.2	160.5	167.4	122.3
Share price, year-end, DKK	335.1	240.6	209.8	184.9	173.5
Market capitalisation, DKK million*	77,117	57,718	50,470	45,308	43,864
Average trading turnover, DKK million*	111.0	99.8	112.4	128.6	69.3
Average number of shares, million*	234.82	239.78	243.55	249.14	256.56
Number of shares at 31.12., million*	230.13	239.90	240.56	245.22	252.82
Number of treasury shares at 31.12., million	10.0	0.8	4.7	7.1	6.1

*Excluding treasury shares

Share capital

As of 31 December 2021, Demant's nominal share capital was DKK 48,025,566.60 divided into 240,127,833 shares of DKK 0.20 each.

All shares are the same class and carry one vote each. The change compared to the year before is due to the reduction of the company's nominal share capital by DKK 112,667 through the cancellation of treasury shares approved at the annual general meeting on 5 March 2021.

The Board of Directors has been authorised by the annual general meeting to increase the company's share capital by a total nominal value of up to DKK 6,664,384. This increase may consist of no more than DKK 4,800,000 of the share capital with pre-emptive rights for existing shareholders and of no more than DKK 4,800,000 of the share capital without pre-emptive rights for existing shareholders. Furthermore, the Board of Directors has been authorised to increase the share capital by an additional nominal value of up to DKK 2,500,000 for shares offered to employees. All authorisations are valid until 1 March 2026.

Ownership

William Demant Foundation is a majority shareholder in Demant through its investment company William Demant Invest and has previously communicated its intention to maintain an ownership interest of 55-60% of Demant's share capital. As of 31 December 2021, William Demant Foundation held – either directly or indirectly – approx. 58% of the share capital.

No other shareholders had flagged an ownership interest of 5% or more as of 31 December 2021.

Demant had 32,531 individual investors as of 31 December 2021. Approx. 75% of the share capital is registered in Denmark and 15% is registered in North America. The remaining 10% of the share capital is split between the remaining geographies.

As of 31 December 2021, the company held 9,992,705 treasury shares, corresponding to 4.2% of the share capital.

Share price development

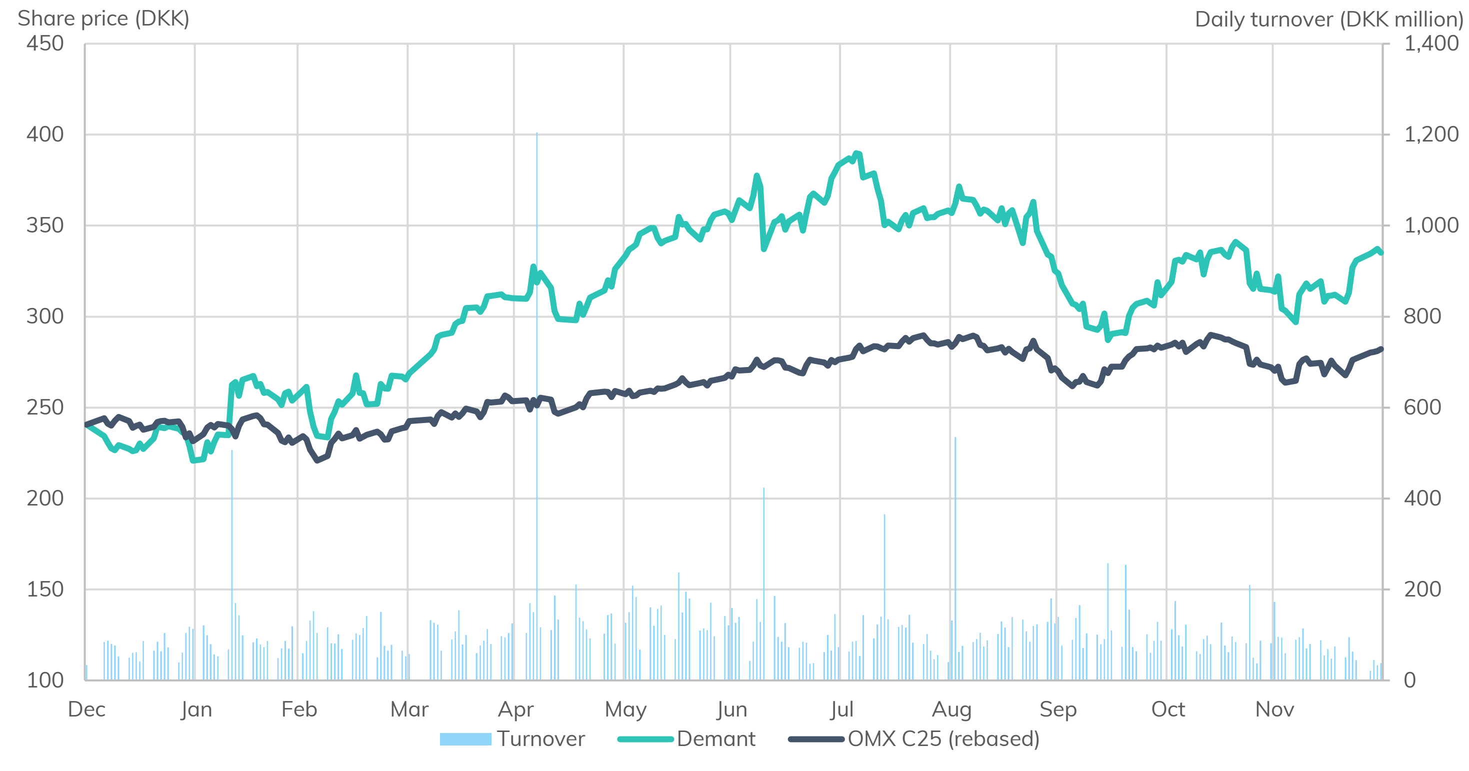
The price of Demant shares increased by 39.3% in 2021, and on 31 December 2021, the share price was DKK 335.10, corresponding to a market capitalisation of DKK 77.1 billion (excluding treasury shares). The average daily trading turnover was DKK 111.0 million. The company is a constituent of the OMX Copenhagen 25 Index (C25), which covers the 25 largest and most frequently traded shares on Nasdaq Copenhagen. The C25 Index increased by 17.2% during the year.

Capital allocation

The company uses its substantial cash flow from operating activities for value-adding investments and acquisitions, and any excess liquidity will be used for continuous share buy-backs, however subject to Demant's targeted gearing multiple of 2.0-2.5 measured as net interest-bearing debt relative to EBITDA.

Until the next annual general meeting in March 2022, the Board of Directors has been authorised to let the company buy back shares at a nominal value of up to 10% of the share capital. The purchase price may not deviate by more than 10% from the price quoted on Nasdaq Copenhagen.

Development in share price and daily turnover in 2021



Investor Relations (IR)

Demant strives to ensure a steady and consistent flow of information to IR stakeholders in order to promote the basis for a fair pricing of the company's shares – pricing that will at any time reflect the company's strategies, financial capabilities and outlook for the future. The flow of information will contribute to a reduction of the company-specific risk associated with investing in Demant shares, thereby leading to a reduction of the company's cost of capital.

We aim to reach this goal by continuously providing relevant, correct, adequate and timely information in our company announcements. In addition to the statutory publication of annual reports and interim reports, we publish quarterly interim management statements, containing updates on the Group and its financial position as well as results in relation to the full-year outlook, including updates on important events and transactions in the period under review. Our interim management statements do not include a full set of financial figures.

We strive to maintain an active and open dialogue with analysts as well as current and potential investors, which helps us stay updated on the views, interests and opinions of the company's various stakeholders. At our annual general meeting and through presentations, individual meetings, participation in investor conferences, webcasts, capital markets days etc., we aim to maintain an ongoing dialogue with a broad spectrum of IR stakeholders, and in 2021, we held more than 330 investor meetings and presentations. In 2021, most of these meetings were still held virtually because of travel restrictions and social distancing measures, but we expect – and welcome – an increase in the number of in-person meetings in the coming years.

We also use our website, www.demant.com, as a means of communication with our stakeholders.

At the end of 2021, 23 equity analysts were covering Demant. We refer to our website for a full list of analyst coverage.

Demant has a three-week quiet period prior to publication of annual reports, interim reports and interim management statements where communication with IR stakeholders is restricted.

Annual general meeting 2022

The annual general meeting will be held on Thursday, 10 March 2022 at 4:00 p.m. Both physical and online attendance will be possible. By participating online, it is possible to follow the live webcast, ask the Board of Directors questions via chat and cast votes.

Contact information for investors and analysts

Phone: +45 3917 7300
E-mail: info@demant.com

Mathias Holten Møller
Head of Investor Relations

Peter Pudselykke
Investor Relations Officer

Company announcements and investor news in 2021

4 Jan	Managers' transactions
9 Feb	Annual Report 2020
9 Feb	Notice to annual general meeting
5 Mar	Annual general meeting
11 Mar	Managers' transactions
23 Apr	Completion of capital reduction
23 Apr	Updated financial calendar 2021
4 May	Interim Management Statement
11 May	Updated financial calendar 2021
8 Jun	Managers' transactions
12 Aug	Interim Report 2021
24 Aug	Major shareholder announcement from Canada Pension Plan Investment Board
27 Sep	Capital Markets Day 2021 – Delivering sustained growth post coronavirus (investor news)
14 Oct	Notification of voluntary field corrective action by the cochlear implants business
2 Nov	Interim Management Statement
16 Nov	Financial calendar 2022
20 Dec	Update on voluntary field corrective action

Financial calendar 2022

27 Jan	Deadline for submission of items for the agenda of the annual general meeting
8 Feb	Annual Report 2021
10 Mar	Annual general meeting
3 May	Interim Management Statement
16 Aug	Interim Report 2022
9 Nov	Interim Management Statement

William Demant Foundation

William Demant Foundation, Demant's majority shareholder, was founded in 1957 by William Demant, son of the company's founder Hans Demant. Its primary goal is to safeguard and expand the Demant Group's business and provide support for various commercial and charitable causes with particular focus on the fields of audiology and hearing impairment. William Demant Invest, which is a fully owned holding company for all William Demant Foundation's investment activities, holds the Foundation's shares in Demant. Charitable tasks are thus handled by the Foundation itself and the Foundation's investment activities by William Demant Invest. Voting rights and decisions to buy and sell Demant shares are still exercised and made by William Demant Foundation.

In accordance with William Demant Invest's investment strategy, the Foundation's investments – apart from an ownership interest in Demant – also include other assets. William Demant Invest makes active investments in companies whose business model and structure resemble those of the Demant Group but fall outside the Group's strategic sphere of interest. The investments include, among others, majority ownership of Össur and Vision RT. The Foundation has made a management agreement on a commercial arm's length basis with Demant, which governs the exchange of various investment support and administrative services between the Foundation, William Demant Invest and Demant. Please also see Note 8.1.

Risk management activities

Risk management activities

Risk management activities in the Demant Group first and foremost focus on the business-related risks to which the Group is fairly likely to be exposed. In connection with the preparation of the Group's strategic, budgetary and annual plans, the Board of Directors considers the risks identified.

In general, the hearing healthcare market is stable with a number of highly specialised players that operate in an extremely competitive market. Besides the competitive dynamics, the risks to which the Group is exposed normally do not change in the short term.

During the coronavirus pandemic, the Group has seen an increasing number of changes to the external operating environment, most of which are beyond our own control. We continue to navigate the current market conditions and monitor potential changes to the competitive situation to ensure that we respond swiftly and effectively to any changes in the market.

The responsibility of navigating these changes lies with the Executive Board as a part of the general business planning.

The main risks for the Group are described below. Please refer to our Sustainability Report for a description of sustainability risk and strategy.

Internal control and reporting

Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-over-month development is usually very similar from one year to the other, and due to the repetitive nature of our business, deviations will normally become visible quickly. To ensure high quality in the Group's financial reporting systems, the Board of Directors and Executive Board have adopted policies, procedures and guidelines for financial reporting and internal control to which the subsidiaries and reporting units must adhere, including:

- Continuous follow-up on the results achieved compared to the approved budgets.
- Policies for IT, business ethics, data privacy, insurance, cash management, procurement etc.
- Reporting instructions as well as reporting and finance manuals.

The responsibility for maintaining sufficient and efficient internal control and risk management in connection with financial reporting lies with the Executive Board. The Board of Directors has assessed the Group's existing control environment and concluded that it is adequate.

Macroeconomic developments

Development of coronavirus pandemic, supply chain dynamics and general macroeconomic development

Risk description

Changes in the economic climate can directly impact our activity level. This is especially true in relation to the ongoing coronavirus pandemic, and such changes may adversely affect the demand for hearing healthcare solutions. While demand in 2021 has proved relatively resilient, the pandemic continues to pose a risk for our activity level and our financial results. Our access to hospitals may also be limited if healthcare systems are stressed, leading to postponed surgeries in our Hearing Implants business.

Similarly, lockdowns and other coronavirus-related impacts have also affected the global supply chain and increased the risk of sudden changes or shutdowns. Stability in sourcing and delivering manufacturing goods in time and of sufficient quality are crucial to fulfil the commitments we have made to our customers. Supply disruptions of any kind – driven by internal or external factors – may result in delayed deliveries, inefficient production set-ups or inability to meet demand.

We follow changes in the current macroeconomic landscape closely, although demand for hearing healthcare solutions usually remain robust.

Our response and mitigation efforts

Coronavirus continues to impact the commercial landscape that we operate in. As always, we strive to service our customers and patients in the best possible way, which includes taking steps to ensure the safety of our employees and patients.

We closely monitor our supply situation and seek to keep adequate safety stocks to counter potential interruptions in our production. Furthermore, we also evaluate the geographical location of and dependency on key suppliers to ensure that we strike the right balance between flexibility, exposure and cost.

Innovation

Development of new, innovative and safe solutions for our customers

Risk description

Both our Communications and Hearing Healthcare segments are subject to markets that are highly product-driven where significant R&D initiatives help underpin our market position. It is vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff.

An important part of our ongoing product innovation is to take out, protect and maintain patents for our own ground-breaking technology. It is our policy to continuously ensure that third party products do not infringe our patents and vice versa.

In Hearing Implants, which commercialises Class III devices, product recalls are an additional risk factor that may lead to claims-related costs, such as the cost of replacing products, medical expenses, compensation for actual damage as well as legal fees.

In October 2021, Oticon Medical initiated a voluntary field corrective action relating to Neuro Zti cochlear implants due to malfunctioning of a small subset of hearing implants. While there are no safety concerns for existing users, sales of Neuro Zti hearing implants have been temporarily halted. We expect to resume sales in Q3 2022 pending final validation and verification, including approval by relevant external bodies.

Our response and mitigation efforts

We continuously engage with customers, healthcare practitioners and other stakeholders to ensure that we develop ground-breaking products. We seek to minimise the risk of product failures and recalls by continuously improving our quality management systems which are inspected and reviewed by external bodies. As a general principle, our products are designed and marketed under risk management guidelines complying to ISO 14971 to ensure the safety for our users. In case of any unexpected incident, we act fast and decisively and maintain a transparent dialogue with relevant stakeholders.

Regulatory landscape

Need for compliance with regulatory requirements and changes

Risk description

As a major player in the hearing healthcare market, the Group is exposed to certain regulatory risks in terms of changes to product requirements, reimbursement schemes and public tenders in the markets where we operate. In most markets, the regulatory landscape is currently deemed stable, but in the large US market, there are two pending regulatory changes.

In October 2021, the US Food and Drug Administration (FDA) issued a long-awaited proposed rule to establish a new over-the-counter (OTC) category of hearing aids. The rule has been published for public comment and will subsequently be finalised by the FDA. In our view, any impact of this rule on the hearing aid industry will be limited.

Furthermore, during 2021 there were discussions in the US Congress about potentially expanding Medicare to include coverage for hearing aids. The outcome is uncertain, but depending on the final design, such expansion could impact both volumes and pricing of hearing aids in the US either positively or negatively.

For the United States in general, over the past couple of years, an increasing part of hearing aid purchases has been covered by insurance. The emergence of large managed care organisations poses a risk to hearing aid ASP as volumes may increasingly be consolidated on fewer players. It may also impact sales in our retail business.

Our response and mitigation efforts

While regulatory changes are an intrinsic part of the hearing healthcare market, we feel well positioned to respond to such changes in the commercial environment.

In response to changing regulatory requirements, we work continuously on adapting our operating model – something we have already done in markets where we have seen changes to reimbursement schemes over the years.

We continue to monitor any changes in the regulatory landscape and engage in dialogues with regulators as part of our day-to-day business planning.

IT infrastructure

Need for secure, stable and efficient IT infrastructure

Risk description

As a large, global organisation, we are dependent on numerous IT systems and the general IT infrastructure to operate efficiently across our value chain. This carries an inherent risk of system errors, human errors, data breaches or other interruptions that may impact the Group financially. We continuously seek to minimise these risks, and our IT strategy includes both prevention and contingency plans.

As our Group becomes increasingly digitalised, more devices and control systems are connected online, resulting in a broader interface across the IT infrastructure that could potentially be compromised.

Threats may include attempts to access or steal information, computer viruses, denial of service and other digital security breaches. After the IT incident in 2019, we have continued to increase our focus on IT security across Demant and at all levels, including among other measures the establishment of a dedicated Board Committee that discusses IT security in a structured way and on a regular basis.

After the IT incident, the US Office for Consumer Rights has reviewed our response to the IT incident based on concerns raised by a consumer. The case has been closed without further comments.

Our response and mitigation efforts

We are – and will continue to be – committed to further developing the Group's IT infrastructure and security. Following the IT incident in 2019, we have conducted a maturity assessment of our IT security based on the Cybersecurity Framework of the National Institute of Standards and Technology (NIST) to focus our work on relevant parameters going forward.

We regularly conduct maturity assessments to measure our ongoing progress on IT security. We will continue to further improve our IT infrastructure in the future.

Legal risks and data privacy

Need for continuous monitoring of potential legal risks

Risk description

The Group continuously monitors the legal risks of the business to avoid negligence in compliance with any applicable laws in the jurisdictions that we are active in. This includes alignment with global tax standards as well as adherence to general regulation.

Additionally, Demant is entrusted with personal data on employees, customers, users and business partners. We protect such data through policies and security measures. As our business continues to grow, the complexity of managing customers' data increases. We remain committed to protecting personal data and have performed extensive training of relevant employees to improve awareness.

By way of example, the Demant Group has prepared a new Data Ethics Policy in 2021 in order to improve the company's ethical efforts beyond the legal requirements for handling data.

The company is from time to time involved in legal disputes, including over intellectual property rights. We are of the opinion that there are currently no legal disputes that could significantly affect the Group's financial position. As a rule, we always seek to make adequate provisions for any legal proceedings.

Our response and mitigation efforts

Failure to adhere to current legislation may impact the company's reputation negatively and result in financial consequences for the Group. Our organisation continuously monitors the current and changing legislation and ensures proper compliance, including with general data protection guidelines.

In general, management continuously seeks to minimise the financial consequences of any damage to corporate assets by mitigating actions or insurance coverage if certain risk factors cannot be mitigated by action. The Board of Directors reviews the company's insurance policies once a year and is briefed regularly on developments in identified risks.

Financial risk

Control of risk in exchange rates and interest rate risk

Risk description on exchange rates risk

Financial risk management concentrates on identifying risks in respect of exchange rates with the purpose to protect the Group against potential losses.

Around two-thirds of the Group's sales are invoiced in other currencies than Danish kroner or Euro. To ensure predictability in terms of profit, we hedge against exchange rate risks – mainly through forward exchange contracts with a horizon of up to 18 months. Furthermore, to balance our exchange rate exposure, we continuously seek to balance positive and negative cash flows in our main currencies as much as possible.

Risk description of interest rates risk

The company continuously adapts its capital structure given the prevailing market conditions in order to secure attractive financing conditions for the Group. Currently, more than half of the Group's debt is funded through short- to medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. All in all, the Group's interest rate risk is manageable.

The Group's net bearing debt (NIBD) was DKK 9,150 million as of 31 December 2021.

Our response and mitigation efforts

We continuously monitor and hedge a significant part of the foreign exchange risk of the Group's major trading currencies on a rolling basis. It is the Group's policy to exclusively hedge financial risks arising from our commercial activities and not to undertake any financial transactions of a speculative nature.

The Group monitors the capital structure of the company to ensure that the company remains well-funded.

Credit and liquidity risk

Control of credit and liquidity risk

Risk description on credit risk

The Group's credit risk relates mainly to trade receivables and loans to customers or business partners. The accumulated revenue from our ten largest customers account for approx. 10% of total consolidated revenue.

When granting loans to business partners, we require that our counterparties provide security in their business.

In general, we estimate that the risk relative to our total credit exposure is well-balanced at the Group level.

Risk on liquidity risk

The Group aims to have sufficient cash resources at its disposal to be able to take appropriate steps in case of unforeseen fluctuations in both cash inflows and cash outflows. We have access to considerable undrawn credit facilities and in spite of the uncertainty of the coronavirus pandemic, the Group has remained cash-generating. The liquidity risk of the Group is therefore considered to be low.

The Group has not defaulted on loan agreements neither in the financial year 2021 nor in previous years.

Our response and mitigation efforts

To minimise the risk of losses on customers, the Group monitors the outstanding credit risk on an ongoing basis as a part of the financial review of our business. We regularly adjust our financial accounts to reflect the prevailing credit risks. During 2020, the Group made a provision for bad debt of DKK 150 million, reflecting increased risk of customers defaulting during the coronavirus pandemic DKK 50 million was reversed in 2020 and during 2021, another DKK 60 million was reversed, whereas only DKK 40 million ended up being realised as a credit loss.

Corporate governance

The work on corporate governance is an ongoing process for the Board of Directors and Executive Board. Once a year, the Board of Directors and Executive Board review the company's corporate governance principles. In that context, we consider the corporate governance principles that derive from legislation, recommendations and good practices. We focus on developing and maintaining a transparent corporate governance structure that promotes responsible business behaviour and long-term value creation.

Recommendations issued by the Danish Committee on Corporate Governance and adopted by Nasdaq Copenhagen are best-practice guidelines for the governance of companies admitted to trading on a regulated market in Denmark. When reviewing our corporate governance structures, we determine the extent to which the company complies with the recommendations and regularly assess whether the recommendations give rise to amendments to our rules of procedure or managerial processes.

When reporting on corporate governance, we follow the "comply or explain" principle. Demant follows 37 of the 40 recommendations. The few cases (three) where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead. To further increase transparency, we provide supplementary and relevant information, even when we follow the recommendations.

A complete presentation of the recommendations and how we comply, the statutory report on corporate governance, is available on our website, www.demant.com. The report as well as the financial reporting process and internal control described in *Risk management activities* in this Annual Report constitute Demant's statement on corporate governance, cf. section 107b of the Danish Financial Statements Act.

Tasks and responsibilities of the Board of Directors

In accordance with Danish legislation, Demant has a two-tier management system, comprising the Board of Directors and the Executive Board, with no individual being a member of both. The division of responsibilities between the Board of Directors and the Executive Board is clearly outlined and described in the Rules of Procedure for the Board of Directors and in the Instructions for the Executive Board.

The Board of Directors is responsible for the overall strategic management and for the financial and managerial supervision of the company, the ultimate goal being to ensure long-term value creation. On an ongoing basis, the Board of Directors evaluates the work of the Executive Board as for instance reflected in the annual plan prepared for the Board of Directors.

Composition and organisation

The Board of Directors has eight members: five members elected by the shareholders at the annual general meeting and three members elected by staff in Denmark. Niels B. Christiansen has been Chairman of the Board since 2017. Shareholders elect Board members for a term of one year, and staff elect Board members for a term of four years. Staff-elected members are elected in accordance with the provisions of the Danish Companies Act.

Although the Board members elected by the annual general meeting are up for election every year, the individual Board members are traditionally re-elected and sit on the Board for an extended number of years. This ensures consistency and maximum insight into the conditions prevailing in the company and the industry. Such consistency and insight are considered important in order for the Board members to bring value to the company.

Of the five Board members presently elected by the shareholders at the annual general meeting, Anja Madsen, Sisse Fjelsted Rasmussen and Kristian Villumsen are considered independent. Niels B. Christiansen is not considered independent as he is a member of the Board of Directors of William Demant Foundation. Niels Jacobsen is not considered independent as he is the former CEO of Demant.

Niels B. Christiansen, Niels Jacobsen, Anja Madsen, Sisse Fjelsted Rasmussen and Kristian Villumsen stand for re-election at the annual general meeting in March 2022.

The Board is composed to ensure the right combination of competencies and experience, with extensive international managerial experience and board experience from major listed companies carrying particular weight. This also applies when new Board candidates are selected.

Since 2012, Demant has had a diversity policy and has taken specific initiatives aimed at ensuring gender equality. The age, gender, nationality, education and competencies of the members of our Board of Directors are listed in the Annual Report. At the annual general meeting in March 2020, the Board of Directors reached its target to have at least two female members before the end of 2020, and with 40% female members and 60% male members, we have an even gender distribution amongst the Board members elected by the shareholders.

As part of our ambitions to ensure diversity and inclusion in the Group, we have in 2021 developed a diversity, equity and inclusion programme, which will – along with an inclusion survey – form the basis of policy-making and target-setting in the area of diversity in Demant in 2022.

On our website, www.demant.com/about/management/, we describe the competencies and qualifications that the Board of Directors deems necessary to have at its overall disposal in order to be able to perform its tasks for the company.

Evaluation of the performance of the Board of Directors

Once a year, the Chairman of the Board of Directors performs an evaluation of the Board's work. The evaluation is performed either through personal, individual interviews with the Board members or by means of a questionnaire to be filled out by the individual Board members. In both instances, the findings of the evaluation are presented and discussed at the subsequent Board meeting. At least every third year, the evaluation is performed with external assistance.

The evaluation was performed by means of a questionnaire in 2021, as the evaluation the year before was performed with external assistance based on individual meetings.

Overall, the evaluation confirmed that the Board is satisfied with its governance structures and confirmed that the interaction between the Board members is well-functioning. The Board of Directors is keen on keeping focus on and allocating time to the long-term strategic development of the company to continuously ensure that the potential of the company is exploited to the fullest.

The collaboration between the Board of Directors and the Executive Board works well, and there is an open and trustful working atmosphere. The work performed by the Board takes its starting point in the annual wheel, which is continuously refined and updated and ensures the Board's commitment and immersion into relevant areas.

Board meeting at the office in Smørum, Denmark

Board committees

The company's Board of Directors has set up four committees: audit, nomination, remuneration and IT security committees. Please refer to the table for a list of the committee members and to the illustration for meetings held.

In 2021, the nomination committee has been engaged in activities in relation to its normal tasks pursuant to the committee charter. The other committees have had certain focus areas during the year. The audit committee has thus been engaged in preparing a suggestion regarding the change of auditors, while the remuneration committee has been particularly engaged in redesigning the remuneration structure for the Executive Board. In the IT security committee, special focus has been given to an externally performed maturity assessment of our IT security based on the Cybersecurity Framework of the National Institute of Standards and Technology (NIST), the purpose of which is to ensure that we continue to focus our work on relevant parameters going forward.

Board of Directors' and Executive Board's remuneration

Demant has a remuneration policy and publishes a remuneration report. The current policy was approved at the annual general meeting in March 2020.

The remuneration report is available on our website, www.demant.com/about/management

The report will be submitted for advisory vote at the annual general meeting.

Board meetings

Feb Mar Mar Aug Oct Dec

Audit committee meetings

Feb Aug Sep Dec

Nomination committee meetings

Feb Nov

Remuneration committee meetings

Jan Feb Jun Nov

IT security committee meetings

Feb Jun Oct

Members of Board committees

	Role	Audit committee	Nomination committee	Remuneration committee	IT security committee
Niels B. Christiansen	Chairman	Member	Chairman	Chairman	Chairman
Niels Jacobsen	Deputy Chairman	Member	Member	Member	Member
Thomas Duer	Member				
Casper Jensen	Member				
Anja Madsen	Member	Member			
Jørgen Møller Nielsen	Member				
Sisse Fjelsted Rasmussen	Member	Chairman			Member
Kristian Villumsen	Member	Member			
Lars Nørby Johansen	Chairman of the Board of Directors of William Demant Foundation		Member		
Søren Nielsen	President & CEO		Member		

Executive Board

Søren Nielsen
(male)
President & CEO
Born 1970
Nationality: Danish
28,042 shares
(+6,405)

Joined the company in 1995

Education: Holds a M.Sc. in Engineering from the Technical University of Denmark

Competences: Broad business and leadership experience from various management positions in the Group, including the commercial area, product innovation, quality and strategic development. International board experience, strong insights into the MedTech industry as well as a wide network in the global hearing healthcare community

Other positions: HIMPP A/S (M), HIMSA A/S (C), HIMSA II A/S (C), EHIMA (M), Vision RT Ltd. (M), Committee on Life Science under the Confederation of Danish Industry (C), Committee on Business Policy under the Confederation of Danish Industry (M) and Central Board of the Confederation of Danish Industry (M)

René Schneider
(male)
CFO
Born 1973
Nationality: Danish
15,815 shares
(+1,665)

Joined the company in 2015

Education: Holds a M.Sc. in Economics from Aarhus University

Competences: Broad business and financial leadership experience from various management positions with major listed companies, leading to international experience in such areas as streamlining and re-establishing companies, completing M&A and driving value creation

Areas of responsibility: Finance, HR, IT and Corporate Functions

Abbreviations
C = Chairman, DC = Deputy Chairman, M = Member

Board of Directors

Niels B. Christiansen
(male)
Chairman
Born 1966
Nationality: Danish
8,060 shares
(unchanged)

Joined the Board in 2008
Chairman since 2017

Chairman of the nomination, remuneration and IT security committees and member of the audit committee

Considered independent: No

Position: CEO & President, LEGO A/S

Other positions: William Demant Foundation (DC), William Demant Invest A/S (M), Tetra Laval S.A. (M) and Committee on Business Policy under the Confederation of Danish Industry (C)

Education: Holds a M.Sc. in Engineering from the Technical University of Denmark and an MBA from INSEAD

Competences: International leadership experience from major, global, industrial, consumer goods and high-tech companies, business management and board experience as well as strong insights into industrial policy

Attendance in Board and committee meetings: No absence

Niels Jacobsen
(male)
Deputy Chairman
Born 1957
Nationality: Danish
901,340 shares
(-100,000)

Joined the Board in 2017
Deputy Chairman since 2017

Member of the audit, nomination, remuneration and IT security committees

Considered independent: No

Position: CEO, William Demant Invest A/S

Other positions: KIRKBI A/S (DC), Nissens A/S (C), Thomas B. Thrige Foundation (C), ABOUT YOU Holding GmbH (DC), EKF Danmarks Eksportkredit (M). Related to William Demant Invest: Jeudan A/S (C), Össur hf. (C), Vision RT Ltd. (C), Founders A/S (C) and Boston Holding A/S (M)

Education: Holds a M.Sc. in Economics from Aarhus University

Competences: International leadership experience from major, global companies in the global healthcare and MedTech industry, business management and board experience as well as in-depth insights into financial matters, accounting, risk management and M&A

Attendance in Board and committee meetings: No absence

Sisse Fjelsted Rasmussen
(female)
Born 1967
Nationality: Danish
No shares

Joined the Board in 2021

Chairman of the audit committee and member of the IT security committee

Considered independent: Yes

Position: CFO, Stark Group

Other positions: CO-RO (M, C audit committee), Conscia A/S (M) and Committee on Tax Policy under the Confederation of Danish Industry (M)

Education: Holds a M.Sc. in Business Economics and Auditing from Copenhagen Business School (CBS)

Competences: International leadership experience within the area of finance and accounting, including board and CFO experience from listed companies as well as in-depth insights into value creation, change management and M&A

Attendance in Board and committee meetings: No absence

Anja Madsen
(female)
Born 1976
Nationality: Danish
1,500 shares
(unchanged)

Joined the Board in 2020

Member of the audit committee

Considered independent: Yes

Position: Executive Vice President, Føtex

Other positions: Lemvigh-Müller A/S (M)

Education: Holds a B.Sc. in Economics from London School of Economics and an MBA from INSEAD

Competences: International leadership experience from large companies in the retail segment; experienced leader of operations, e-commerce and transformation with a background in strategy execution; lived and worked in the UK for many years

Attendance in Board and committee meetings: Absent from one audit committee meeting

Abbreviations
C = Chairman, DC = Deputy Chairman,
M = Member

Kristian Villumsen
(male)
Born 1970
Nationality: Danish
4,130 shares
(+4,130)

Joined the Board in 2021

Member of the audit committee

Considered independent: Yes

Position: President & CEO, Coloplast

Other positions: Committee on Life Science under the Confederation of Danish Industry (M)

Education: Holds a Master of Political Science from Aarhus University and a Master in Public Policy from Harvard University

Competences: International leadership experience from the global MedTech industry, management experience from such areas as innovation, strategy deployment and commercial excellence

Attendance in Board and committee meetings: No absence

Thomas Duer
(male)
Born 1973
Nationality: Danish
1,335 shares
(unchanged)

Staff-elected Board member since 2015.

Re-elected in 2019 for a term of four years

Considered independent: N/A

Position: Director of Configuration & Test, R&D, Demant

Has been with the Demant Group since 2002

Other positions: Danske Sprogseminarer A/S (M), Oticon A/S (M, staff-elected)

Education: Holds a M.Sc. in Electrical Engineering from the Technical University of Denmark

Attendance in Board and committee meetings: No absence

Casper Jensen
(male)
Born 1979
Nationality: Danish
1,194 shares
(+694)

Staff-elected Board member in 2019 for a term of four years

Considered independent: N/A

Position: Vice President of Sales, Interacoustics, a subsidiary company of Demant

Has been with the Demant Group since 2012

Education: Holds an MBA from Coventry University

Attendance in Board and committee meetings: Absent from one meeting

Jørgen Møller Nielsen
(male)
Born 1962
Nationality: Danish
366 shares
(unchanged)

Staff-elected Board member since 2017 and also from 2011-2015.

Re-elected in 2019 for a term of four years

Considered independent: N/A

Position: Project Manager, Demant facility in Ballerup, Denmark

Has been with the Demant Group since 2001

Education: Holds a M.Sc. in Electrical Engineering from the Technical University of Denmark and a Diploma in Business Administration (Organisation and Strategy)

Attendance in Board and committee meetings: No absence

Abbreviations
C = Chairman, DC = Deputy Chairman,
M = Member

Financial pages

Management statement

The Board of Directors and Executive Board have today reviewed and approved the Annual Report 2021 of Demant A/S for the financial year 1 January to 31 December 2021.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The Parent financial statements are prepared and presented in accordance with the Danish Financial Statements Act. Further, the Annual Report 2021 has been prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the Parent financial statements give a true and fair presentation of the Group's and the Parent's assets, liabilities and financial position at 31 December 2021, of the results of the Group's and the Parent's operations and of the Group's cash flows for the financial year 1 January to 31 December 2021.

In our opinion, Management's commentary includes a true and fair view of the development in the operations and financial circumstances of the Group and the Parent, of the results for the year and of the financial position of the Group and the Parent as well as a description of the most significant risks and uncertainties facing the Group and the Parent.

In our opinion, the Annual Report 2021 for Demant A/S with the file name DEMANT-2021-12-31-en.zip for the financial year 1 January to 31 December 2021 for the Group and the Parent is prepared in compliance with the ESEF regulation.

We recommend that the Annual Report 2021 be adopted at the annual general meeting on 10 March 2022.

Smørum, 8 February 2022

Executive Board

Søren Nielsen, President & CEO

René Schneider, CFO

Board of Directors

Niels B. Christiansen, Chairman

Niels Jacobsen, Deputy Chairman

Thomas Duer

Casper Jensen

Anja Madsen

Jørgen Møller Nielsen

Sisse Fjelsted Rasmussen

Kristian Villumsen

Independent auditor's report

To the shareholders of Demant A/S

Opinion

We have audited the consolidated financial statements and the Parent financial statements of Demant A/S for the financial year 1 January 2021 to 31 December 2021, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the Parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2021 and of the results of its operations and cash flows for the financial year 1 January 2021 to 31 December 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the Parent financial statements give a true and fair view of the Parent's financial position as of 31 December 2021 and of the results of its operations for the financial year 1 January 2021 to 31 December 2021 in accordance with the Danish Financial Statements Act.

Our opinion is consistent with our audit book comments issued to the audit committee and the Board of Directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the Parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

After Demant A/S was listed on Nasdaq OMX Copenhagen, we were appointed auditors for the first time on 29 April 1996 for the financial year 1996. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 25 years up to and including the financial year 2021.

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 and the Parent financial statements for the financial year 1 January 2021 to 31 December 2021. These matters were addressed in the context of our audit of the consolidated financial statements and the Parent finncial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for business combinations

Refer to Note 6.1 in the consolidated financial statements.

The allocation of the purchase price in business combinations to other intangible assets acquired relies on assumptions and judgements made by Management. Management has performed fair value calculations, which include judgements and estimates, including the future cash flow anticipated from the acquired customer base and the discount rate applied.

We have tested internal controls that address the accounting for business combinations and tested the reasonableness of the key assumptions, including market potential, revenue and cash flow growth and discount rates. We assessed and challenged Management's assumptions used in its fair value models for identifying and measuring customer bases and for other intangible assets, including:

- Discussed the future cash flow projections with Management and key employees.
- Consulted with subject matter experts regarding the valuation methodologies applied.
- Tested the valuation model, including mathematical accuracy, and obtained supporting evidence for future cash flow projections, estimates and key assumptions, including the applied discount rate.
- Considered the impact of reasonably possible changes in key assumptions and performed sensitivity calculations to quantify the impact of potential downside changes to Management's models.

- Assessed the adequacy and appropriateness of disclosures in the notes and compliance with the requirements of IFRS 3.

Statement on the Management commentary

Management is responsible for the Management commentary.

Our opinion on the consolidated financial statements and the Parent financial statements does not cover the Management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the Parent financial statements, our responsibility is to read the Management commentary and, in doing so, consider whether the Management commentary is materially inconsistent with the consolidated financial statements and the Parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management commentary provides the information required under the Danish Financial Statements Act. Based on the work we have performed, we conclude that the Management commentary is in accordance with the consolidated financial statements and the Parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management commentary.

Management's responsibilities for the consolidated financial statements and the Parent financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act as well as the preparation of Parent financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and Parent financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the Parent 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 ISAs and the additional requirements applicable in Denmark 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 and these Parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the Parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the Parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the Parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the Parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the Parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and, where applicable, safeguards put in place and measures taken to eliminate threats.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the Parent financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on compliance with the ESEF Regulation

As part of our audit of the consolidated financial statements and the Parent financial statements of Demant A/S, we performed procedures to express an opinion on whether the Annual Report of Demant A/S for the financial year 1 January 2021 to 31 December 2021 with the file name DEMANT-2021-12-31-en.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation), which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the Annual Report of Demant A/S for the financial year 1 January 2021 to 31 December 2021 with the file name DEMANT-2021-12-31-en.zip is prepared in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 8 February 2022

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Anders Vad Dons State-Authorised Public Accountant MNE no 25299	Kåre Kansonen Valtersdorf State-Authorised Public Accountant MNE no 34490

Consolidated financial statements

Consolidated income statement

(DKK million)	Note	2021	2020
Revenue	1.2	18,388	14,469
Production costs	1.3 / 1.4 / 1.6 / 8.3	-4,634	-4,276
Gross profit		**13,754**	**10,193**
R&D costs	1.3 / 1.4 / 8.3	-1,350	-1,261
Distribution costs	1.3 / 1.4 / 8.3	-8,241	-7,067
Administrative expenses	1.3 / 1.4 / 8.2 / 8.3	-937	-840
Share of profit after tax, associates and joint ventures	3.4 / 6.1	120	505
Other operating income	6.2	99	-
Operating profit (EBIT)		**3,445**	**1,530**
Financial income	4.2	43	38
Financial expenses	4.2	-245	-232
Profit before tax		**3,243**	**1,336**
Tax on profit for the year	5.1	-715	-202
Profit for the year		**2,528**	**1,134**
Profit for the year attributable to:			
Demant A/S' shareholders		2,513	1,121
Non-controlling interests		15	13
		2,528	**1,134**
Earnings per share (EPS), DKK	1.5	10.70	4.68
Diluted earnings per share (DEPS), DKK	1.5	10.70	4.68

Consolidated statement of comprehensive income

(DKK million)	2021	2020
Profit for the year	**2,528**	**1,134**
Foreign currency translation adjustment, subsidiaries	425	-467
Value adjustments of hedging instruments:		
Value adjustment for the year	-177	110
Value adjustment transferred to revenue	36	-12
Tax on items that have been or may subsequently be reclassified to the income statement	29	-3
Items that have been or may subsequently be reclassified to the income statement	**313**	**-372**
Actuarial gains/losses on defined benefit plans	62	-2
Tax on items that will not subsequently be reclassified to the income statement	-12	10
Items that will not subsequently be reclassified to the income statement	**50**	**8**
Other comprehensive income/loss	**363**	**-364**
Comprehensive income	**2,891**	**770**
Comprehensive income attributable to:		
Demant A/S' shareholders	2,876	757
Non-controlling interests	15	13
	2,891	**770**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	-3	19
Value adjustment of hedging instruments for the year	40	-25
Value adjustment of hedging instruments transferred to revenue	-8	3
Actuarial gains/losses on defined benefit plans	-12	10
Tax on other comprehensive income	**17**	**7**

Consolidated balance sheet 31 December

(DKK million)	Note	2021	2020
Assets			
Intangible assets	3.1	**10,317**	**9,104**
Property, plant and equipment	3.2	**2,277**	**2,139**
Lease assets	3.3	2,079	1,847
Investments in associates and joint ventures	3.4	858	833
Receivables from associates and joint ventures	3.4 / 4.3 / 4.4	267	247
Other investments	4.3 / 4.5	11	14
Other receivables	1.7 / 3.4 / 4.3 / 4.4	569	503
Deferred tax assets	5.2	596	553
Other non-current assets		4,380	3,997
Non-current assets	3.5	**16,974**	**15,240**
Inventories	1.6	2,366	1,968
Trade receivables	1.7 / 4.3	3,203	2,808
Receivables from associates and joint ventures	4.3	147	111
Income tax		68	63
Other receivables	1.7 / 4.3 / 4.4	616	441
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	6	81
Prepaid expenses		308	263
Cash	4.3 / 4.4	1,172	952
Current assets		**7,886**	**6,687**
Assets		**24,860**	**21,927**

(DKK million)	Note	2021	2020
Equity and liabilities			
Share capital		48	48
Other reserves		7,929	8,202
Equity attributable to Demant A/S' shareholders		**7,977**	**8,250**
Equity attributable to non-controlling interests		4	29
Equity		**7,981**	**8,279**
Borrowings	4.3 / 4.4	2,795	3,499
Lease liabilities	3.3	1,610	1,437
Deferred tax liabilities	5.2	470	339
Provisions	7.1	268	305
Other liabilities	4.3 / 7.2	340	313
Deferred income	7.3	423	381
Non-current liabilities		**5,906**	**6,274**
Borrowings	4.3 / 4.4	6,422	3,612
Lease liabilities	3.3	511	456
Trade payables	4.3	808	802
Payables to associates and joint ventures		-	5
Income tax		267	131
Provisions	7.1	81	17
Other liabilities	4.3 / 7.2	2,302	1,801
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	81	14
Deferred income	7.3	501	536
Current liabilities		**10,973**	**7,374**
Liabilities		**16,879**	**13,648**
Equity and liabilities		**24,860**	**21,927**

Consolidated cash flow statement

(DKK million)	Note	2021	2020
Operating profit (EBIT)		3,445	1,530
Non-cash items etc.	1.8	876	855
Change in receivables etc.		-472	266
Change in inventories		-424	-73
Change in trade payables and other liabilities etc.		345	236
Change in provisions		91	41
Dividends received		106	41
Cash flow from operating profit		**3,967**	**2,896**
Financial income etc. received		27	20
Financial expenses etc. paid		-243	-234
Income tax paid		-476	-61
Cash flow from operating activities (CFFO)		**3,275**	**2,621**
Acquisition of enterprises, participating interests and activities		-708	-394
Divestment of enterprises, participating interests and activities		161	-
Investments in and disposal of intangible assets		-164	-174
Investments in property, plant and equipment		-558	-507
Disposal of property, plant and equipment		16	14
Investments in other non-current assets		-434	-219
Disposal of other non-current assets		390	288
Cash flow from investing activities (CFFI)		**-1,297**	**-992**

(DKK million)	Note	2021	2020
Repayments of borrowings	4.4	-2,404	-82
Proceeds from borrowings	4.4	2,506	1,446
Change in short-term bank facilities	4.4	1,886	-2,157
Repayments of lease liabilities	3.3	-533	-442
Transactions with non-controlling interests		-34	-3
Share buy-backs		-3,200	-197
Cash flow from financing activities (CFFF)		**-1,779**	**-1,435**
Cash flow for the year, net		199	194
Cash and cash equivalents at the beginning of the year		952	792
Foreign currency translation adjustment of cash and cash equivalents		21	-34
Cash and cash equivalents at the end of the year		**1,172**	**952**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	4.3 / 4.4	1,172	952
Cash and cash equivalents at the end of the year		**1,172**	**952**

Acquisition of enterprises, participating interests and activities includes loans of DKK 63 million (DKK 120 million in 2020) classified as other non-current assets, which have been settled as part of acquisitions without cash payments.

Consolidated statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Retained earnings	Demant A/S' share-holders' share	Non-con-trolling interests' share	Equity
Equity at 1.1.2021	**48**	**-414**	**55**	**8,561**	**8,250**	**29**	**8,279**
Comprehensive income:							
Profit for the year	-	-	-	2,513	2,513	15	2,528
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	425	-	-	425	-	425
Value adjustments of hedging instruments:							
Value adjustment, year	-	-	-177	-	-177	-	-177
Value adjustment transferred to revenue	-	-	36	-	36	-	36
Actuarial gains/losses on defined benefit plans	-	-	-	62	62	-	62
Tax on other comprehensive income	-	-3	32	-12	17	-	17
Other comprehensive income/loss	**-**	**422**	**-109**	**50**	**363**	**-**	**363**
Comprehensive income/loss, year	**-**	**422**	**-109**	**2,563**	**2,876**	**15**	**2,891**
Share buy-backs	-	-	-	-3,143	-3,143	-	-3,143
Share-based compensation	-	-	-	8	8	-	8
Transactions with non-controlling interests	-	-	-	-14	-14	-40	-54
Equity at 31.12.2021	**48**	**8**	**-54**	**7,975**	**7,977**	**4**	**7,981**

Consolidated statement of changes in equity

(DKK million)		Other reserves					
	Share capital	Foreign currency translation reserve	Hedging reserve	Retained earnings	Demant A/S' share-holders' share	Non-con-trolling interests' share	Equity
Equity at 1.1.2020	**49**	**34**	**-21**	**7,574**	**7,636**	**9**	**7,645**
Comprehensive income:							
Profit for the year	-	-	-	1,121	1,121	13	1,134
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	-467	-	-	-467	-	-467
Value adjustments of hedging instruments:							
Value adjustment, year	-	-	110	-	110	-	110
Value adjustment transferred to revenue	-	-	-12	-	-12	-	-12
Actuarial gains/losses on defined benefit plans	-	-	-	-2	-2	-	-2
Tax on other comprehensive income	-	19	-22	10	7	-	7
Other comprehensive income/loss	**-**	**-448**	**76**	**8**	**-364**	**-**	**-364**
Comprehensive income/loss, year	**-**	**-448**	**76**	**1,129**	**757**	**13**	**770**
Share buy-backs	-	-	-	-147	-147	-	-147
Share-based compensation	-	-	-	4	4	-	4
Capital reduction through cancellation of treasury shares	-1	-	-	1	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-3	-3
Non-controlling interests on acquisition	-	-	-	-	-	10	10
Equity at 31.12.2020	**48**	**-414**	**55**	**8,561**	**8,250**	**29**	**8,279**

Notes to consolidated financial statements

Section 1

Operating activities and cash flow

REVENUE
18,388
DKK MILLION

FREE CASH FLOW
2,525
DKK MILLION

1.1 Segment disclosures

(DKK million)	2021			2020		
	Hearing Health-care	**Com-munica-tions**	**Consoli-dated**	**Hearing Health-care**	**Com-munica-tions**	**Consoli-dated**
Revenue	17,205	1,183	18,388	13,163	1,306	14,469
Production costs	-4,022	-612	-4,634	-3,480	-796	-4,276
Gross profit	**13,183**	**571**	**13,754**	**9,683**	**510**	**10,193**
R&D costs	-1,153	-197	-1,350	-1,092	-169	-1,261
Distribution costs	-8,241	-	-8,241	-6,621	-446	-7,067
Administrative expenses	-905	-32	-937	-811	-29	-840
Share of profit after tax, associates and joint ventures	120	-	120	52	453	505
Other operating income	99	-	99	-	-	-
Operating profit (EBIT)	**3,567**	**-122**	**3,445**	**1,211**	**319**	**1,530**
Other:						
Depreciation	887	25	912	843	17	860
Amortisation	108	14	122	143	8	151
Fair value adjustments of non-controlling interests in step acquisitions and disposals	48	-	48	1	453	454

Distribution costs include intra-segment costs of DKK 0 million (DKK 4 million in 2020). There are no other intra-segment transactions.

Description of products and services for each reportable segment

Based on IFRS 8 Operating Segments and the internal reporting model used by Management for the assessment of results and the use of resources, Management has identified Hearing Healthcare and Communications as the reportable segments in the Group.

This reflects Management's approach to the organisation and management of activities.

Hearing Healthcare comprises the four business areas: Hearing Aids, Hearing Care, Hearing Implants and Diagnostics, which provide hearing healthcare solutions, involving manufacturing, servicing and sale of hearing aids and hearing implants as well as diagnostic products and services.

Communications only comprises our headset business, which operates under the EPOS brand and provides headsets for the professional call centre and office market (Enterprise Solutions) and headsets for gaming (Gaming).

Segment performance is evaluated on EBIT level and is based on the accounting policies for the consolidated income statement.

The consolidated financial income and expenses as well as income taxes are managed on a Group basis and are not allocated to operating segments.

Segmentation of assets and liabilities

Segment assets and liabilities are based on the accounting policies for the consolidated balance sheet and allocated based on the operation of the segment.

The Group's borrowings, derivative financial instruments and income tax-related assets and liabilities are managed on a Group basis and are not allocated to operating segments.

1.1 Segment disclosures (continued)

(DKK million)	2021					2020				
	Hearing Healthcare	Communi-cations	Elimi-nations	Not allocated	Consoli-dated	Hearing Healthcare	Communi-cations	Elimi-nations	Not allocated	Consoli-dated
Intangible assets	9,835	482	-	-	10,317	8,620	484	-	-	9,104
Property, plant and equipment	2,250	27	-	-	2,277	2,123	16	-	-	2,139
Lease assets	2,031	48	-	-	2,079	1,802	45	-	-	1,847
Investments in associates	791	67	-	-	858	766	67	-	-	833
Other assets	781	66	-	596	1,443	763	46	-	508	1,317
Other non-current assets	**3,603**	**181**	**-**	**596**	**4,380**	**3,331**	**158**	**-**	**508**	**3,997**
Total non-current assets	**15,688**	**690**	**-**	**596**	**16,974**	**14,074**	**658**	**-**	**508**	**15,240**
Inventories	1,841	525	-	-	2,366	1,710	258	-	-	1,968
Trade receivables	2,940	263	-	-	3,203	2,468	340	-	-	2,808
Intra-Group receivables	1,130	-	-1,130	-	-	635	-	-635	-	-
Other current assets	1,013	132	-	-	1,145	873	86	-	-	959
Cash	1,113	59	-	-	1,172	911	41	-	-	952
Total current assets	**8,037**	**979**	**-1,130**	**-**	**7,886**	**6,597**	**725**	**-635**	**-**	**6,687**
Total assets	**23,725**	**1,669**	**-1,130**	**596**	**24,860**	**20,671**	**1,383**	**-635**	**508**	**21,927**
Equity	**17,126**	**272**	**-**	**-9,417**	**7,981**	**14,970**	**359**	**-**	**-7,050**	**8,279**
Borrowings	-	-	-	2,795	2,795	-	-	-	3,499	3,499
Lease liabilities	1,572	38	-	-	1,610	1,400	37	-	-	1,437
Other non-current liabilities	1,014	31	-	456	1,501	982	30	-	326	1,338
Total non-current liabilities	**2,586**	**69**	**-**	**3,251**	**5,906**	**2,382**	**67**	**-**	**3,825**	**6,274**
Borrowings	-	-	-	6,422	6,422	-	-	-	3,612	3,612
Lease liabilities	499	12	-	-	511	448	8	-	-	456
Intra-Group payables	-	1,130	-1,130	-	-	-	635	-635	-	-
Other current liabilities	3,514	186	-	340	4,040	2,871	314	-	121	3,306
Total current liabilities	**4,013**	**1,328**	**-1,130**	**6,762**	**10,973**	**3,319**	**957**	**-635**	**3,733**	**7,374**
Total equity and liabilities	**23,725**	**1,669**	**-1,130**	**596**	**24,860**	**20,671**	**1,383**	**-635**	**508**	**21,927**

1.2 Revenue from contracts with customers

(DKK million)	2021	2020
Revenue by geographic region:		
Denmark	269	262
Other Europe	7,764	6,262
North America	7,255	5,340
Pacific	1,112	932
Asia	1,562	1,313
Other countries	426	360
Revenue	**18,388**	**14,469**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographic region.

The ten largest single customers together account for around 10% (11% in 2020) of total consolidated revenue.

Value adjustments transferred from equity relating to derivatives made for hedging foreign exchange risks on revenue amount to DKK -36 million (DKK 12 million in 2020).

(DKK million)	2021	2020
Revenue by business area:		
Hearing Aids	7,347	5,701
Hearing Care	7,553	5,464
Hearing Implants	512	523
Diagnostics	1,823	1,475
Communications – EPOS	1,183	1,306
Group one-offs*	-30	-
Revenue	**18,388**	**14,469**

*The Group one-off in 2021 relates to the voluntary field corrective action where the Group recalled a number of products in October. The one-off is recognised as a negative adjustment of DKK 30 million in revenue. There were no Group one-offs related to revenue in 2020.

(DKK million)	2021	2020
Liabilities related to contracts with customers:		
Customer prepayments*	72	93
Future performance obligations*	852	824
Expected volume discounts and other customer-related items**	304	213
Expected product returns***	162	116
Contract liabilities with customers	**1,390**	**1,246**

*Included in deferred income.
**Included in other cost payables under Other liabilities.
***Included in product-related liabilities under Other liabilities.

(DKK million)	2021	2020
Changes in contract liabilities with customers:		
Contract liabilities at 1.1.	1,246	1,372
Foreign currency translation adjustment	52	-54
Revenue recognised and included in the contract liability balance at 1.1.	-510	-553
Increases due to cash received, excluding amounts recognised as revenue during the year	469	448
Changes from expected volume discounts and other customer-related items	81	28
Changes from product returns	41	-13
Business combinations	11	18
Contract liabilities at 31.12.	**1,390**	**1,246**

1.2 Revenue from contracts with customers (continued)

Nature of goods and services

Control is normally transferred to the customer when the goods are shipped to the customer, though delivery terms can vary and control may be transferred at a later point. When selling hearing aids to customers, we transfer control and recognise revenue when the hearing aid is delivered to the customer at a given point in time and when a hearing aid is initially fitted to the user's specific hearing loss. In some countries, the users are granted a trial period. In such cases, the transfer of control occurs when the trial period expires.

In some countries, customers are given the right to return the hearing aid within a certain period. In such cases, the expected returns are estimated based on an analysis of historical experience adjusted for any known factors impacting expectations for future return rates. Revenue and cost of goods sold are adjusted accordingly, and contract liabilities (refund liabilities) and rights to the returned goods (included in prepaid expenses) are recognised for the expected returns.

Our activities also involve delivery of various services, such as extended warranties, warranty-related coverages (loss and damage) and after-sales services (e.g. fine-tuning of the hearing aid, additional hearing test and cleaning). Revenue from these services is recognised on a straight-line basis over the warranty or service period as the user makes use of the service continuously. Some users purchase a battery package or are given batteries free of charge as part of the purchase of the hearing aid, entitling them to free batteries for a certain period. Revenue is recognised when the user receives the batteries or is given batteries free of charge as part of the purchase of the hearing aid. When available, we use an observable price to determine the stand-alone selling price for the separate performance obligations related to these services, and in countries where observable prices are not available, we use a cost-plus-margin method.

The standard warranty period for hearing aids and diagnostic equipment varies between countries but is typically 12-24 months and for certain products or countries up to 48 months. The extended warranty covers periods beyond the standard warranty period or standard warranty terms. Payment terms vary significantly between countries and depend on whether the customer is a private or public customer.

The majority of hearing aids sold to users are invoiced and paid for after the initial fitting, but some customers choose to have the hearing aid financed by us. The transaction price of such arrangements is adjusted for any significant financing benefit, and the financing component is recognised as financial income.

Accounting policies

Revenue is recognised when obligations under the terms of the contract with the customer are satisfied, which usually occurs with the transfer of control of our products and services within Hearing Healthcare and Communications. Revenue is measured as the consideration we expect to receive in exchange for transferring goods and providing services net of the estimated discounts or other customer-related reductions.

Accounting estimates and judgements

Discounts, returns etc. (estimate)

Discounts, loyalty programmes and other revenue reductions are estimated and accrued when the related revenue is recognised. To make such estimates is a matter of judgement, as all conditions are not known at the time of sale, e.g. the number of units sold to a given customer or the expected utilisation of loyalty programmes. Sales discounts, rebates and loyalty programmes are adjusted, as we obtain better information on the likelihood that they will be realised and the value at which they are expected to be realised. Sales discounts and rebates are recognised under other cost payables as part of other liabilities, and loyalty programmes are recognised under deferred income.

Depending on local legislation and the conditions to which a sale is subject, some customers have the option to return purchased goods and obtain a refund. Based on historical return rates, an estimate is made of the expected returns and a provision is recognised. This provision is updated, as returns are recognised or when we collect more accurate data on return rates.

After-sales services (estimate)

After-sales services are provided to users of our hearing aids and are based on estimates as not all users make use of these services. The estimate is a matter of judgement and is based on the number of visits, the duration of an average user's visits and the expected number of users that make use of the after-sales services.

1.3 Employees

(DKK million)	Note	2021	2020
Staff costs:			
Wages and salaries		6,736	5,953
Share-based remuneration		18	12
Defined contribution plans		91	79
Defined benefit plans	7.1	19	28
Social security costs etc.		731	627
Staff costs		**7,595**	**6,699**
Staff costs by function:			
Production costs		960	892
R&D costs		880	839
Distribution costs		4,959	4,289
Administrative expenses		796	679
Staff costs		**7,595**	**6,699**
Average number of full-time employees		17,500	16,155

President & CEO, Søren Nielsen, is entitled to 24 months' notice in the event of dismissal. CFO, René Schneider, is currently entitled to 18 months' notice in the event of dismissal, which increases with seniority.

In 2021, the basic remuneration for a member of the Parent's Board of Directors was DKK 400,000 (DKK 350,000 in 2020). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The members of the audit committee each receive basic remuneration of DKK 50,000 (DKK 50,000 in 2020), and the chairman of the audit committee receives three times the basic remuneration.

Accounting policies

Employee costs comprise wages, salaries, social security contributions, annual and sick leave, bonuses and non-monetary benefits and are recognised in the year in which the associated services are rendered by the employees. Where Demant provides long-term employee benefits, the costs are accrued to match the rendering of the service by the employees concerned.

Remuneration to Executive Board and Board of Directors (included in staff costs)

(DKK million)	2021			2020		
	Wages and salaries*	Share-based remuneration**	Total	Wages and salaries*	Share-based remuneration**	Total
Søren Nielsen, President & CEO	12.9	3.7	16.6	11.9	2.9	14.8
René Schneider, CFO	5.7	1.6	7.3	5.2	1.3	6.5
Executive Board	**18.6**	**5.3**	**23.9**	**17.1**	**4.2**	**21.3**
Fee to Board of Directors	**4.8**	-	**4.8**	**3.6**	-	**3.6**

*No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2020). These expenses are therefore included in wages and salaries.
**In 2021, DKK 3.5 million (DKK 4.2 million in 2020) of the share-based remuneration was paid out.

1.3 Employees (continued)

The Group has two types of share-based remuneration programmes, which consist of RSU (restricted stock units) and "shadow share" programmes. The RSU programme was introduced in 2019 and is equity-settled, whereas the "shadow share" programme, which was introduced in 2016, is cash-settled. Both programmes are awarded on a yearly basis and are contingent on the employee still being employed and not under termination when three years have passed from the time of the grant. The fair value at the time of the grant of the shares granted under both programmes is based on the average share price of the first five trading days after publication of the annual report.

"Shadow share" programme

In 2021, the Group granted 43,514 "shadow shares" (42,489 in 2020). The fair value of "shadow shares" granted to five employees (six in 2020) was DKK 11 million (DKK 10 million in 2020) at the time of the grant. The liability is recognised on a straight-line basis, as the service is rendered, and the liability is remeasured at each reporting date and at the settlement date based on the fair value of the "shadow shares". Fair value adjustments are recognised as financial income or financial expenses. If relevant, the liability is adjusted to reflect the expected risk of non-vesting as a result of resignations.

Any changes to the liability are recognised in the income statement. In 2021, the Group bought back shares to cover the financial risk of share price fluctuations related to the programmes. At 31 December 2021, the remaining average contractual life of cash-settled remuneration programmes was 15 months (19 months in 2020).

RSU programme

In 2021, RSU shares were granted to 110 employees (13 employees in 2020). The Group recognised costs of DKK 8 million (DKK 2 million in 2020) in the income statement related to the RSU programme. There is no subsequent remeasurement of fair value. The costs are recognised on a straight-line basis, as the service is rendered. At 31 December 2021, the remaining average contractual life of equity-settled share programmes was 21 months (21 months in 2020).

Share-based remuneration ("shadow share" programme)

(DKK million)	2021		2020	
	Executive Board	Other senior members of Management	Executive Board	Other senior members of Management
Liabilities at 1.1.	7.0	9.0	6.3	7.3
Expensed during the year in wages and salaries	5.6	4.1	4.2	5.1
Fair value adjustments	5.3	4.2	0.7	0.8
Settled during the year	-3.5	-4.3	-4.2	-4.2
Liabilities at 31.12.	**14.4**	**13.0**	**7.0**	**9.0**
Granted during the year	7.5	4.0	6.0	3.7
Unrecognised commitment at 31.12.*	11.4	7.3	7.3	5.3

*Unrecognised commitment is the part of granted "shadow shares" not expensed at 31 December.

Restricted share units (RSU programme)

	Other senior members of Management	Total fair value
	No.	(DKK million)
Outstanding 1.1.2020	16,543	
Granted	21,899	5
Exercised	-3,738	
Outstanding 31.12.2020	**34,704**	
Granted	72,855	20
Exercised	-1,246	
Forfeited	-237	
Outstanding 31.12.2021	**106,076**	

Accounting estimates and judgements

Vesting conditions and fair value (estimate)

Management must evaluate the likelihood of vesting conditions for the share-based programmes being fulfilled. Vesting is entirely dependent on the persons enrolled in the share-based programmes remaining employed until the end of the vesting period.

The estimate made based on this likelihood is used to calculate the fair value of the share-based programmes. Furthermore, the shares must be valued. For this purpose, Management uses the share price quoted on Nasdaq Copenhagen.

1.4 Amortisation, depreciation and impairment losses

(DKK million)	Note	2021	2020
Amortisation of intangible assets	3.1	122	151
Depreciation of property, plant and equipment	3.2	374	367
Depreciation of lease assets	3.3	538	493
Amortisation, depreciation and impairment losses		**1,034**	**1,011**
Amortisation, depreciation and impairment losses by function:			
Production costs		99	103
R&D costs		49	69
Distribution costs		713	633
Administrative expenses		173	206
Amortisation, depreciation and impairment losses		**1,034**	**1,011**

For accounting policies on amortisation and depreciation, please refer to Note 3.1, Note 3.2 and Note 3.3.

There are no impairment losses in 2021 and 2020.

1.5 Earnings per share

	2021	2020
Demant A/S' shareholders' share of profit for the year, DKK million	2,513	1,121
Average number of shares, million	240.30	242.09
Average number of treasury shares, million	-5.48	-2.31
Average number of shares outstanding, million	**234.82**	**239.78**
Earnings per share (EPS), DKK	10.70	4.68
Diluted earnings per share (DEPS), DKK	**10.70**	**4.68**

1.6 Inventories

(DKK million)	2021	2020
Raw materials and purchased components	940	682
Work in progress	74	108
Finished goods and goods for resale	1,352	1,178
Inventories	**2,366**	**1,968**
Write-downs, provisions for obsolescence etc. included in the above	179	125
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	90	77
Cost of goods sold for the year	3,539	3,192

Write-downs for the year are shown net, as breakdown into reversed write-downs and new write-downs is not possible. Inventories are generally expected to be sold within one year.

Accounting policies

Raw materials, components and goods for resale are measured at cost according to the FIFO principle (according to which the most recently purchased items are considered to be in stock) or at their net realisable value, whichever is lower.

Group-manufactured products and work in progress are measured at the value of direct costs, direct payroll costs, consumables and a proportionate share of indirect production costs, which are allocated on the basis of the normal capacity of the production facility. Indirect production costs include the proportionate share of capacity costs directly relating to Group-manufactured products and work in progress.

The net realisable value of inventories is determined as the estimated selling price less costs of completion and costs to sell.

Accounting estimates and judgements

Indirect production cost (judgement)

Indirect production cost allocations to inventory are based on relevant judgements related to capacity utilisation at the production facility, production time and other product-related factors. The judgements are reviewed regularly to ensure that inventories are measured at their actual production cost. Changes in judgements may affect gross profit margins as well as the valuation of work in progress, finished goods and goods for resale.

Obsolescence provision (estimate)

The obsolescence provision for inventories is based on the expected sales forecast for the individual types of hearing devices, diagnostic equipment, hearing implants, headsets and other gaming/enterprise devices. Sales forecasts are based on Management's expectations of market conditions and trends, and the obsolescence provision is subject to changes in these assumptions.

1.7 Receivables

(DKK million)	2021	2020
Trade receivables	3,203	2,808
Customer loans	690	610
Other receivables	495	334
Receivables	**4,388**	**3,752**
Allowance for impairment:		
Allowance for impairment at 1.1.	-426	-339
Foreign currency translation adjustments	-12	26
Realised during the year	88	145
Additions during the year	-134	-267
Reversals during the year	133	9
Allowance for impairment at 31.12.	**-351**	**-426**

The opening balance of trade receivables in 2020 amounted to DKK 3,209 million.

Of the total amount of trade receivables, DKK 250 million (DKK 243 million in 2020) is expected to be collected after 12 months. For information on security and collateral, please refer to Credit risks in Note 4.1.

In 2020, an additional provision for bad debt of DKK 100 million was made to cover uncertainties caused by the Covid-19 pandemic. The provision was recognised in loss allowance for trade receivables, which were more than 12 months overdue. In 2021, the Group reversed the provision for additional bad debt of DKK 60 million, while DKK 40 million has been realised during the year. As of 31 December 2021, no additional provision to cover uncertainties caused by the Covid-19 pandemic exists.

Credit risk

(DKK million)	Balance not due	0-3 months overdue	3-6 months overdue	6-12 months overdue	More than 12 months overdue	Total carrying amount
2021						
Gross carrying amount:						
Trade receivables	2,202	582	224	210	319	3,537
Customer loans	697	-	-	-	10	707
Other receivables	495	-	-	-	-	495
Total	**3,394**	**582**	**224**	**210**	**329**	**4,739**
Loss allowance:						
Trade receivables	27	43	49	47	168	334
Customer loans	11	-	-	-	6	17
Other receivables	-	-	-	-	-	-
Total	**38**	**43**	**49**	**47**	**174**	**351**
Expected loss rate*	0.5%	1.5%	3.0%	5.0%	10.0%	
2020						
Gross carrying amount:						
Trade receivables	1,939	525	182	251	317	3,214
Customer loans	619	3	1	-	7	630
Other receivables	334	-	-	-	-	334
Total	**2,892**	**528**	**183**	**251**	**324**	**4,178**
Loss allowance:						
Trade receivables	19	20	19	55	293	406
Customer loans	12	1	1	-	6	20
Other receivables	-	-	-	-	-	-
Total	**31**	**21**	**20**	**55**	**299**	**426**
Expected loss rate*	0.5%	1.5%	3.0%	5.0%	10.0%	

*Trade receivables (provision matrix).

1.7 Receivables (continued)

Accounting policies

Receivables include trade receivables, customer loans and other receivables. Receivables are financial assets with fixed or determinable payments, which are not listed on an active market and are not derivatives.

On initial recognition, receivables are measured at fair value with the addition of transaction costs. Receivables with a definite maturity date are measured at amortised cost.

Receivables without a definite maturity date are measured at cost. Current receivables arisen as a result of the Group's ordinary activities are measured at nominal value.

For trade receivables, the Group has a simplified approach to providing the expected credit loss prescribed by IFRS 9. The provision for credit loss is measured through a provision matrix. To measure the expected credit loss, trade receivables have been grouped based on shared credit risk and the number of days that have passed after the due date. In accordance with IFRS 9, provisions have also been made for trade receivables not due. For trade receivables that are considered credit-impaired, the expected credit loss is determined on an individual basis.

At initial recognition, a loss allowance is recognised for customer loans based on 12 months' expected credit loss. For customer loans that are considered credit-impaired, the expected credit loss is determined on an individual basis.

Accounting estimates and judgements

Impairment of receivables (estimate)

Allowance for impairment is calculated for both trade receivables and customer loans. The allowances are determined as expected credit losses based on an assessment of the debtors' and customers', respectively, ability to pay. These assessments are made by local management for uniform groups of debtors and customer loans based on maturity analyses. When indicated by special circumstances, impairments are made for individual trade receivables and customer loans.

Other receivables are assessed on an individual basis.

1.8 Specification of non-cash items etc.

(DKK million)	2021	2020
Amortisation and depreciation etc.	1,086	1,048
Share of profit after tax, associates and joint ventures	-120	-505
Gain on sale of intangible assets and property, plant and equipment	-4	2
Provisions including one-offs	-27	114
Exchange rate adjustments	-43	156
Employee share salary arrangement	65	50
Covid-19 rent concessions	-2	-12
Divestment of enterprises	-99	-
Other non-cash items	20	2
Non-cash items etc.	876	855

Section 2

Exchange rates

Philips charger

2.1 Exchange rate risk policy

The Group seeks to hedge against exchange rate risks, first and foremost through forward exchange contracts. In relation to exchange rate fluctuations, hedging ensures predictability in the profit and gives Management the opportunity – and the necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates.

The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. The Group predominantly hedges estimated cash flows with a horizon of up to 18 months.

2.2 Sensitivity analysis in respect of exchange rates

Effect on EBIT, 5% positive change in exchange rates*

(DKK million)	2021	2020
USD	+82	+19
GBP	+23	+16
CAD	+22	+15
AUD	+11	+11
JPY	+4	+5
PLN	-25	-22

Effect on equity, 5% positive change in exchange rates

(DKK million)	2021	2020
USD	+188	+179
GBP	+23	+20
CAD	+53	+48
AUD	+13	+13
JPY	+4	+4
PLN	+29	+27

*Estimated on a non-hedged basis, i.e. the total annual exchange rate effect, excluding forward exchange contracts.

The tables show the impact on the year's operating profit (EBIT) and consolidated equity, given a change of 5% in the currencies with the highest exposures.

The exchange rate impact on EBIT has been calculated on the basis of the Group's EBIT for each currency and does not take into account a possible exchange rate impact on balance sheet values in those currencies.

2.3 Hedging and forward exchange contracts

Open forward exchange contracts at the balance sheet date may be specified as shown below, with contracts for the sale of currency being shown at negative contract values. The expiry dates reflect the periods in which the hedged cash flows are expected to be realised.

Realised forward exchange contracts are recognised in the income statement together with the items, typically the revenue in foreign currency, that such contracts are designed to hedge. In 2021, our forward exchange contracts realised a loss of DKK 36 million (gain of DKK 12 million in 2020), which decreased reported revenue for the year. There have been no ineffectiveness in 2021 or 2020.

Forward exchange contracts

(DKK million)	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
2021							
USD	2022	11 months	632	-1,124	-38	1	39
AUD	2022	10 months	464	-334	-8	-	8
GBP	2022	11 months	863	-552	-12	-	12
CAD	2022	11 months	495	-441	-16	-	16
JPY	2022	11 months	5.69	-120	-	1	1
PLN	2022	10 months	160	432	-4	1	5
EUR**	2024	36 months	741	895	3	3	-
				-1,244	**-75**	**6**	**81**
2020							
USD	2021	11 months	638	-1,193	65	65	-
AUD	2021	10 months	457	-281	-4	-	4
GBP	2021	9 months	825	-384	2	3	1
CAD	2021	9 months	484	-372	7	7	-
JPY	2021	9 months	6.00	-120	3	3	-
PLN	2021	10 months	166	402	-6	1	7
EUR**	2024	48 months	741	895	2	2	-
				-1,053	**69**	**81**	**12**

*Hedging periods represent the estimated periods for which the exchange rate exposure of a relative share of our revenue in a currency will be covered by forward exchange contracts.
**Forward exchange contracts in euros hedged a fixed committed financial loan.

Accounting policies

On initial recognition, derivatives are measured at fair value at the settlement date. After initial recognition, derivatives are measured at fair value at the balance sheet date. Any positive or negative fair values of derivatives are recognised as separate items as Unrealised gains/losses on financial contracts in the balance sheet. Forward exchange contracts are measured based on current market data and by use of commonly recognised valuation methods. Please refer to Note 4.5.

Any changes in fair values of derivatives classified as hedging instruments and satisfying the criteria for hedging the fair value of a recognised asset or a recognised liability, are recognised in the income statement together with any changes in the fair value of the hedged asset or hedged liability. Any changes in fair values of derivatives classified as hedging instruments and satisfying the criteria for effective hedging of future transactions are recognised in other comprehensive income. The ineffective portion is recognised directly in the income statement. On realisation of the hedged transactions, the accumulated changes are recognised together with the related transactions.

Derivatives not fulfilling the conditions for treatment as hedging instruments are considered trading investments and measured at fair value, with fair value adjustments being recognised on an ongoing basis in the income statement.

2.4 Exchange rates

Average exchange rate DKK per 100

	2021	2020	Change
EUR	744	745	-0.1%
USD	629	654	-3.8%
AUD	472	451	4.7%
GBP	865	839	3.1%
CAD	502	488	2.9%
JPY	5.73	6.13	-6.5%
PLN	163	168	-3.0%

Year-end exchange rate DKK per 100

	2021	2020	Change
EUR	744	744	0.0%
USD	656	606	8.3%
AUD	477	464	2.8%
GBP	886	824	7.5%
CAD	514	474	8.4%
JPY	5.70	5.88	-3.1%
PLN	162	163	-0.6%

The Group's presentation currency is Danish kroner.

The table show the exchange rates for our main trading currencies according to the central bank of Denmark. Depending on the phasing of revenue, EBIT and payments, the exchange rate effect on the consolidated income statement can vary from the averages.

Accounting policies

On initial recognition, transactions in foreign currencies are translated at the exchange rates prevailing at the date of the transaction. The functional currencies of the enterprises are determined by the economic environment in which the enterprises operate, usually the local currency.

Receivables, payables and other monetary items in foreign currencies are translated into Danish kroner at the exchange rates prevailing at the balance sheet date. Realised and unrealised foreign currency translation adjustments are recognised in the income statement within gross profit or net financial items, depending on the purpose of the underlying transaction.

Property, plant and equipment, intangible assets, inventories and other non-monetary assets purchased in foreign currencies and measured on the basis of historical cost are translated at the exchange rates prevailing at the transaction date. Non-monetary items, which are revalued at their fair values, are translated using the exchange rates at the revaluation date.

On recognition in the consolidated financial statements of enterprises presenting their financial statements in a functional currency other than Danish kroner, the income statement is translated using average exchange rates for the months of the year in question, unless they deviate materially from actual exchange rates at the transaction dates. In case of the latter, actual exchange rates are applied.

Balance sheet items are translated at the exchange rates prevailing at the balance sheet date. Goodwill is considered as belonging to the acquired enterprise in question and is translated at the exchange rate prevailing at the balance sheet date.

All foreign currency translation adjustments are recognised in the income statement, except for the following, which are recognised in other comprehensive income:

- The translation of net assets of foreign subsidiaries using exchange rates prevailing at the balance sheet date.
- The translation of income statements of foreign subsidiaries using monthly average exchange rates for the respective months of the year, while the balance sheet items of such foreign subsidiaries are translated using exchange rates prevailing at the balance sheet date.
- The translation of non-current, intra-Group receivables that are considered to be an addition to or deduction from net investments in foreign subsidiaries.
- The translation of investments in associates and joint ventures.

Section 3

Asset base

INTANGIBLE ASSETS

10,317

DKK MILLION

PROPERTY, PLANT AND EQUIPMENT

2,277

DKK MILLION

OTHER NON-CURRENT ASSETS

4,380

DKK MILLION

3.1 Intangible assets

(DKK million)	2021					2020				
	Goodwill	Patents and licences	Other intangible assets	Assets under develop-ment	Total intangible assets	Goodwill	Patents and licences	Other intangible assets	Assets under develop-ment	Total intangible assets
Cost at 1.1.	**8,320**	**122**	**1,055**	**283**	**9,780**	**7,826**	**120**	**919**	**221**	**9,086**
Foreign currency translation adjustments	338	-	14	5	357	-373	1	-15	-5	-392
Additions during the year	-	3	28	136	167	-	-	41	133	174
Additions relating to acquisitions	813	-	12	-	825	867	1	22	-	890
Disposals relating to divestment of enterprises	-	-	-1	-	-1	-	-	-	-	-
Disposals during the year	-	-	-17	-	-17	-	-	-11	-	-11
Transfer to/from other items	-	12	138	-150	-	-	-	99	-66	33
Cost at 31.12.	**9,471**	**137**	**1,229**	**274**	**11,111**	**8,320**	**122**	**1,055**	**283**	**9,780**
Amortisation at 1.1.	**-**	**-110**	**-566**	**-**	**-676**	**-**	**-99**	**-411**	**-**	**-510**
Foreign currency translation adjustments	-	-	-10	-	-10	-	-	11	-	11
Amortisation for the year	-	-5	-117	-	-122	-	-11	-140	-	-151
Depreciation transfer	-	-1	-1	-	-2	-	-	-30	-	-30
Disposals during the year	-	-	16	-	16	-	-	4	-	4
Amortisation at 31.12.	**-**	**-116**	**-678**	**-**	**-794**	**-**	**-110**	**-566**	**-**	**-676**
Carrying amount at 31.12.	**9,471**	**21**	**551**	**274**	**10,317**	**8,320**	**12**	**489**	**283**	**9,104**

*Prepayments are included in assets under development.

Accounting policies

On initial recognition, goodwill is recognised and measured as the difference between the acquisition cost – including the value of non-controlling interests in the acquired enterprise and the fair value of any existing investment in the acquired enterprise – and the fair values of the acquired assets, liabilities and contingent liabilities. Please refer to Accounting policies in Note 6.1.

On recognition, goodwill is allocated to corporate activities that generate independent payments (cash-generating units). The definition of a cash-generating unit is in line with the Group's managerial structure as well as the internal financial management reporting.

3.1 Intangible assets (continued)

Goodwill is not amortised but is tested for impairment at least once a year. If the recoverable amount of a cash-generating unit is lower than the carrying amounts of property, plant and equipment and intangible assets, including goodwill, attributable to the particular cash-generating unit, the particular assets will be written down.

Patents and licences acquired from third parties are measured at cost less accumulated amortisation and impairment losses. Patents and licences are amortised on a straight-line basis over their estimated useful lives.

Other intangible assets consist of software, other rights than patents and licences and other intangible assets acquired in connection with business combinations, primarily brand value, customer bases and non-compete agreements.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over their estimated useful lives, except other rights, which are not amortised, as the residual value of other rights is considered to exceed the cost price and is instead tested for impairment annually. Please refer to Note 3.6.

Assets under development include internally developed IT systems. Assets under development are measured at cost, which includes direct salaries, consultant fees and other direct costs attributable to the development of such assets. Assets under development are not amortised, as they are not available for use.

Accounting estimates and judgements

Reportable segments and cash-generating units (judgements)

Impairment testing is carried out annually on preparation of the annual report or on indication of impairment in which discounted values of future cash flows are compared with carrying amounts. Group enterprises cooperate closely on R&D, purchasing, production, marketing and sale, as the use of resources in the individual markets is coordinated and monitored by Management in Denmark. Group enterprises are thus highly integrated. Regardless of this, the products and services within Hearing Healthcare and Communications address different customer demands and customer groups, which would not be comparable by nature. Management therefore considers it most appropriate to split the activities into two reportable segments, Hearing Healthcare and Communications. The two reportable segments constitute the Group's cash-generating units. Individual impairment testing is therefore carried out for the Group's two cash-generating units, Hearing Healthcare and Communications. Please refer to Note 3.6.

Product development (judgement)

It is Management's opinion that the product development undertaken by the Group today cannot meaningfully be allocated to either the development of new products or the further development of existing products. Moreover, as the products are subject to approval by various authorities, it is difficult to determine the final completion of new products.

Patents and licences	5-20 years
Software	3-10 years
Brand value	5-10 years
Customer bases	5-7 years

3.2 Property, plant and equipment

(DKK million)	2021						2020					
	Land and buildings	**Plant and machinery**	**Other plant, fixtures and operating equipment**	**Leasehold improvements**	**Assets under construction***	**Total property plant and equipment**	**Land and buildings**	**Plant and machinery**	**Other plant, fixtures and operating equipment**	**Leasehold improvements**	**Assets under construction***	**Total property plant and equipment**
Cost at 1.1.	**1,254**	**742**	**1,341**	**973**	**181**	**4,491**	**1,147**	**712**	**1,368**	**950**	**135**	**4,312**
Foreign currency translation adjustments	17	3	42	28	3	93	-35	-25	-59	-30	-1	-150
Additions during the year	6	36	204	153	80	479	60	49	100	110	150	469
Additions relating to acquisitions	3	-	3	7	-	13	5	3	33	5	4	50
Disposals relating to divestments	-	-3	-13	-1	-	-17	-	-	-	-	-	-
Disposals during the year	-	-16	-44	-46	-4	-110	-	-8	-94	-54	-1	-157
Transferred to/from other items	28	26	91	19	-133	31	77	11	-7	-8	-106	-33
Cost at 31.12.	**1,308**	**788**	**1,624**	**1,133**	**127**	**4,980**	**1,254**	**742**	**1,341**	**973**	**181**	**4,491**
Depreciation and impairment losses at 1.1.	**-274**	**-525**	**-991**	**-562**	**-**	**-2,352**	**-260**	**-472**	**-996**	**-523**	**-**	**-2,251**
Foreign currency translation adjustments	-6	-3	-33	-17	-	-59	10	17	46	19	-	92
Depreciation for the year	-27	-71	-161	-115	-	-374	-24	-88	-145	-110	-	-367
Disposals relating to divestments	-	2	12	1	-	15	-	-	-	-	-	-
Disposals during the year	-	14	43	41	-	98	-	7	85	52	-	144
Transferred to/from other items	1	7	-36	-3	-	-31	-	11	19	-	-	30
Depreciation and impairment losses at 31.12.	**-306**	**-576**	**-1,166**	**-655**	**-**	**-2,703**	**-274**	**-525**	**-991**	**-562**	**-**	**-2,352**
Carrying amount at 31.12.	**1,002**	**212**	**458**	**478**	**127**	**2,277**	**980**	**217**	**350**	**411**	**181**	**2,139**

*Prepayments are included in assets under construction.

3.2 Property, plant and equipment (continued)

Accounting policies

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the acquisition price and costs directly relating to the acquisition until such time as the particular asset is ready for use. For assets produced by the Group, cost includes all costs directly attributable to the production of such assets, including materials, components, sub-supplies and payroll. If the acquisition or the use of an asset requires the Group to defray costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision and as part of the cost of the particular asset, respectively.

The cost of a total asset is divided into various elements, which will be depreciated separately if their useful lives are not the same.

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Land is not depreciated.

Accounting estimates and judgements

Useful lives (estimate)

The depreciation basis is cost less the estimated residual value of an asset after the end of its useful life. The residual value is the estimated amount, which could after deduction of costs to sell be obtained through the sale of the asset today, such asset already having the age and being in the state of repair expected after the end of its useful life. The residual value is determined at the time of acquisition and is reviewed annually. If the residual value exceeds the carrying amount, depreciation will be discontinued.

Buildings	30-50 years
Technical installations	10 years
Plant and machinery	3-5 years
Other plant, fixtures and operating equipment	3-5 years
IT hardware	3-5 years
Leasehold improvements	Up to 10 years

Depreciation methods, useful lives and residual values are reviewed annually. Property, plant and equipment are written down to their recoverable amounts, if these are lower than their carrying amounts.

3.3 Leases

(DKK million)	2021	2020
Lease assets at 1.1.	1,847	1,937
Foreign currency translation adjustments	43	-59
Additions during the year	673	391
Additions relating to acquisitions	99	122
Disposals during the year	-45	-51
Depreciations during the year	-538	-493
Lease assets at 31.12.	**2,079**	**1,847**
Lease liabilities at 1.1.	**1,893**	**1,964**
Foreign currency translation adjustments	50	-71
Additions during the year	660	388
Additions relating to acquisitions	99	119
Covid-19-related rent concessions	-2	-12
Disposals during the year	-46	-53
Payments	-533	-442
Lease liabilities at 31.12.	**2,121**	**1,893**
Current lease liabilities	511	456
Non-current lease liabilities	1,610	1,437
Amounts recognised in the income statement:		
Variable lease payments	32	20
Short-term lease expenses	27	21
Low-value assets	5	6

Approx. 96% of the Group's leases consist of property agreements. The lease terms are of various length and may contain extension and termination options.

Management exercises significant judgement in determining whether it is reasonably certain that these extension and termination options will be exercised.

3.3 Leases (continued)

Covid-19-Related Rent Concessions (Amendment to IFRS 16)

IFRS 16 is amended to exempt lessees, who have received rent concessions as a direct consequence of the Covid-19 pandemic, from the requirement to assess whether the concession is a lease modification. The Group has decided to apply the practical expedient to all rent concessions that meet the conditions as outlined in paragraph 46B of IFRS 16, resulting in accounting for the concession as a variable lease payment. The rent concessions recognised in the income statement for 2021 amount to DKK 2 million (DKK 12 million in 2020).

Accounting policies

Lease assets

Lease assets and liabilities are recognised in the balance sheet at the commencement date of the contract, if it is or contains a lease. Lease assets are recognised at cost less accumulated depreciation and impairment. Cost is defined as the lease liability adjusted for any lease payments made at or before the commencement date. Lease assets are depreciated on a straight-line basis over the lease term.

Lease liabilities

Lease liabilities are measured at the present value of future payments, using the interest rate implicit in the lease agreement. Lease payments are discounted, using the Group's incremental borrowing rate adjusted for the functional currencies and length of the lease term, if the interest rate implicit in the lease agreement cannot be determined. Lease payments contain fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate as well as payments of penalties for terminating the lease, if the terms of the lease warrants that the Group exercises that option.

The lease liability is remeasured if or when the future payment or lease term changes. Any net remeasurement of the lease liability is recognised as an adjustment to the lease asset. If the carrying amount of the lease asset is reduced to zero, the adjustment will be recognised in the income statement.

Additional information

Short-term lease expenses, low-value assets and variable lease payments are classified as operating expenses in the income statement.

Please refer to Note 4.4 for a maturity analysis of the lease liabilities.

Accounting estimates and judgements

Lease term (estimate)

The lease term is the period during which the lease contract is enforceable. If the original expiry date of a lease contract has passed, typically in the case of property leases, but the contract continues without a determined expiry date, the lease term is set for an estimated period during which the lease contract is expected to be enforceable. This assessment is based on Management's judgement and takes into consideration the location of the lease, capitalised leasehold improvements and the experience with similar leases for the specific area.

Extension and termination options (judgement)

When determining the lease term for lease agreements containing extension and termination options, Management considers circumstances that create a financial incentive to exercise an extension option or not to exercise a termination option. Extension and termination options are only included in the lease term if it is reasonably certain that a lease will be extended/terminated.

3.4 Other non-current assets

(DKK million)	2021				2020			
	Investments in associates and joint ventures	**Receivables from associates and joint ventures**	**Customer loans***	**Other***	**Investments in associates and joint ventures**	**Receivables from associates and joint ventures**	**Customer loans***	**Other***
Cost at 1.1.	**799**	**247**	**446**	**86**	**946**	**182**	**531**	**94**
Foreign currency translation adjustments	30	15	34	4	-38	-11	-43	-5
Additions during the year	-	106	282	6	7	92	131	3
Additions relating to acquisitions	-	-	-	-	132	7	-	1
Disposals related to step acquisitions and disposals of associates	-26	-98	-	4	-165	-	-	-
Disposals, repayments etc. during the year	-	-	-117	-1	-83	-23	-83	-3
Transferred to current assets	-	1	-144	-2	-	-	-90	-4
Cost at 31.12.	**803**	**271**	**501**	**97**	**799**	**247**	**446**	**86**
Value adjustments at 1.1.	**34**	**-**	**-9**	**-20**	**17**	**-**	**-8**	**-19**
Foreign currency translation adjustments	1	-	-1	-1	1	-	1	2
Share of profit after tax	120	-	-	-	48	-	-	-
Dividends received	-106	-	-	-	-41	-	-	-
Disposals relating to step-up acquisitions of associates	-2	-1	-	-	-74	-	-	-
Other adjustments	8	-3	-2	-	83	-	-2	-2
Disposals during the year	-	-	4	-	-	-	-	-1
Value adjustments at 31.12.	**55**	**-4**	**-8**	**-21**	**34**	**-**	**-9**	**-20**
Carrying amount at 31.12.	**858**	**267**	**493**	**76**	**833**	**247**	**437**	**66**

*Customer loans and Other make up the Group's Other receivables.

3.4 Other non-current assets (continued)

Transactions with associates and joint ventures

In 2021, the Group recognised revenue from associates and joint ventures of DKK 544 million (DKK 294 million in 2020), received royalties from and paid licence fees to associates and joint ventures, amounting to net income of DKK 0 million (DKK 1 million in 2020), and received dividends from associates and joint ventures in the amount of DKK 106 million (DKK 41 million in 2020). In 2021, the Group received interest income from associates and joint ventures in the amount of DKK 11 million (DKK 4 million in 2020).

Under the provisions of contracts concluded with associates and joint ventures, the Group is not entitled to receive dividends from certain associates and joint ventures. This is reflected in the profit included in the income statement, as no profit is recognised if the Group is not entitled to receive dividends.

Accounting policies

Investments in associates and joint ventures are recognised and measured using the equity method, i.e. investments are recognised in the balance sheet at the proportionate share of the equity value determined in accordance with the Group's accounting policies after the deduction and addition of proportionate intra-Group gains and losses, respectively, and after the addition of the carrying amount of any goodwill. The proportionate shares of profit after tax in associates and joint ventures are recognised in the income statement after the year's changes in unrealised intra-Group profits less any impairment loss relating to goodwill.

The proportionate shares of all transactions and events, which have been recognised in other comprehensive income in associates and joint ventures, are recognised in consolidated other comprehensive income. On the acquisition of interests in associates and joint ventures, the acquisition method is applied.

	Associates	
(DKK million)	**2021**	**2020**
Financial information from financial statements (Group share)		
Revenue	796	518
Profit for the year	120	50
Comprehensive income	120	50

3.5 Non-current assets by geographic region

(DKK million)	**2021**	**2020**
Denmark	2,351	2,223
Other Europe	6,338	5,690
North America	6,527	5,722
Pacific	784	731
Asia	208	212
Other countries	170	109
Non-current assets	**16,378**	**14,687**

For accounting policies on segment information, please refer to Note 1.1.

3.6 Impairment testing

Impairment testing is carried out for the Group's two cash-generating units, Hearing Healthcare and Communications. Based on the impairment tests performed, a material excess value was identified in each cash-generating unit compared to the carrying amount for which reason no impairment of goodwill was made at 31 December 2021.

At 31 December 2021, goodwill amounted to DKK 9,054 million in Hearing Healthcare (DKK 7,903 million in 2020) and DKK 417 million in Communications (DKK 417 million in 2020).

Future cash flows are based on the budget for 2022, on strategy plans and on projections hereof. Projections extending beyond 2022 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2026 is determined on the assumption of 2% growth. The pre-tax discount rate is 6.5% for Hearing Healthcare and 12% for Communications. Sensitivity calculations show that even a significant increase in the discount rate or a significant reduction of the growth assumptions will not change the outcome of the impairment test. Apart from goodwill, all intangible assets have limited useful lives.

The market capitalisation of the company on Nasdaq Copenhagen by far exceeds the equity value of the company, lending further support to the conclusion that we had no need for impairment in 2021.

Accounting policies

The carrying amounts of property, plant and equipment and intangible assets with definite useful lives as well as investments in associates and joint ventures are reviewed at the balance sheet date to determine whether there are indications of impairment. If so, the recoverable amount of the particular asset is calculated to determine the need for impairment, if any. The recoverable amounts of goodwill and other intangible assets with indefinite useful lives will be estimated, whether or not there are indications of impairment.

The recoverable amount is estimated for the smallest cash-generating unit of which the asset is part. The recoverable amount is determined as the higher of the fair value of the asset or cash-generating unit less costs to sell and the value in use of such asset or unit. On determination of the value in use, estimated future cash flows will be discounted to their present values, using a discount rate that reflects partly current market valuations of the time value of money, and partly the special risks attached to the particular asset or cash-generating unit for which no adjustment has been made in the estimated future cash flows. If the recoverable amount of a particular asset or cash-generating unit is lower than its carrying amount, such asset or unit is written down to its recoverable amount.

Impairment losses are recognised in the income statement. On any subsequent reversal of impairment losses due to changes in the judgements on which the calculation of the recoverable amount is based, the carrying amount of an asset or cash-generating unit is increased to the adjusted estimate of the recoverable amount, however not exceeding the carrying amount of the asset or cash-generating unit, had the particular asset or cash-generating unit not been written down. Impairment of goodwill is not reversed.

Section 4

Capital structure and financial management

NET INTEREST-BEARING DEBT
9,150
DKK MILLION

NET FINANCIAL ITEMS
-202
DKK MILLION

4.1 Financial risk management and capital structure

Policies relating to financial risk management and capital structure

Financial risk management concentrates on identifying risks in respect of exchange rates, interest rates, credit and liquidity with a view to protecting the Group against potential losses and ensuring that Management's forecasts for the current year are only to a limited extent affected by changes or events in the surrounding world – be they changes in exchange rates or in interest rates. It is Group policy to exclusively hedge commercial risks and not to undertake any financial transactions of a speculative nature.

Interest rate risks

In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation and relatively low financial gearing, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure relatively low interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, the Group now partly funds its debt through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. The Group's net interest-bearing debt amounted to DKK 9,150 million as of 31 December 2021, and the gearing (NIBD/EBITDA) was 2.0.

Credit risks

The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so in general, credit risks only involve minor losses on loans to individual customers. The accumulated revenue from our ten largest customers accounts for approx. 10% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparties provide security in their business. Overall, we therefore estimate that the risk relative to our total credit exposure is well-balanced at Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. Overall, the Group has limited deposits with financial institutions for which reason the credit risk of deposits is considered to be low. In 2020, the Group made an additional provision for bad debt of DKK 100 million, reflecting the increased risk of customers defaulting on their debt due to coronavirus. In 2021, DKK 60 million of the provision was reversed towards the end of the year as a result of an updated risk assessment, while DKK 40 million has been realised during the year.

Liquidity risks

The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2021 has the Group defaulted on any loan agreements.

4.2 Net financial items

(DKK million)	2021	2020
Interest on cash and bank deposits	4	1
Interest on receivables, customer loans etc.	34	32
Other financial income	2	1
Financial income from financial assets measured at amortised cost	**40**	**34**
Foreign exchange gains, net	3	4
Financial income	**43**	**38**
Interest on bank debt, mortgages etc.	-68	-72
Interest expense on lease liabilities	-41	-45
Financial expenses on financial liabilities measured at amortised cost	**-109**	**-117**
Foreign exchange losses, net	-	-1
Transaction costs	-136	-114
Financial expenses	**-245**	**-232**
Net financial items	**-202**	**-194**

In addition to the foreign exchange items above, foreign exchange hedging instruments as described in Note 2.3 and foreign exchange effects of balance sheet items are reflected in the consolidated income statement, affecting production costs by DKK 33 million (DKK -83 million in 2020).

Accounting policies

Net financial items mainly consist of interest income and interest expenses, credit card fees and bank fees and also include interest on lease liabilities, the unwinding of discounts on financial assets and liabilities, fair value adjustments of "shadow shares" under share-based remuneration programmes as well as certain realised and unrealised foreign exchange gains and losses. Interest income and interest expenses are accrued based on the principal amount and the effective interest rate.

The effective interest rate is the discount rate used for discounting expected future payments attaching to the financial asset or financial liability in order for the present value to match the carrying amount of such asset or liability.

4.3 Categories of financial instruments

(DKK million)	2021	2020
Unrealised gains on financial contracts	6	81
Financial assets used as hedging instruments	**6**	**81**
Receivables from associates and joint ventures	414	358
Customer loans	690	610
Other receivables	495	334
Trade receivables	3,203	2,808
Cash	1,172	952
Financial assets at amortised cost	**5,974**	**5,062**
Other investments	11	14
Financial assets at fair value through profit/loss	**11**	**14**
Unrealised losses on financial contracts	-81	-14
Financial liabilities used as hedging instruments	**-81**	**-14**
Debt to credit institutions etc.	-6,020	-5,930
Short-term bank facilities etc.	-3,197	-1,181
Lease liabilities	-2,121	-1,893
Trade payables	-808	-802
Other liabilities	-2,212	-1,763
Financial liabilities measured at amortised cost	**-14,358**	**-11,569**

As regards financial assets and liabilities, their carrying amounts approximate their fair values. The following non-financial item is included in the balance sheet and represents the difference between the table above and the balance sheet: Other liabilities of DKK 429 million (DKK 351 million in 2020).

Accounting policies

Debt to credit institutions is recognised at the date of borrowing as the proceeds received less transaction costs. For subsequent periods, financial liabilities are measured at amortised cost in order for the difference between proceeds and the

4.3 Categories of financial instruments (continued)

nominal value to be recognised as a financial expense over the term of the loan.

On initial recognition, other financial liabilities are measured at fair value and subsequently at amortised cost using the effective interest method, and the difference between proceeds and the nominal value is recognised in the income statement as a financial expense over the term of the loan.

4.4 Net interest-bearing debt, liquidity and interest rate risks

(DKK million)	Contractual cash flows					
	Less than 1 year	1-5 years	More than 5 years	Total	Carrying amount	Weighted average effective interest rate
2021						
Interest-bearing receivables	256	748	47	1,051	1,016	
Cash	1,176	-	-	1,176	1,172	
Interest-bearing assets	**1,432**	**748**	**47**	**2,227**	**2,188**	**1.8%**
Debt to credit institutions etc.	-3,240	-2,806	-	-6,046	-6,020	
Short-term bank facilities etc.	-3,220	-	-	-3,220	-3,197	
Borrowings	**-6,460**	**-2,806**	**-**	**-9,266**	**-9,217**	**0.5%**
Lease liabilities	-520	-1,336	-488	-2,344	-2,121	
Net interest-bearing debt	**-5,548**	**-3,394**	**-441**	**-9,383**	**9,150**	
2020						
Interest-bearing receivables	241	491	218	950	917	
Cash	955	-	-	955	952	
Interest-bearing assets	**1,196**	**491**	**218**	**1,905**	**1,869**	**1.6%**
Debt to credit institutions etc.	-2,441	-3,525	-1	-5,967	-5,930	
Short-term bank facilities etc.	-1,201	-	-	-1,201	-1,181	
Borrowings	**-3,642**	**-3,525**	**-1**	**-7,168**	**-7,111**	**0.6%**
Lease liabilities	-436	-1,255	-411	-2,102	-1,893	
Net interest-bearing debt	**-2,882**	**-4,289**	**-194**	**-7,365**	**-7,135**	

4.4 Net interest-bearing debt, liquidity and interest rate risks (continued)

Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 339 million (DKK 313 million in 2020), which have a contractual maturity of 1-10 years. The contractual cash flows approximate their carrying amounts.

Borrowings broken down by currency: 14% in US dollars (29% in 2020), 66% in Danish kroner (55% in 2020), 19% in euros (16% in 2020) and 1% in other currencies (0% in 2020).

Reconciliation of liabilities arising from financing activities

The table below shows the changes in consolidated liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the consolidated cash flow statement as cash flows from financing activities.

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK 0 million (DKK -2 million in 2020), and the contractual value of the interest cap is DKK 650 million (DKK 650 million in 2020). The cap will run until 2023.

Sensitivity analysis in respect of interest rates

Based on consolidated net debt at the end of the 2021 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of approx. DKK 25 million (DKK 10 million in 2020). About 49% (59% in 2020) of consolidated net interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options), and partly due to loans being raised at fixed interest rates.

Interest cap

(DKK million)

	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
2021					
DKK/DKK	2023	0%	650	-	-
			650	**-**	**-**
2020					
DKK/DKK	2023	0%	650	-	2
			650	**-**	**2**

The Group has limited the maximum interest rates on part of its non-current debt through an interest rate cap.

4.4 Net interest-bearing debt, liquidity and interest rate risks (continued)

(DKK million)	2020	Cash flow from financing activities	Net cash flow from overdraft	Non-cash changes: Covid-19 rent concessions	Non-cash changes: Acquisi-tions and divestments	Non-cash changes: Foreign exchange movement	Non-cash changes: Other additions	Non-cash changes: Disposals	2021
Lease liabilities	-1,893	533	-	2	-99	-50	-660	46	-2,121
Debt to credit institutions etc.	-5,930	-103	-	-	-	13	-	-	-6,020
Short-term bank facilities	-1,181	-1,887	-	-	-3	-119	-	-7	-3,197
Liabilities from financing activities	**-9,004**	**-1,457**	**-**	**2**	**-102**	**-156**	**-660**	**39**	**-11,338**
Interest-bearing liabilities	**-9,004**	**-1,457**	**-**	**2**	**-102**	**-156**	**-660**	**39**	**-11,338**
	2019								**2020**
Lease liabilities	-1,964	442	-	12	-119	71	-388	53	-1,893
Debt to credit institutions etc.	-4,687	-1,364	154	-	-40	7	-	-	-5,930
Short-term bank facilities	-3,338	2,157	-154	-	-	154	-	-	-1,181
Liabilities from financing activities	**-9,989**	**1,235**	**-**	**12**	**-159**	**232**	**-388**	**53**	**-9,004**
Interest-bearing liabilities	**-9,989**	**1,235**	**-**	**12**	**-159**	**232**	**-388**	**53**	**-9,004**

4.5 Fair value hierarchy

Methods and judgements for determining fair values

Other investments

Other investments are assessed on the basis of their equity value.

Derivatives

Forward exchange contracts are assessed using discounted cash flow valuation techniques. Future cash flows are based on forward exchange rates from observable forward exchange rates at the end of the reporting period and on contractual forward exchange rates discounted at a rate that reflects the credit risk related to various counterparties.

Interest swaps are assessed using discounted cash flow valuation techniques. Future cash flows are based on observable forward yield curves at the end of the reporting period and on contractual interest rates discounted at a rate that reflects the credit risk related to various counterparties.

The value of a cap is assessed using discounted cash flow valuation techniques. A cap consists of a series of interest rate options (IRGs) with the same strike rate. The individual interest rate options each cover an interest period. The key elements, when pricing interest rate options, are strike rate, forward rate, maturity and volatility. The value of an interest rate option is made up of the intrinsic value and the time value of such option. The value of a cap is the combined value of the individual IRGs.

Contingent considerations

Contingent considerations are measured at their fair values based on the contractual terms of the contingent considerations and on non-observable inputs (level 3), such as the financial performance and purchasing patterns of the acquired enterprises for a period of typically 1-5 years after the date of acquisition.

Fair value hierarchy for assets and liabilities measured at fair value in the balance sheet

Financial instruments measured at fair value are broken down according to the fair value hierarchy:

- Listed prices in an active market for the same type of instrument (level 1).
- Listed prices in an active market for similar assets or liabilities or other valuation methods, with all significant inputs being based on observable market data (level 2).
- Valuation methods, with any significant inputs not being based on observable market data (level 3).

Accounting policies

On initial recognition, other investments are classified as assets available for sale, recognised at fair value and subsequently measured at fair value through profit and loss. Unrealised value adjustments are recognised in other comprehensive income. On realisation, value adjustments are transferred to net financial items in the income statement. The determination of fair values is based on equity values. Contingent considerations arising from the acquisition of enterprises and activities are recognised at fair value at the time of acquisition. The obligations are re-evaluated on a recurring basis at fair value.

4.5 Fair value hierarchy (continued)

(DKK million)

	Level 1	Level 2	Level 3	Total
2021				
Financial assets used as hedging instruments	-	6	-	**6**
Other investments	-	-	11	**11**
Financial liabilities used as hedging instruments	-	-81	-	**-81**
Contingent considerations	-	-	-148	**-148**
2020				
Financial assets used as hedging instruments	-	81	-	**81**
Other investments	-	-	14	**14**
Financial liabilities used as hedging instruments	-	-14	-	**-14**

There have been no transfers between level 1 and 2 in the 2021 and 2020 financial years.

(DKK million)	Financial assets		Contingent considerations	
	2021	2020	2021	2020
Level 3 Assets and liabilities				
Carrying amount at 1.1.	14	16	-121	-128
Foreign currency translation adjustment	1	-1	-6	7
Acquisitions	-	-	-113	-76
Disposals, repayments, settlements etc.	-4	-1	62	56
Other adjustments	-	-	30	20
Carrying amount at 31.12.	**11**	**14**	**-148**	**-121**

Financial assets and contingent considerations are measured at fair value in the balance sheet based on valuation methods, with any significant inputs not being based on observable market data (level 3).

Section 5

Tax

TAX ON PROFIT

715

DKK MILLION

EFFECTIVE TAX RATE

22.1%

DKK MILLION

5.1 Tax on profit

(DKK million)	2021	2020
Current tax on profit for the year	-611	-224
Adjustment of current tax, prior years	-4	48
Change in deferred tax	-121	8
Adjustment of deferred tax, prior years	21	-32
Impact of changes in corporate tax rates	-	-2
Tax on profit for the year	**-715**	**-202**
Reconciliation of tax rates:		
Danish corporate tax rate	22.0%	22.0%
Differences between tax rates of non-Danish enterprises and Danish corporate tax rate	1.7%	1.3%
Impact of changes in corporate tax rates	0.0%	0.2%
Impact of unrecognised tax assets, net	0.1%	1.1%
Permanent differences	-3.0%	-11.6%
Other items including prior-year adjustments	1.3%	2.1%
Effective tax rate	**22.1%**	**15.1%**

5.2 Deferred tax

(DKK million)	2021	2020
Deferred tax recognised in the balance sheet:		
Deferred tax assets	596	553
Deferred tax liabilities	-470	-339
Deferred tax, net at 31.12.	**126**	**214**
Deferred tax, net at 1.1.	**214**	**237**
Foreign currency translation adjustments	-5	-2
Changes in deferred tax	-121	8
Additions relating to acquisitions	-	-2
Adjustment of deferred tax, prior years	21	-32
Impact of changes in corporate tax rates	-	-2
Deferred tax relating to changes in equity, net	17	7
Deferred tax, net at 31.12.	**126**	**214**

Accounting policies

Tax on the year's profit includes current tax and any changes in deferred tax. Current tax includes taxes payable determined on the basis of the estimated taxable income for the year and any prior-year tax adjustments. Tax on changes in equity and other comprehensive income is recognised directly in equity and in other comprehensive income, respectively.

Foreign currency translation adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

Current tax liabilities or tax receivables are recognised in the balance sheet and determined as tax calculated on the year's taxable income adjusted for any tax on account. The tax rates prevailing at the balance sheet date are used for calculation of the year's taxable income.

The tax value of deferred tax assets not recognised is DKK 120 million (DKK 111 million in 2020) and relates mainly to tax losses and tax credits for which there is considerable uncertainty about their future utilisation. The tax losses carried forward will not expire in the near future.

5.2 Deferred tax (continued)

(DKK million)	Temporary differences at 1.1.2021	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2021
Breakdown of the Group's temporary differences and changes:						
Intangible assets	-401	-24	-	-75	-	-500
Property, plant and equipment	-43	1	-	-23	-	-65
Leased assets	11	-	-	1	-	12
Inventories	253	3	-	21	-	277
Receivables	66	3	-	-15	-	54
Provisions	94	2	-	-11	-	85
Deferred income	159	4	-	-11	-	152
Tax losses	94	6	-	-52	-	48
Other	-19	-	-	65	17	63
Total	**214**	**-5**	**-**	**-100**	**17**	**126**

(DKK million)	Temporary differences at 1.1.2020	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehensive income	Temporary differences at 31.12.2020
Breakdown of the Group's temporary differences and changes:						
Intangible assets	-365	21	-1	-56	-	-401
Property, plant and equipment	-29	-	2	-16	-	-43
Leased assets	6	-1	-	6	-	11
Inventories	241	-2	-	14	-	253
Receivables	58	-5	-	13	-	66
Provisions	79	17	-1	-1	-	94
Deferred income	183	-23	-	-1	-	159
Tax losses	63	-9	-	40	-	94
Other	1	-	-2	-25	7	-19
Total	**237**	**-2**	**-2**	**-26**	**7**	**214**

Accounting policies

Deferred tax is recognised, using the balance sheet liability method on any temporary differences between the tax base of assets and liabilities and their carrying amounts, except for deferred tax on temporary differences arisen either on initial recognition of goodwill or on initial recognition of a transaction that is not a business combination, with the temporary difference ascertained on initial recognition affecting neither net profits nor taxable income.

Deferred tax is determined on the basis of the tax rules and rates prevailing at the balance sheet date in a particular country. The effect of any changes in tax rates on deferred tax is included in tax on the year's profit, unless such deferred tax is attributable to items previously recognised directly in equity or in other comprehensive income. In the latter case, such changes will also be recognised directly in equity or in other comprehensive income. The tax base of a loss, if any, which may be set off against future taxable income, is carried forward and set off against deferred tax in the same legal tax entity and jurisdiction.

Accounting estimates and judgements

Deferred tax assets (estimate)

Deferred tax assets, including the tax value of any tax losses allowed for carryforward, are recognised in the balance sheet at the estimated realisable value of such assets, either by a set-off against a deferred tax liability or by a net asset to be set off against future positive taxable income. At the balance sheet date, an assessment is made as to whether it is probable that sufficient taxable income will be available in the future against which the deferred tax asset can be utilised. Deferred tax on temporary differences between the carrying amounts and the tax values of investments in subsidiaries, associates and joint ventures is recognised, unless the Parent is able to control the time of realisation of such deferred tax, and it is probable that such deferred tax will not be realised as current tax in the foreseeable future. Deferred tax is recognised in respect of eliminations of intra-Group profits and losses.

Section 6

Acquisitions

Sanibel
EARturtle

6.1 Acquisition of enterprises and activities

(DKK million)	2021				2020			
	Hearing Healthcare		Commu-nications	Total	Hearing Healthcare		Commu-nications	Total
	North America	Europe	Global		North America	Europe	Global	
Intangible assets	6	6	-	**12**	8	6	9	**23**
Property, plant and equipment	7	6	-	**13**	5	30	15	**50**
Other non-current assets	20	78	-	**98**	14	235	16	**265**
Inventories	4	5	-	**9**	5	13	73	**91**
Current receivables	11	7	-	**18**	14	124	112	**250**
Cash and cash equivalents	20	10	-	**30**	8	27	34	**69**
Non-current liabilities	-19	-78	-	**-97**	-12	-101	-13	**-126**
Current liabilities	-35	-13	-	**-48**	-11	-127	-186	**-324**
Acquired net assets	**14**	**21**	**-**	**35**	**31**	**207**	**60**	**298**
Goodwill	408	405	-	**813**	185	265	417	**867**
Acquisition cost	**422**	**426**	**-**	**848**	**216**	**472**	**477**	**1,165**
Carrying amount of non-controlling interests on obtaining control	-14	-4	-	**-18**	-7	-204	-24	**-235**
Fair value adjustment of non-controlling interests on obtaining control	-35	-13	-	**-48**	2	-3	-453	**-454**
Contingent consideration and deferred payments	-21	-92	-	**-113**	-62	-14	-	**-76**
Acquired cash and cash equivalents	-20	-10	-	**-30**	-8	-27	-34	**-69**
Cash acquisition cost	**332**	**307**	**-**	**639**	**141**	**224**	**-34**	**331**

Figures are shown at fair value on the acquisition date.

The Group acquired a number of minor retail acquisitions in North America and Europe in 2021. In respect of these acquisitions, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

At the time of acquisition, non-controlling interests' shares of acquisitions were measured at their proportionate shares of the total fair value of the acquired entities, including goodwill. On obtaining a controlling interest through step acquisitions, previously held non-controlling interests are at the time of obtaining control included at fair value with fair value adjustments in the income statement.

In 2020, the Group obtained full control of the Gaming and Enterprise Solutions segments in Sennheiser Communications for a purchase price of DKK 477 million. Furthermore, the Group acquired an additional interest in Audilab SAS and is now the direct owner of 95% of the shares. The fair value of the shares on the acquisition date was DKK 381 million.

6.1 Acquisition of enterprises and activities (continued)

In 2021, a few adjustments were made to the preliminary recognition of acquisitions made in 2020. These adjustments were made in respect of payments made, contingent considerations provided as well as and net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 8 million (DKK 1 million in 2020) and on contingent considerations DKK 8 million (DKK 0 million in 2020). In relation to acquisitions with final recognition in 2014-2020, adjustments were made in 2021 in respect of estimated contingent considerations. Such adjustments are recognised in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK 48 million (DKK 454 million in 2020), and adjustments of contingent considerations made via the income statement of DKK 30 million (DKK 16 million in 2020) are recognised as part of distribution costs for acquisitions and DKK 0 million (DKK 5 million in 2020) are recognised in share of profit after tax, associates and joint ventures.

Of the total acquisition entries in 2021, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 121 million (DKK 76 million in 2020). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 121 million (DKK 82 million in 2020) for acquisitions.

The acquired assets include contractual receivables amounting to DKK 15 million (DKK 126 million in 2020) of which DKK 3 million (DKK 1 million in 2020) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 813 million (DKK 867 million in 2020), DKK 521 million (DKK 91 million in 2020) can be amortised for tax purposes.

Transaction costs in connection with acquisitions made in 2021 amounted to DKK 5 million (DKK 2 million in 2020), which has been recognised under distribution costs.

Revenue and profit generated by the acquired enterprises since our acquisition in 2021 amount to DKK 181 million (DKK 1,428 million in 2020) and DKK 9 million (DKK 217 million in 2020), respectively. Had such revenue and profit been consolidated on 1 January 2021, we estimate that consolidated pro forma revenue and profit would have been DKK 18,755 million (DKK 14,524 million in 2020) and DKK 2,542 million (DKK 1,136 million in 2020), respectively. Without taking synergies from our core business into account, we believe that these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises.

The above statements of the fair values of acquisitions are not considered final until 12 months after takeover.

From the balance sheet date and until the date of financial reporting in 2022, we have acquired additional distribution enterprises. We are in the process of assessing their fair value. The acquisition cost is expected to relate primarily to goodwill.

Accounting policies

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquisition or formation. The time of acquisition is the date when control of the enterprise is transferred to the Group. For Group accounting policies on control, please refer to the consolidated financial statements in Note 9.1. In respect of newly acquired enterprises, comparative figures and key figures will not be restated. On acquiring new enterprises of which the Group obtains control, the purchase method is applied according to which their identified assets, liabilities and contingent liabilities are measured at their fair values on the acquisition date. Any non-current assets acquired for the purpose of resale are, however, measured at their fair values less expected cost of disposal. Restructuring costs are solely recognised in the pre-acquisition balance sheet if they are a liability for the acquired enterprise. Any tax effect of revaluations will be taken into account.

The acquisition cost of an enterprise consists of the fair value of the consideration paid for the enterprise with addition of fair value of previously held interests in the acquiree. If the final consideration is conditional upon one or more future events, the consideration will be recognised at the fair value on acquisition. Any subsequent adjustment of contingent consideration is recognised directly in the income statement, unless the adjustment is the result of new information about conditions prevailing on the acquisition date, and this information becomes available up to 12 months after the acquisition date. Transaction costs are recognised directly in the income statement when incurred. If costs exceed the fair values of the assets, liabilities and contingent liabilities identified on acquisition, any remaining positive differences (goodwill) are recognised in the balance sheet under intangible assets and tested for impairment at least annually. If the carrying amount of an asset exceeds its recoverable amount, it is written down to such lower recoverable amount.

If, on the acquisition date, there are any uncertainties with respect to identifying or measuring acquired assets, liabilities or contingent liabilities or uncertainty with respect to determining their cost, initial recognition is made on the basis of provisionally calculated values. Such provisionally calculated values may be adjusted, or additional assets or liabilities may be recognised up to 12 months after the acquisition date, if new information becomes

6.1 Acquisition of enterprises and activities (continued)

available about conditions prevailing on the acquisition date, which would have affected the calculation of values on that day, had such information been known.

Accounting estimates and judgements

Identification of assets and liabilities (judgement)

On recognition of assets and liabilities from business combinations, Management judgements may be required for the following areas:

- Intangible assets resulting from technology, customer relationships, client lists or brand names.
- Contingent consideration arrangements.

Contingent consideration (estimate)

Business combinations may include provisions that additional payments of contingent considerations be paid to the previous owners when certain events occur or certain results are obtained. Management assesses on a regular basis the judgements made in respect of the particular acquisitions, taking sales run rates of the acquired entity into account.

6.2 Divestment of enterprises and activities

(DKK million)	2021	2020
Intangible assets	1	-
Property, plant and equipment	2	-
Other non-current assets	5	-
Inventories	46	-
Current receivables	38	-
Non-current liabilities	-3	-
Current liabilities	-7	-
Carrying amount of net assets divested	**82**	**-**
Non-controlling interests	-20	-
Carrying amount of net assets divested attributable to Demant A/S' shareholders	**62**	**-**
Recycling of cumulative exchange differences	-3	-
Gain on divestment	102	-
Cash consideration received	**161**	**-**

Figures are shown at fair value on the divestment date.

In 2021, the Group divested FrontRow Calypso LLC, a 75%-owned subsidiary focused specifically on audio systems for classrooms and schools. The divestment resulted in a gain, including recycling of cumulative exchange differences of DKK 99 million, which is recognised as other income in the income statement.

Section 7

Provisions, other liabilities etc.

PROVISIONS
349
DKK MILLION

OTHER LIABILITIES
2,642
DKK MILLION

7.1 Provisions

(DKK million)	2021	2020
Staff-related provisions	57	50
Miscellaneous provisions	99	29
Other provisions	**156**	**79**
Defined benefit plan liabilities, net	193	243
Provisions at 31.12.	**349**	**322**
Breakdown of provisions:		
Non-current provisions	268	305
Current provisions	81	17
Provisions at 31.12.	**349**	**322**

Miscellaneous provisions relate to provisions for disputes etc. and are essentially expected to be realised within the next five years.

	2021			2020		
(DKK million)	Staff-related	Miscel-laneous	Total	Staff-related	Miscel-laneous	Total
Other provisions at 1.1.	**50**	**29**	**79**	**46**	**47**	**93**
Foreign currency translation adjustments	-	-	**-**	-	-2	**-2**
Additions relating to acquisitions	1	4	**5**	-	1	**1**
Provisions during the year	-	73	**73**	-	19	**19**
Realised during the year	-	-4	**-4**	-	-10	**-10**
Reversals during the year	6	-3	**3**	4	-26	**-22**
Other provisions at 31.12.	**57**	**99**	**156**	**50**	**29**	**79**
Breakdown of provisions:						
Non-current provisions	57	18	**75**	50	12	**62**
Current provisions	-	81	**81**	-	17	**17**
Other provisions at 31.12.	**57**	**99**	**156**	**50**	**29**	**79**

7.1 Provisions (continued)

(DKK million)	2021	2020
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1.	564	519
Foreign currency translation adjustments	21	-2
Current service costs	19	28
Calculated interest on defined benefit obligations	-	1
Actuarial gains/losses	-53	11
Net benefits paid	-19	-1
Contributions from plan participants	9	8
Defined benefit obligations at 31.12.	**541**	**564**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	321	291
Foreign currency translation adjustments	15	-
Expected return on defined benefit assets	-1	-
Actuarial gains/losses	9	9
Contributions	23	22
Net benefits paid	-19	-1
Defined benefit assets 31.12.	**348**	**321**
Defined benefit obligations recognised in the balance sheet, net	**193**	**243**
Return on defined benefit assets:		
Actual return on defined benefit assets	8	9
Expected return on defined benefit assets	-1	-
Actuarial gains/losses on defined benefit assets	**9**	**9**
Assumptions:		
Discount rate	0.3%	0.1%
Expected return on defined benefit assets	0.0%	0.0%
Future salary increase rate	1.2%	1.2%

Generally, the Group does not offer defined benefit plans, but it has such plans in Switzerland, France and Germany where they are required by law.

Defined benefit plan costs recognised in the income statement amount to DKK 19 million (DKK 28 million in 2020), and the accumulated actuarial loss recognised in the statement of comprehensive income amounts to DKK 73 million (DKK 129 million in 2020).

In 2022, the Group expects to pay approx. DKK 18 million (DKK 23 million in 2021) into defined benefit plans. Defined benefit obligations in the amount of DKK 137 million (DKK 117 million in 2020) will mature within 1-5 years and obligations in the amount of DKK 401 million (DKK 447 million in 2020) after five years.

If the discount rate is 0.5% higher (lower), the defined benefit obligation would decrease by 7% (increase by 10%). If the expected salary growth rate is 0.5% higher (lower), the defined benefit obligation would increase by 1% (decrease by 1%).

Accounting policies

Provisions are recognised if, as a result of an earlier event, the Group has a legal or constructive obligation, and if the settlement of such an obligation is expected to draw on corporate financial resources, but there is uncertainty about the timing or amount of the obligation. Provisions are measured on a discounted basis based on Management's best estimate of the amount at which a particular liability may be settled. The discount effect of any changes in the present value of provisions is recognised as a financial expense.

The Group has defined benefit plans and similar agreements with some of its employees. As regards defined contribution plans, the Group pays regular, fixed contributions to independent pension companies. Contributions are recognised in the income statement for the period in which employees have performed work entitling them to such pension contributions. Contributions due are recognised in the balance sheet as a liability.

As regards defined benefit plans, the Group is obliged to pay a certain contribution when an employee covered by such a plan retires, for instance a fixed amount or a percentage of the employee's final salary. An actuarial calculation is made periodically of the accrued present value of future benefits to which employees through their past employment with the Group are entitled and which are payable under the defined benefit plan. This defined benefit obligation is calculated annually, using the projected unit credit method on the basis of judgements in respect of the future development in for instance wage levels, interest rates and inflation rates.

7.1 Provisions (continued)

The defined benefit obligation less the fair value of any assets relating to the defined benefit plan is recognised in the balance sheet under provisions.

Defined benefit costs are categorised as follows:

- Service costs, including current service costs, past-service costs as well as gains and losses on curtailments and settlements
- Net interest expense or income
- Remeasurements

Remeasurements, comprising actuarial gains and losses, any effects of changes to the asset ceiling as well as return on defined benefit assets, excluding interest, are reflected immediately in the balance sheet with a charge or credit recognised in other comprehensive income in the period in which it occurs.

Remeasurements recognised in other comprehensive income are reflected immediately in retained earnings and are not reclassified to the income statement. Service costs and net interest expenses or income are included in the income statement as staff costs.

Other non-current employee benefits are recognised using actuarial calculation. Actuarial gains or losses on such benefits are recognised directly in the income statement.

Accounting estimates and judgements

Assessment of provisions (estimate)

Management assesses, on an ongoing basis, provisions for restructuring costs and the likely outcome of pending and probable lawsuits etc. (other provisions). When assessing the likely outcome of lawsuits, Management bases its assessment on internal and external legal advice and established precedent. Provisions for restructuring costs are based on the estimated costs of implementing restructuring initiatives and thus on a number of assumptions about future costs and events. For all provisions, the outcome and final expense depend on future events, which are by nature uncertain.

7.2 Other liabilities

(DKK million)	2021	2020
Product-related liabilities	430	351
Staff-related liabilities	816	738
Other debt, public authorities	424	374
Contingent considerations	148	121
Other costs payable	824	530
Other liabilities	**2,642**	**2,114**
Due within 1 year	2,302	1,801
Due within 1-5 years	340	313

Product-related liabilities include standard warranties and returned products etc. Staff-related liabilities include holiday pay and payroll costs due. The carrying amounts of other liabilities approximate the fair values of such liabilities.

Accounting policies

Other non-financial liabilities are recognised if, as a result of an earlier event, the Group has a legal or constructive obligation, and if the settlement of such obligation is expected to draw on corporate financial resources. Other non-financial liabilities are measured on a discounted basis, and the discount effect of any changes in the present value of the liabilities is recognised as a financial expense.

On the sale of products with a right of return, a refund liability and a right to the returned products are recognised as a refund liability and a current asset (included in prepaid expenses), respectively. The refund liability is deducted from revenue and the right to the returned products is offset in cost of sales. Warranty commitments include an obligation to remedy faulty or defective products during the warranty period.

Accounting estimates and judgements

Warranty and return liabilities (estimates)

Liabilities in respect of service packages and warranties are calculated on the basis of information on products sold, related service and warranty periods and past experience of costs incurred by the Group to fulfil its service and warranty liabilities. Liabilities in respect of returns are calculated based on information on products sold, related rights concerning returns and past experience of products being returned in the various markets. Consolidated product-related liabilities are the sum of a large number of small items, the sum changing constantly due to a large number of transactions.

7.3 Deferred income

(DKK million)	2021	2020
Prepayments from customers	72	93
Future performance obligations:		
Deferred warranty-related revenue	513	494
Deferred free products revenue	138	151
Deferred service revenue	201	179
Total	**924**	**917**

Free products, service and some of the warranty-related services mentioned are provided free of charge to the customer. Certain other services and warranty-related services are paid by the customer in connection with delivery of the related goods, but delivery of the service takes place 1-4 years after delivery of the goods.

Please refer to Note 1.2 for a description of the nature of the deferred income.

Accounting policies

Deferred income includes income received or future performance obligations relating to subsequent financial years and is recognised as revenue when the Group performs its obligations by transferring the goods or services.

Expected recognition of revenue	Less than 1 year	1-2 years	2-4 years	More than 4 years	Total
(DKK million)					
2021					
Prepayments from customers	72	-	-	-	72
Deferred warranty-related revenue	253	179	77	4	513
Deferred free products revenue	81	46	10	1	138
Deferred service revenue	95	67	36	3	201
Total	**501**	**292**	**123**	**8**	**924**
2020					
Prepayments from customers	88	5	-	-	93
Deferred warranty-related revenue	262	160	69	3	494
Deferred free products revenue	99	44	7	1	151
Deferred service revenue	87	64	27	1	179
Total	**536**	**273**	**103**	**5**	**917**

7.4 Contingent liabilities

The Demant Group is involved in a few disputes, lawsuits etc. Management is of the opinion that such disputes do not or will not significantly affect the Group's financial position. The Group seeks to make adequate provisions for legal proceedings.

As part of our business activities, the Group has entered into normal agreements with customers and suppliers etc. as well as agreements for the purchase of shareholdings.

Section 8

Other disclosure requirements

8.1 Related parties

William Demant Foundation, Kongebakken 9, 2765 Smørum, Denmark, is the only related party with a controlling interest. Controlling interest is achieved through a combination of William Demant Foundation's own shareholding and the shareholding of William Demant Invest A/S for which William Demant Foundation exercises the voting rights. Subsidiaries and associated enterprises of William Demant Invest A/S are related parties to the Demant Group.

Related parties with significant influence are the company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

Subsidiaries, associates and joint ventures as well as the Demant Group's ownership interests in these companies appear from Subsidiaries, associates and joint ventures in Section 11 and financial information on transactions with associates and joint ventures can be found in Note 3.4.

In 2021, William Demant Foundation paid administration fees to the Group of DKK 1 million (DKK 1 million in 2020). The Group paid administration fees to William Demant Invest A/S of DKK 2 million (DKK 1 million in 2020).

In 2021, the Group paid service fees to Össur hf., a subsidiary of William Demant Invest A/S, of DKK 32 million (DKK 52 million in 2020) and received service fees of DKK 22 million (DKK 20 million in 2020) from Össur hf.

In 2021, the Group received service fees from Vision RT, a subsidiary of William Demant Invest A/S, in the amount of DKK 2 million (DKK 7 million in 2020).

At year-end 2021, the Group had receivables of DKK 6 million for services provided to Vision RT and Össur hf. (DKK 6 million in 2020).

In 2021, William Demant Foundation donated DKK 1 million to Eriksholm Research Centre and DKK 2 million to an industrial PhD project in Oticon A/S. Further, William Demant Foundation acquired diagnostic equipment worth DKK 0.1 million (DKK 0.5 million in 2020) from the Group.

Since 2011, the Group has settled Danish tax on account and residual tax with William Demant Invest A/S, which is the administration company for the joint taxation.

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration. Please refer to Note 1.3.

8.2 Fees to statutory auditors

(DKK million)	2021	2020
Statutory audit	14	14
Tax and VAT advisory services	2	2
Other services	3	2
Total	**19**	**18**

A few Group enterprises are not audited by the Parent's appointed auditors (Deloitte) or the auditors' foreign affiliates.

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to DKK 2 million (DKK 3 million in 2020) and consists of VAT and tax services, tax advisory services related to transfer pricing, issuance of various assurance reports as well as consulting services.

8.3 Government grants

(DKK million)	2021	2020
Government grants by function:		
Production costs	5	42
R&D costs	22	52
Distribution costs	19	227
Administrative expenses	2	25
Total	**48**	**346**

In 2021, the Demant Group received government grants in the amount of DKK 48 million (DKK 346 million in 2020) of which DKK 28 million (DKK 326 million in 2020) are Covid-19-related publicly funded compensation schemes. Non-Covid-19 grants are offset against R&D costs.

Accounting policies

Government grants are recognised when there is reasonable certainty that the conditions for such grants are satisfied and that they will be awarded. Grants received as compensation for costs incurred are recognised proportionately in the income statement over the periods in which the related costs are recognised in the income statement and are offset against costs incurred.

Government grants relating to the acquisition of non-current assets are deducted from the cost of such assets.

8.4 Events after the balance sheet date

No events have occurred after the reporting date that might affect the consolidated financial statements.

Section 9

Basis for preparation

Interacoustics
Titan

9.1 Group accounting policies

The Group's general accounting policies are described below. In addition to this, specific accounting policies are described in each of the individual notes to the consolidated financial statements as outlined here:

1.1 Segment disclosures
1.2 Revenue from contracts with customers
1.3 Employees
1.6 Inventories
1.7 Receivables
2.3 Hedging and forward exchange contracts
2.4 Exchange rates
3.1 Intangible assets
3.2 Property, plant and equipment
3.3 Leases
3.4 Other non-current assets
3.6 Impairment testing
4.2 Net financial items
4.3 Categories of financial instruments
4.5 Fair value hierarchy
5.1 Tax on profit
5.2 Deferred tax
6.1 Acquisition of enterprises and activities
7.1 Provisions
7.2 Other liabilities
7.3 Deferred income
8.3 Government grants

General

The consolidated financial statements are presented in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for annual reports published by reporting class D (listed) companies, cf. the Danish executive order on IFRS issued in compliance with the Danish Financial Statements Act. The registered office of Demant A/S is in Denmark.

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency for the Parent. The consolidated financial statements are presented based on historical costs, except for obligations for contingent consideration in connection with business combinations, share-based remuneration, derivatives and financial assets classified as assets available for sale, which are measured at fair value.

The financial statements for the Parent as well as the Parent's accounting policies are presented separately from the consolidated financial statements and are shown on the last pages of this Annual Report 2021.

Effect of new accounting standards

The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning 1 January 2021. None of these new, updated and amended standards and interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on the consolidated financial statements for 2021.

IASB has issued new accounting standards and amendments effective for accounting periods beginning after 1 January 2021, which have not been adopted by the EU yet. The changes to these standards are not expected to have any significant impact on the Group.

Except for the implementation of new and amended standards as well as insignificant reclassifications of the comparative figures for 2020, the accounting policies remain unchanged compared to last year.

Consolidated financial statements

The consolidated financial statements comprise Demant A/S (the Parent) and the enterprises in which the Parent can or does exercise control by either directly or indirectly holding more than 50% of the voting rights, or in which the Parent exercises control in some other manner. Enterprises in which the Group holds 20-50% of the voting rights and/or in some other manner can or does exercise significant influence are considered associates or joint ventures and are incorporated proportionately into the consolidated financial statements using the equity method.

Consolidation principles

The consolidated financial statements are prepared based on the financial statements of the Parent and its subsidiaries by aggregating uniform items. Enterprises that, by agreement, are managed jointly with one or more other enterprises are recognised using the equity method.

The consolidated financial statements are prepared in accordance with the Group's accounting policies. Intra-Group income, expenses, shareholdings, balances and dividends as well as unrealised intra-Group profits on inventories are eliminated.

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. On initial recognition, non-controlling interests are measured either at fair value or at their proportionate share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. The method is chosen for each individual transaction. Non-controlling interests are subsequently adjusted according to their proportionate share of changes in equity of the subsidiary.

Comprehensive income is allocated to non-controlling interests whether or not, as a result hereof, the value of such interests is negative. The purchase or sale of non-controlling interests in a subsidiary, which does not result in obtaining or discontinuing control of such subsidiary, is treated as an equity transaction in the

9.1 Group accounting policies (continued)

consolidated financial statements, and any difference between the consideration and the carrying amount is allocated to the Parent's share of the equity.

Income statement
Income and costs are recognised on an accruals basis. The income statement is broken down by function, and all costs, including depreciation, amortisation and impairment losses, are therefore charged to production, distribution, administration and R&D.

Production costs
Production costs are costs incurred to generate revenue. Distribution companies recognise cost of goods sold under production costs. Production companies recognise cost of raw materials, consumables, production staff as well as maintenance of and depreciation, amortisation and impairment losses on property, plant and equipment and intangible assets used in the production process under production costs.

R&D costs
Research costs are always recognised in the income statement as such costs incur. Development costs include all costs not satisfying capitalisation criteria but incurred in connection with the development, prototype construction, development of new business concepts and amortisation of capitalised development costs.

Distribution costs
Distribution costs include costs relating to training, sales, marketing, promotion materials, distribution, bad debts as well as depreciation and amortisation of and impairment losses on assets used for distribution purposes.

Administrative expenses
Administrative expenses include administrative staff costs, office expenses as well as depreciation and amortisation of and impairment losses on assets used for administrative purposes.

Prepaid expenses
Prepaid expenses recognised under assets include costs relating to the subsequent financial years. Prepaid expenses are measured at cost.

Other operating income
Other operating income includes income from all activities not related to the core business activities of the Group.

Equity
Foreign currency translation reserves include foreign currency translation adjustments on the translation of financial statements of foreign subsidiaries, associates and joint ventures from their respective functional currencies into Danish kroner. Foreign currency translation adjustments are recognised in the income statement on realisation of the net investment. Hedging reserves include fair value adjustments of derivatives and loans satisfying the criteria for hedging of future transactions. The amounts are recognised in the income statement or the balance sheet at the same time as hedged transactions are recognised.

Treasury shares and dividend
On the buy-back of shares or sale of treasury shares, the purchase price or selling price, respectively, is recognised directly in equity under other reserves (retained earnings). A capital reduction through the cancellation of treasury shares will reduce the share capital by an amount corresponding to the nominal value of such shares. Proposed dividends are recognised as a liability at the time of adoption at the annual general meeting.

Cash flow statement
The cash flow statement is prepared according to the indirect method and reflects the consolidated net cash flow broken down into operating, investing and financing activities.

Cash flow from operating activities includes inflows from the year's operations adjusted for non-cash operating items, changes in working capital, financial income received, financial expenses paid, realised foreign currency translation gains and losses and income tax paid. Cash flow from operating activities also includes short-term lease payments, lease payments of low-value assets and variable lease payments. Cash flow from investing activities includes payments in respect of the acquisition or divestment of enterprises and financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment. In addition to this, cash flow from investing activities also includes movement in receivables from associates and joint ventures as well as customer loans.

Cash flow from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt and lease liabilities.

Cash flow in currencies other than the functional currency is recognised at average exchange rates for the months of the year unless they deviate significantly from actual exchange rates on the transaction dates. Repayments of lease liabilities are included as well.

Cash and cash equivalents are cash less overdrafts, which consist of uncommitted bank facilities that often fluctuate from positive to overdrawn. Any short-term bank facilities that are consistently overdrawn are considered cash flow from financing activities.

9.1 Group accounting policies (continued)

Key figures and financial ratios

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark.

The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities.

Financial ratios per share are calculated per share of nominally DKK 0.20.

On computation of the return on equity, average equity is calculated, duly considering share buy-backs.

The gearing multiple is calculated as net interest-bearing debt relative to EBITDA.

Net working capital is the net amount of current assets (excluding tax, financial contracts and cash) less trade payables, the current part of other liabilities and deferred income.

The CEO pay ratio is calculated as the CEO total compensation/the average Demant employee total compensation.

Scope 1 emissions entail tonnes of CO2e emissions from natural gas, gasoline, diesel and fuel oil consumed in Demant.

Scope 2 emissions entail tonnes of CO2e emissions from purchased electric power and district heating at Demant's main production sites, offices and clinics. Every year, the data quality and the scope of reporting are improved. The 2021 data covers more than 90% of our total sites including estimates.

Gender diversity, all employees shows the gender distribution between women and men in percent of the employees in countries enrolled in our global HR data management system. In 2021, 90% of all our employees were registered in the system.

Gender diversity, management shows the gender distribution between women and men in percent among all people managers with one or more reports. The data is extracted from our HR data management system that held 90% of our employees in 2021.

Gender diversity, Board of directors shows the gender distribution between women and men among the shareholder-elected members of the Board of Directors.

iXBRL tagging

The Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) has introduced a single electronic reporting format for the annual financial reports of issuers with securities listed on the EU regulated markets.

The combination of XHTML format and iXBRL tags makes it possible for annual financial reports to be read by both humans and machines, thus enhancing accessibility, analysis and comparability of the information included in the annual financial reports.

The Group's iXBRL tags have been prepared in accordance with the ESEF taxonomy, which is included in the ESEF Regulation and developed based on the IFRS taxonomy published by the IFRS Foundation.

The line items in the consolidated financial statements are tagged to elements in the ESEF taxonomy. For financial line items that are not directly defined in the ESEF taxonomy, an extension to the taxonomy has been created. Extensions are anchored to elements in the ESEF taxonomy, except for extensions that are subtotals.

The annual report submitted to the Danish Financial Supervisory Authority (the Officially Appointed Mechanism) consists of the XHTML document together with the technical files, all of which are included in the ZIP file DEMANT-2021-12-31-en.zip.

Key definitions

XHTML (eXtensible HyperText Markup Language) is a text-based language used to structure and mark up content such as text, images and hyperlinks in documents that are displayed in a web browser.

iXBRL tags (or Inline XBRL tags) are hidden metainformation embedded in the source code of an XHTML document that enables the conversion of XHTML-formatted information into a machine-readable XBRL data record using appropriate software.

A financial reporting taxonomy is an electronic dictionary of business reporting elements used to report business data. A taxonomy element is an element defined in a taxonomy that is used for the machine-readable labelling of information in an XBRL data record.

9.2 Accounting estimates and judgements

On the preparation of the consolidated financial statements, Management makes a number of accounting estimates and judgements. These relate to the recognition, measurement and classification of assets and liabilities. Many items can only be estimated rather than accurately measured. Such estimates are based on the most recent information available on preparation of the financial statements. Estimates and assumptions are therefore reassessed on an ongoing basis. Actual figures may, however, deviate from these estimates. Any changes in accounting estimates will be recognised in the reporting period in which such changes are made.

Significant accounting estimates and judgements are described below:

1.6 Inventories
1.7 Receivables
3.3 Leases
3.5 Impairment (identification of CGUs)
5.2 Deferred tax
6.1 Acquisition of enterprises and activities

Specific accounting estimates and judgements are described in each of the individual notes to the consolidated financial statements as outlined below:

1.2 Revenue from contracts with customers
1.3 Employees
1.6 Inventories
1.7 Receivables
3.1 Intangible assets
3.2 Property, plant and equipment
3.3 Leases
5.2 Deferred tax
6.1 Acquisition of enterprises and activities
7.1 Provisions
7.2 Other liabilities

Parent financial statements

Parent income statement

(DKK million)	Note	2021	2020
Administrative expenses	10.1 / 10.2	-114	-119
Other operating income and expenses		28	34
Operating loss (EBIT)		**-86**	**-85**
Share of profit after tax, subsidiaries	10.8	2,140	379
Share of profit after tax, associates and joint ventures	10.8	-	459
Financial income	10.3	24	82
Financial expenses	10.3	-95	-59
Profit before tax		**1,983**	**776**
Tax on profit for the year	10.4	32	13
Profit for the year	10.5	**2,015**	**789**

Parent balance sheet 31 December

(DKK million)	Note	2021	2020
Assets			
Goodwill		26	30
Intangible assets	10.6	**26**	**30**
Land and buildings		24	24
Property, plant and equipment	10.7	**24**	**24**
Lease assets		1	1
Investments in subsidiaries	10.8	12,826	10,932
Loans to subsidiaries	10.8	1,429	944
Investments in associates and joint ventures	10.8	36	42
Loans to associates and joint ventures	10.8	-	1
Other receivables		10	10
Other non-current assets		**14,302**	**11,930**
Non-current assets		**14,352**	**11,984**
Income tax		33	12
Other receivables		5	6
Prepaid expenses		9	12
Receivables		**47**	**30**
Current assets		**47**	**30**
Assets		**14,399**	**12,014**

(DKK million)	Note	2021	2020
Equity and liabilities			
Share capital		48	48
Other reserves		1,859	425
Retained earnings		2,799	5,295
Total equity		**4,706**	**5,768**
Deferred tax liabilities	10.4	7	10
Provisions		**7**	**10**
Borrowings		2,762	3,473
Lease liabilities		1	1
Other debt		29	25
Non-current liabilities	10.9	**2,792**	**3,499**
Borrowings	10.9	5,512	2,656
Debt to subsidiaries		1,336	49
Other debt	10.9	46	32
Current liabilities		**6,894**	**2,737**
Liabilities		**9,686**	**6,236**
Equity and liabilities		**14,399**	**12,014**
Contingent liabilities	10.10		
Related parties	10.11		
Events after the balance sheet date	10.12		
Parent accounting policies	10.13		

Parent statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2020	**49**	**-78**	**-3**	**2,119**	**3,482**	**5,569**
Changes in accounting policies	-	-	-	-100	-	-100
Equity at 1.1.2020 (restated)	**49**	**-78**	**-3**	**2,019**	**3,482**	**5,469**
Profit for the year	-	-	-	375	414	789
Dividends received				-1,594	1,594	-
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	-413	-	-417
Disposals related to investments in associates				-33	33	-
Reclassifications				83	-83	-
Other changes in equity in subsidiaries	-	-	-	68	-	68
Value adjustment for the year	-	-	4	-	-	4
Tax relating to changes in equity	-	1	-	-	-	1
Share buy-backs	-	-	-	-	-147	-147
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	-
Share-based compensation	-	-	-	-	2	2
Other changes in equity	-	3	-	-3	-1	-1
Equity at 31.12.2020	**48**	**-78**	**1**	**502**	**5,295**	**5,768**
Profit for the year	-	-	-	2,140	-125	2,015
Dividends received	-	-	-	-768	768	-
Foreign currency translation adjustment of investments in subsidiaries etc.	-	2	-	404	-	406
Other changes in equity in subsidiaries	-	-	-	-342	-	-342
Value adjustment for the year	-	-	1	-	-	1
Tax relating to changes in equity	-	1	-	-	-	1
Share buy-backs	-	-	-	-	-3,143	-3,143
Share-based compensation	-	-	-	-	4	4
Other changes in equity	-	-	-	-4	-	-4
Equity at 31.12.2021	**48**	**-75**	**2**	**1,932**	**2,799**	**4,706**

Parent statement of changes in equity (continued)

	2021		2020	
	Treasury shares	**Percentage of share capital**	**Treasury shares**	**Percentage of share capital**
Treasury shares at 1.1.	797,697	0.3%	4,725,862	1.9%
Cancellation of treasury shares	-563,335	-0.2%	-4,595,867	-1.9%
Share buy-backs	9,763,327	4.1%	667,702	0.3%
Treasury shares at 31.12.	**9,997,689**	**4.2%**	**797,697**	**0.3%**

At year-end 2021, the share capital was nominally DKK 48 million (DKK 48 million in 2020) divided into the corresponding number of shares of DKK 0.20.

There are no restrictions on the negotiability or voting rights of the shares. At year-end 2021, the number of outstanding shares was 230,130,144 (239,893,471 in 2020).

As part of the company's share buy-back programme, the company acquired 9,763,327 treasury shares in 2021 (667,702 shares in 2020) amounting to a total of DKK 3,143 million (DKK 147 million in 2020).

Section 10

Notes to Parent financial statements

Interacoustics
Orion Chair

10.1 Employees

(DKK million)	2021	2020
Wages and salaries	57	56
Share-based remuneration	11	9
Staff costs	**68**	**65**
Average number of full-time employees	29	29

For further details on remuneration to the Executive Board and the Board of Directors and the share-based remuneration programme, please refer to Note 1.3 in the consolidated financial statements.

Remuneration to Executive Board and Board of Directors (included in staff costs)

	2021			2020		
(DKK million)	Wages and salaries*	Share-based remuneration**	Total	Wages and salaries*	Share-based remuneration**	Total
Søren Nielsen, President & CEO	12.9	3.7	16.6	11.9	2.9	14.8
René Schneider, CFO	5.7	1.6	7.3	5.2	1.3	6.5
Executive Board	**18.6**	**5.3**	**23.9**	**17.1**	**4.2**	**21.3**
Fees to Board of Directors	**4.8**	-	**4.8**	**3.6**	-	**3.6**

*No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2020). These expenses are therefore included in wages and salaries.
**In 2021, DKK 3.5 million (DKK 4.2 million in 2020) of the share-based remuneration was paid out.

10.2 Fees to statutory auditors

(DKK million)	2021	2020
Statutory audit	2	2
Other services	1	-
Total	**3**	**2**

10.3 Net financial items

(DKK million)	2021	2020
Interest from subsidiaries	24	19
Interest income	-	2
Foreign exchange gains, net	-	61
Financial income	**24**	**82**
Interest to subsidiaries	-1	-
Interest expenses	-43	-47
Transaction costs	-6	-12
Foreign exchange losses, net	-45	-
Financial expenses	**-95**	**-59**
Net financial items	**-71**	**23**

10.4 Tax on profit for the year and deferred tax

(DKK million)	2021	2020
Current tax on profit for the year	-33	-12
Adjustment of current tax, prior years	4	-
Change in deferred tax	-	-1
Adjustment of deferred tax, prior years	-3	-
Tax on profit for the year	**-32**	**-13**
Deferred tax recognised in the balance sheet:		
Deferred tax, net at 1.1.	-10	-11
Changes in deferred tax	3	1
Deferred tax, net at 31.12.	**-7**	**-10**

10.5 Proposed distribution of net profit

(DKK million)	2021	2020
Transferred to reserves for net revaluation according to the equity method	2,140	375
Retained earnings	-125	414
Total	**2,015**	**789**

10.6 Intangible assets

(DKK million)	Goodwill	Rights and other intangible assets	Total intangible assets
Cost at 1.1.2021	**65**	**11**	**76**
Cost at 31.12.2021	**65**	**11**	**76**
Amortisation at 1.1.2021	**-35**	**-11**	**-46**
Amortisation for the year	-4	-	-4
Amortisation at 31.12.2021	**-39**	**-11**	**-50**
Carrying amount at 31.12.2021	**26**	**-**	**26**
Cost at 1.1.2020	**65**	**11**	**76**
Cost at 31.12.2020	**65**	**11**	**76**
Amortisation at 1.1.2020	**-32**	**-10**	**-42**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2020	**-35**	**-11**	**-46**
Carrying amount at 31.12.2020	**30**	**-**	**30**

Goodwill is amortised over 20 years, reflecting the useful life estimated by Management.

10.7 Property, plant and equipment

(DKK million)	Land and buildings
Cost at 1.1.2021	**31**
Cost at 31.12.2021	**31**
Depreciation and impairment losses at 1.1.2021	**-7**
Depreciation and impairment losses at 31.12.2021	**-7**
Carrying amount at 31.12.2021	**24**
Cost at 1.1.2020	31
Cost at 31.12.2020	**31**
Depreciation and impairment losses at 1.1.2020	**-6**
Depreciation for the year	-1
Depreciation and impairment losses at 31.12.2020	**-7**
Carrying amount at 31.12.2020	**24**

10.8 Financial assets

(DKK million)	2021				2020			
	Investments in subsidiaries	**Loans to subsidiaries**	**Investments in associates and joint ventures**	**Loans to associates and joint ventures**	**Investments in subsidiaries**	**Loans to subsidiaries**	**Investments in associates and joint ventures**	**Loans to associates and joint ventures**
Cost at 1.1.	**10,418**	**944**	**54**	**1**	**8,275**	**751**	**330**	**97**
Foreign currency translation adjustments	-	5	-	-	-	-5	-	-
Additions during the year	167	563	-	-	2,143	276	-	-
Disposals during the year	-	-83	-4	-1	-	-78	-193	-96
Other adjustments	-	-	-	-	-	-	-83	-
Cost at 31.12.	**10,585**	**1,429**	**50**	**-**	**10,418**	**944**	**54**	**1**
Value adjustments at 1.1.	**514**	**-**	**-12**	**-**	**2,174**	**-**	**-58**	**-**
Changes in accounting policies	-	-	-	-	-100	-	-	-
Value adjustments at 1.1. (restated)	**514**	**-**	**-12**	**-**	**2,074**	**-**	**-58**	**-**
Foreign currency translation adjustments	404	-	-1	-	-413	-	-	-
Share of profit after tax	2,140	-	-	-	379	-	-4	-
Dividends received	-767	-	-1	-	-1,594	-	-	-
Disposals during the year	-	-	-	-	-	-	-33	-
Other adjustments	-50	-	-	-	68	-	83	-
Value adjustments at 31.12.	**2,241**	**-**	**-14**	**-**	**514**	**-**	**-12**	**-**
Carrying amount at 31.12.	**12,826**	**1,429**	**36**	**-**	**10,932**	**944**	**42**	**1**
Non-current financial assets	12,826	1,429	36	-	10,932	944	42	1

The carrying amount of investment in subsidiaries includes capitalised goodwill in the amount of DKK 6,768 million (DKK 5,784 million in 2020). Amortisation of capitalised goodwill for the year is DKK 493 million (DKK 439 million in 2020).

Loans to subsidiaries of DKK 1,429 million (DKK 944 million in 2020) are considered additions to the total investments in the particular enterprises and are therefore considered non-current.

Please refer to Section 11 Subsidiaries and associates for further information on subsidiaries, joint ventures and associates.

10.9 Interest-bearing debt

(DKK million)	Contractual cash flows: Less than 1 year	1-5 years	More than 5 years	Total	Carrying amount	Weighted average effective interest rate
2021						
Debt to credit institutions etc.	3,226	2,774	-	6,000	5,973	
Short-term bank facilities etc.	2,316	-	-	2,316	2,301	
Lease liabilities	-	1	-	1	1	
Interest-bearing liabilities	**5,542**	**2,775**	**-**	**8,317**	**8,275**	**0.5%**
2020						
Debt to credit institutions etc.	2,041	3,498	-	5,539	5,496	
Short-term bank facilities etc.	640	-	-	640	633	
Lease liabilities	-	1	-	1	1	
Interest-bearing liabilities	**2,681**	**3,499**	**-**	**6,180**	**6,130**	**0.6%**

Sensitivity analysis in respect of interest rates

Based on the bank debt facilities at the end of the 2021 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in the Parent's annual interest expenses before tax of approx. DKK 37 million (DKK 19 million in 2020). About 55% of the interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options), and partly due to loans being raised at fixed interest rates.

Interest cap

(DKK million)

	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
2021					
DKK/DKK	2023	0%	650	-	-
			650	**-**	**-**
2020					
DKK/DKK	2023	0%	650	-	2
			650	**-**	**2**

A part of other debt of DKK 47 million (DKK 32 million in 2020) has a contractual maturity of less than one year, and a part of other debt of DKK 29 million (DKK 25 million in 2020) has a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 72% in Danish kroner (63% in 2020), 21% in euros (27% in 2020) and 7% in US dollars (10% in 2020).

The maximum interest rates on part of the Parent's non-current debt are limited through an interest rate cap.

10.10 Contingent liabilities

Demant A/S has provided security in respect of credit facilities established by Danish subsidiaries. These credit facilities totalled DKK 2,472 million in 2021 (DKK 3,144 million in 2020) of which DKK 514 million was drawn (DKK 453 million in 2020).

Moreover, Demant A/S has established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2020), which is being drawn upon on a current basis.

Demant A/S has provided security in respect of rent as well as guarantees concerning the continuous operation and payment of liabilities in 2021 for some of our subsidiaries.

The Parent is jointly taxed with William Demant Invest A/S, which is the administration company, and all Danish subsidiaries of both. Under the Danish Corporation Tax Act, the Parent is first of all fully liable for corporate tax payments and for withholding tax at source in respect of interest, royalties and dividends in relation to its own subsidiaries and is secondly liable for tax payments due for William Demant Invest A/S and its partly owned subsidiaries.

For the purposes of section 357 of the Republic of Ireland Companies Act 2014, Demant A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities for the financial year ending on 31 December 2021 or any amended financial period incorporating said financial year. No material loss is expected to arise from this guarantee.

For the purpose of section 78a, subsection 5 of the Danish Financial Statements Act, Demant A/S has undertaken to guarantee liabilities of the subsidiary EPOS Group A/S. No material loss is expected to arise from this guarantee.

10.11 Related parties

William Demant Foundation, Kongebakken 9, 2765 Smørum, Denmark, is the only related party with a controlling interest. Controlling interest is achieved through a combination of William Demant Foundation's own shareholding and the shareholding of William Demant Invest A/S for which William Demant Foundation exercises the voting rights. Subsidiaries and associated enterprises of William Demant Invest A/S are related parties to Demant A/S.

Related parties with significant influence are the company's Executive Board, Board of Directors and their related parties. Furthermore, related parties are companies in which the above persons have significant interests.

10.12 Events after the balance sheet date

Please refer to Note 8.4 in the consolidated financial statements.

10.13 Parent accounting policies

The financial statements of the Parent, Demant A/S, are presented in accordance with the provisions of the Danish Financial Statements Act for class D entities.

The Parent financial statements are presented in Danish kroner (DKK), which is also the functional currency for the Parent. The accounting policies are the same as last year.

In respect of recognition and measurement, the Parent's accounting policies are generally consistent with the Group's accounting policies. The instances in which the Parent's accounting policies deviate from those of the Group are described below.

The Parent has decided to apply the recognition and measurement in accordance with IFRS 15 and 16. The standards affect the Parent's proportionate share of its subsidiaries' equity value, and IFRS 16 affects the Parent's leases.

Changes in accounting policies

The comparative figures for 2020 for investments in subsidiaries and equity have been restated because of a change in accounting policies, arising from the implementation of the changes in the Danish Financial Statements Act. The changes entail that accumulated actuarial gains/losses related to defined benefit plans are recognised as part of investments in subsidiaries.

The effect of the changes to the comparative figures for 2020:

- "Changes in accounting policies", opening balance for 2020 for investments in subsidiaries: DKK -100 million
- "Other adjustments", investments in subsidiaries: DKK 8 million
- "Changes in accounting policies", opening balance for 2020 in equity: DKK -100 million
- "Other changes in equity in subsidiaries": DKK 8 million

Income statement

Tax

The Parent is jointly taxed with its Danish subsidiaries and its parent, William Demant Invest A/S. Current income tax is allocated to the jointly taxed Danish companies in proportion to their taxable income.

Balance sheet

Goodwill

Goodwill is amortised on a straight-line basis over 20 years, which is the useful life determined on the basis of Management's experience in respect of the individual business activities. Goodwill is written down to its recoverable amount, if lower than its carrying amount.

Rights

Rights acquired are amortised on a straight-line basis over their estimated useful lives and measured at cost less accumulated amortisation and impairment losses. The amortisation period is five years. Rights acquired are written down to their recoverable value, if lower than their carrying value.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognised and measured using the equity method, i.e. interests are measured at the proportionate share of the equity values of such subsidiaries and associates with the addition or deduction of the carrying amount of goodwill and with the addition or deduction of unrealised intra-Group profits or losses, respectively.

The Parent's proportionate shares of profits or losses in subsidiaries and associates are recognised in the income statement after elimination of unrealised intra-Group profits or losses less any amortisation and impairment of goodwill.

Subsidiaries and associates with negative equity values are measured at DKK 0, and any receivables from such companies are written down with the Parent's share of the negative equity value to the extent that such receivable is considered irrecoverable. If the negative equity value exceeds the value of receivables, if any, such residual amount is recognised under provisions to the extent that the Parent has a legal or constructive obligation to cover liabilities incurred by the particular subsidiary or associate.

On distribution of profit or loss, net revaluation and net impairment losses on investments in subsidiaries and associates are transferred to reserves for net revaluation according to the equity method.

Other investments

On initial recognition, other investments are measured at cost. Subsequently, they are measured at fair value on the balance sheet date, and any changes in fair values are recognised in the income statement under net financial items.

Provisions

Provisions include liabilities, which are uncertain in respect of the amount or the timing of their settlement. Provisions may include different types of liabilities, such as deferred tax liabilities, onerous contracts, pension obligations as well as provisions for disputes etc.

Statement of changes in equity

In compliance with the format requirements of the Danish Financial Statements Act, any items included under comprehensive income in the consolidated financial statements are recognised directly in equity in the Parent financial statements.

Cash flow statement

In compliance with section 86(4) of the Danish Financial Statements Act, a cash flow statement is not drawn up for the Parent, such statement being included in the consolidated cash flow statement.

Section 11

Subsidiaries, associates and Joint ventures

Company	Interest	Company	Interest
Demant A/S	Parent	Audmet New Zealand Limited, New Zealand*	100%
Oticon A/S, Denmark*	100%	Audmet OY, Finland*	100%
Oticon AS, Norway*	100%	Audmet S.r.l., Italy*	100%
Oticon Denmark A/S, Denmark*	100%	AudPractice Group, LLC, USA	100%
Oticon GmbH, Germany	100%	Bernafon A/S, Denmark*	100%
Oticon Limited, United Kingdom*	100%	Bernafon AB, Sweden*	100%
Oticon Medical A/S, Denmark*	100%	Bernafon AG, Switzerland*	100%
Oticon Medical AB, Sweden	100%	Bernafon Hörgeräte GmbH, Germany	100%
Oticon Medical Maroc, Morocco*	100%	Bernafon LLC, USA	100%
Oticon Medical LLC, USA	100%	Centro Auditivo Telex Ltda., Brazil	100%
Oticon Polska Sp. z o.o., Poland*	100%	Danacom Høreapparater A/S, Denmark*	100%
Oticon Portugal, Unipessoal LDA, Portugal*	100%	Demant Iberica S.A., Spain*	100%
AB Suavis, Sweden*	100%	Demant Italia S.r.l., Italy*	100%
AccuQuest Hearing Center LLC, USA	100%	Demant Japan K.K., Japan*	100%
Acoustic Metrology Limited, United Kingdom	100%	Demant Korea Co. Ltd., Korea*	100%
ACS Audika Sp. z o.o., Poland	100%	Demant Malaysia Sdn, Malaysia*	100%
Acustica Sp. z o.o., Poland*	100%	Demant México, S.A. de C.V., Mexico*	100%
Akoustica Medica S.A., Greece*	100%	Demant Nederland B.V., Netherlands*	100%
Amplivox Ltd., United Kingdom	100%	Demant Operations S.A. de C.V., Mexico	100%
Audika AB, Sweden*	100%	Demant Sales Strategic Accounts A/S, Denmark*	100%
Audika AG, Switzerland*	100%	Demant Schweiz AG, Switzerland*	100%
Audika ApS, Denmark*	100%	Demant Singapore Pte Ltd, Singapore*	100%
Audika Australia Pty. Ltd., Australia	100%	Demant South Africa (Pty) Ltd., South Africa*	100%
Audika Groupe S.A.S., France*	100%	Demant Sweden AB, Sweden*	100%
Audika New Zealand Limited, New Zealand*	100%	Demant Technology Centre Sp. z o. o., Poland*	100%
Audika NV, Belgium*	100%	DGS Business Services Sp. Z o.o., Poland*	100%
Audio Seleccion S.L., Spain*	100%	DGS Diagnostics Sp. z o.o., Poland	100%
Audiology Services Company LLC, USA	100%	DGS Poland Sp. z o.o., Poland	100%
AudioNet America, Inc., USA	100%	Diagnostic Group LLC, USA	100%
Audmet Australia Pty. Ltd., Australia	100%	Diatec A/S, Denmark*	100%
Audmet Canada LTD., Canada	100%	Diatec AG, Switzerland*	100%

The list includes the Group's active companies
*Directly owned by the Parent

Company	Interest
Diatec Diagnostics GmbH, Germany*	100%
Diatec Shanghai Medical Technology Co., Ltd., China*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostics Inc., USA	100%
EPOS Group A/S, Denmark* **	100%
Etymonic Design Inc., Canada*	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centers LLC, USA	100%
Hearing Screening Associates LLC, USA	100%
HearingLife Canada Ltd., Canada*	100%
Hidden Hearing (N.I.) Limited, United Kingdom*	100%
Hidden Hearing Limited, United Kingdom	100%
Hidden Hearing Limited, Ireland*	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	100%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey*	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia	100%
Kuulopiiri Oy, Finland*	100%
LeDiSo Italia S.r.l., Italy*	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
MedRx Inc., USA	100%
Medton Ltd., Israel*	100%
Micromedical Technologies Inc., USA	100%
Neurelec S.A.S., France*	100%
NexGen Healthcare Management Inc., Canada	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon Inc., USA	100%
Prodition S.A.S., France*	100%
Ritter Hörgeräte GmbH, Germany	100%

Company	Interest
SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey*	100%
Sonic Innovations Pty Ltd., Australia	100%
Sonic Innovations Inc., USA	100%
The Q Group, LLC, USA	100%
Udicare S.r.l., Italy*	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
Workplace Integra Inc., USA	100%
Your Hearing Network LLC, USA	100%
Audilab S.A.S., France*	95%
Dencker A/S, Denmark*	40%
HIMSA A/S, Denmark	25%
Solaborate Inc., USA	20%

The list includes the Group's active companies.
*Directly owned by the Parent.

**EPOS Group A/S is presenting financial statements in accordance with Financial Statements Act §78a.

Demant A/S
Kongebakken 9
DK-2765 Smørum
Denmark

Phone +45 3917 7300
info@demant.com
www.demant.com
CVR 71186911