

# Demant

# Remuneration Policy

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# 1. Scope of the policy and general principles

This Remuneration Policy sets out the principles of the remuneration of the Board of Directors and the Executive Board of Demant A/S. The Executive Board includes the executives registered with the Danish Business Authority.

The Remuneration Policy has been prepared in accordance with sections 139 and 139a of the Danish Companies Act and the Recommendations on Corporate Governance implemented by Nasdaq Copenhagen A/S.

Demant is a hearing healthcare and technology Group built on a heritage of care, health and innovation. The Group offers solutions and services to help people connect and communicate with the world around them. Our roots are in hearing health and our purpose is to create life-changing differences through hearing health.

It is Demant's strategic ambition to be the leading global hearing healthcare company and to create value through a long-term commitment to the shareholders and other stakeholders in a sustainable and responsible manner. Demant ensures the sustainability of its business by having a long-term perspective and by only supporting short-term opportunities and decisions that form the basis for reaching long-term ambitions and goals.

Demant's Group values are fundamental in supporting our purpose and our ambitions. The values are: Creating trust, being team players, creating innovative solutions and applying a can-do attitude. The values express how we do things in Demant, and they create a strong platform for collaboration across the Group.

The realisation of Demant's overall strategy also contributes to strengthening the company's sustainability, as the strategy aims to develop the business to ensure Demant's continued growth and long-term commitment to shareholders as described in the by-laws of William Demant Foundation, Demant's majority shareholder.

The Remuneration Policy is designed to attract, retain and motivate the members of the Board Directors and the Executive Board, while aligning their interests with those of the shareholders. It is further designed to support the strategy, value generation and long-term interests of the company.

The alignment of the remuneration with Demant's strategy, long-term interests and sustainability is elaborated further below under the separate elements of the remuneration.

It is a key objective for the Remuneration Policy that it supports a straightforward, well-governed, competitive and transparent remuneration structure for the Board of Directors and the Executive Board.

## 2. Remuneration of the Board of Directors

### Board remuneration

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Composition	The remuneration of the Board of Directors and members of the audit committee comprises a fixed base fee. The Chairman and the Deputy Chairman of the Board and the chairman of the audit committee receive a multiple of the fixed base fee.
Purpose and alignment with strategy, long-term interests and sustainability	<p>The objective is to attract qualified potential members to the Board of Directors and – once a member – to motivate and retain them and to align the interests of the Board of Directors with the interests of the company's shareholders and other stakeholders.</p> <p>The Board remuneration is based on fixed base fees linked to the role and responsibility of the Board member. This remuneration structure aims to support the Board's focus on the strategy, supervision, organisation and governance of the company. To ensure the implementation of the Group's strategy in a sustainable way by taking the long-term interests of Demant into consideration, the Board members do not receive variable remuneration based on performance.</p>
Benchmark	The Board's remuneration is benchmarked annually against remuneration levels in primarily other Danish listed C25 companies.
Fees and benefits	<p><b>Fixed base fee:</b></p> <ul style="list-style-type: none"><li>• Each Board member receives an annual fixed base fee.</li><li>• The Chairman receives three times the fixed base fee.</li><li>• The Deputy Chairman receives twice the fixed base fee.</li></ul> <p><b>Board committee fee:</b></p> <ul style="list-style-type: none"><li>• Audit committee members receive an annual audit committee fee.</li><li>• The chairman receives three times the annual audit committee fee.</li><li>• No separate fee is paid to members of the nomination, remuneration and IT security committees.</li></ul> <p><b>Fee for ad hoc duties:</b></p> <ul style="list-style-type: none"><li>• In rare circumstances, a member of the Board of Directors may have special ad hoc duties assigned to him or her that fall outside the member's normal duties assigned by the Board. In such cases, the Board member may receive a separate fee based on a recommendation by the remuneration committee. The fee for ad hoc tasks will be disclosed in the Remuneration Report and is subject to prior or subsequent approval at the annual general meeting.</li></ul> <p><b>No variable components:</b></p> <ul style="list-style-type: none"><li>• The members of the Board of Directors are not eligible to receive any incentive or performance-based remuneration or any other variable components. An exception is staff-elected Board members who may be eligible to participate in ordinary programmes in their capacity as employees with Demant.</li></ul> <p><b>Expenses:</b></p> <ul style="list-style-type: none"><li>• The Board members' travel expenses and similar expenses incurred through their participation in Board meetings are reimbursed by the company.</li></ul>
Term	The members of the Board of Directors are up for election each year at Demant's annual general meeting, whereas staff-elected Board members are up for election every fourth year. No special termination terms apply to members of the Board of Directors, including compensation terms in the event of resignation from the Board of Directors. There are no special retention and redundancy schemes for the members of the Board of Directors.

# 3. Remuneration of the Executive Board

## Executive remuneration

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**Composition** Remuneration of the members of the Executive Board consists of a fixed base salary and variable remuneration. The variable remuneration consists of a short-term cash-based incentive and a long-term share-based incentive. Additionally, there are customary non-monetary benefits.

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**Purpose and alignment with strategy, long-term interests and sustainability**

The objective is to compose a remuneration package that attracts qualified potential members to the Executive Board and – once a member – to motivate and retain them and to align the interests of the Executive Board with the interests of the company's shareholders and other stakeholders.

To further support sustainable value creation for the shareholders, part of the remuneration is performance-based. The components are structured in such a way that they provide strong alignment between the interests of the Executive Board and the shareholders, including focus on meeting Demant's key strategic objectives.

The combination of fixed remuneration and a short- and long-term variable component on the one hand and the interests of the company's shareholders on the other hand strikes an appropriate balance and motivates the Executive Board to engage in reasonable risk-taking with a view to creating value and pursuing long-term growth and healthy development without promoting risky behaviour. We strive to have a balanced mix of fixed and variable compensation components.

*The fixed base salary* enables the Executive Board to take decisions with a long-term perspective without undue consideration for incentives as it provides predictable remuneration for the responsibility assumed and the work performed.

*The variable remuneration* is designed to promote high performance in line with the Group's strategy. The variable remuneration is based on a number of performance criteria, which must be achieved. The criteria are aligned with the Group's strategic priorities, thereby ensuring that the long-term interests and the sustainability of the Group are considered.

The short-term incentive is designed to incentivise executives to obtain short-term achievements in line with the company's needs and to ensure a high level of both collective and individual performance within their functional area.

The long-term incentive is designed to promote the collective performance of the Executive Board. The share-based rolling programme with a retention period rewards long-term value creation in the company, while providing further incentive for the executive to continue her/his commitment to the company. Furthermore, the share-based rolling programme ensures that the long-term commitment and the interests of the Executive Board are aligned with the interests of the shareholders of the company.

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**Benchmark** Executive remuneration is benchmarked against remuneration levels in primarily other Danish listed C25 companies.

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## Fixed base salary

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The fixed base salary is determined with a view to offering a competitive remuneration to attract members to the Executive Board with the required professional and personal competences and – once a member – to retain them. Additionally, it is based on the individual member's responsibilities and performance.

## Variable remuneration

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<b>Short-term incentive programme (STIP)</b>	<p>The short-term incentive is a one-year cash-based incentive linked to the level of achievement of a number of predefined performance criteria for each member of the Executive Board.</p> <p>The performance criteria are closely aligned with Demant's strategy and will typically be linked to financial, business and sustainability targets. It is comprised of Group targets and business area targets, as applicable, and may be financial and/or non-financial targets.</p> <p>Performance criteria are set in the beginning of the performance year and include the determination of threshold and the level of performance to be obtained to achieve maximum payout.</p> <p>Assessment of level of achievement of performance criteria takes place at the beginning of the year following the performance year. Payout, if any, is made afterwards and is based on the individual Executive Board member's annual fixed base salary in the performance year.</p> <p>The assessment is based on the achieved results, which appear from the financial reports submitted to the stock market, and on relevant external and internal reports.</p> <p>The short-term incentive pay cannot exceed 20% of the annual fixed base salary of the Executive Board member in question in the performance year.</p>
<b>Long-term incentive programme (LTIP)</b>	<p>The long-term incentive is in the form of restricted stock units (RSUs) which vest after three years (vesting period). At vesting, the RSUs are converted into shares in the company on a 1:1 ratio. The programme is linked to the level of achievement of a number of performance criteria during the first year of the vesting period after granting of the RSUs (performance period). Also, it is a condition for vesting of the RSUs that the Executive Board member is still employed with the company at the end of the three-year vesting period.</p> <p>At the beginning of the performance period, the maximum number of RSUs that will vest at the end of the three-year vesting period is calculated. The share price used for the calculation of the number of RSUs is determined at the beginning of each performance year based on the average share price quoted on Nasdaq Copenhagen during the period following the date of publication of Demant's annual report for the year prior to the relevant performance year.</p> <p>Performance criteria are set at the beginning of the performance year and include the determination of threshold and the level of performance to be obtained to achieve maximum payout. Performance criteria are closely aligned with Demant's strategy and will typically be linked to financial, business and sustainability targets. It is comprised of Group targets and may be financial and/or non-financial targets.</p> <p>At the end of the performance period, the numbers of RSUs will be determined by assessing the level of achievement of the performance criteria. The value of the RSUs cannot be less than 25% of the annual fixed base salary of the Executive Board member in question, and the value cannot be more than 75% of the annual fixed base salary of the Executive Board member. The assessment of the level of achievement of performance criteria is based on the achieved results, which appear from the financial reports submitted to the stock market, and on relevant external and internal reports.</p> <p>The calculation of the number of RSUs granted is based on the individual Executive Board member's annual fixed base salary expected in the performance year.</p> <p>During the three-year vesting period, the market value of the granted RSUs will change, depending on the development in Demant's share price.</p>

## Other provisions in STIP and LTIP

As far as short- and long-term incentive pay is concerned, the remuneration committee may – acting fairly and reasonably – waive or adjust a performance criterion if, during the year, the performance criteria has become obsolete or not appropriate due to events which could not be taken into account at the beginning of the year, such as strategy changes, acquisitions/divestments, unforeseen external factors etc.

As far as the short- and long-term incentive programmes are concerned, actual payout, grants and adjusted grants are calculated based on the performance assessment and released around 1 April in the year after the performance year. If additional information relating to the assessment of the performance criteria has surfaced in the period since the assessment, the amount will be adjusted accordingly. Changes in the actual annual fixed base salary in the performance year will be aligned by the end of the performance year.

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## Size and relativity of the components

The aggregate maximum amount that may be granted as an incentive pay for a given year is equal to 95% of the annual fixed base salary for the individual Executive Board member.

By having a split between fixed and variable remuneration, we ensure that a reasonable part of the Executive Board's salary is linked to performance, while promoting sound business decisions to achieve Demant's strategy and ambitions.

In the table below, the percentages state the relativity of the components between minimum, maximum and on-target performance.

Remuneration component	Relative size at minimum performance	Relative size at on-target performance	Relative size at maximum performance
Fixed base salary	80%	63%	51%
Short-term cash-based	0%	6%	10%
Long-term share-based	20%	31%	38%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Clawback and other provisions

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### Clawback

The company has an option to reclaim, in whole or in part, any earned, paid or vested variable remuneration if it was based on information that subsequently proves to be materially incorrect, or if the member of the Executive Board acted in bad faith in respect of other matters, either of which situation has led to payment of a too large variable remuneration. Such option to reclaim will only be valid for up to 12 months after payout or vesting of the variable remuneration.

Further, there is a mechanism whereby granted but not paid out/vested remuneration is clawed back if a member of the Executive Board resigns or is given notice of termination due to gross negligence.

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### Other benefits

The members of the Executive Board are entitled to usual non-cash benefits, such as company car, newspapers, telephone, internet access etc.

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### Term

Executive employment contracts are entered into for an indefinite period with a mutual right of termination.

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### Termination of employment and severance pay

In the event of dismissal, Executive Board members' notice period cannot exceed 24 months. During the notice period, the Executive Board member is entitled to continued remuneration. However, the members of the Executive Board are not entitled to severance pay.

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### Non-competition clause

If a member of the Executive Board resigns from the position, the company has an option to exercise a non-competition clause up to 12 months. In such case, the Executive Board member is entitled to remuneration throughout the period. This does not apply to the CEO.

## 4. Other considerations

### Conflicts of interest

There is no risk of a conflict of interest with regard to the Remuneration Policy for the following reasons: Firstly, the Executive Board has no decision-making power in relation to the Remuneration Policy. Secondly, the members of the remuneration committee do not receive a separate fee for their work on the remuneration committee. Thirdly, the Board of Directors must submit the revised Remuneration Policy to the shareholders for consideration and approval at the annual general meeting. Fourthly, the Board of Directors and the Executive Board in aggregate do not hold enough votes at the annual general meeting to materially influence the outcome of the voting.

### Consideration of employment conditions in the company

As part of the determination of the remuneration for the Executive Board, Demant has assessed the ratio of the Executive Board's remuneration to the salaries of other employees and compared the Executive Board's terms of employment with the terms of employment of other employees.

Having considered both market practice for remuneration in comparable listed companies and the responsibilities, scale and complexity of the roles and duties of the members of the Executive Board compared to other employees, the Board of Directors is of the opinion that an appropriate balance between employee and management remuneration is achieved.

Short- and long-term incentive programmes are not broadly offered to Demant's employees. The Board of Directors finds that the short- and long-term incentive programmes outlined in this Remuneration Policy are appropriate and necessary in order to align the interests of those with management responsibilities with the interests of the company and its shareholders.

With regard to resignation conditions, the Board of Directors is of the opinion that the comparatively longer resignation periods and terms of employment of the members of the Executive Board reflect market practice and are appropriate as a retention element for the company and as part of the overall remuneration package offered to the members of the Executive Board.

A gross salary principle applies to all employees of the company. To align the structures of the Executive Board's and other employees' remuneration, this principle also applies to the Executive Board. The gross salary principle implies that the company offers a number of goods and services to the employees, which they may choose to acquire through a corresponding deduction in their salary. The members of the Executive Board may choose to enrol in the schemes that the company offers to the employees as part of the gross salary principle. The Executive Board participates on the same terms as other employees.

For instance, the members of the Executive Board may participate in a share salary arrangement to purchase shares on the same terms as other employees in Denmark. Moreover, the members of the Executive Board do not receive any pension payments from the company due to the company's gross salary principle.



# 5. Governance and deviations

## Review of the Remuneration Policy

The Board has the overall responsibility for reviewing the Remuneration Policy. The remuneration committee is established by the Board and consists solely of Board members. According to its charter, the remuneration committee is composed by the Chairman and the Deputy Chairman of the Board of Directors. The remuneration committee is responsible for proposing changes to the Remuneration Policy to the Board and reviewing such changes.

The remuneration committee is also responsible for ensuring that the Board of Directors' and the Executive Board's remuneration is in compliance with this Remuneration Policy and with the assessment of the achievement of the performance criteria set.

At least once a year, the remuneration committee reviews the Remuneration Policy and recommends any amendments to the Board that the Board will propose for adoption at the annual general meeting. Material changes must be approved by the shareholders at an annual general meeting. The Remuneration Policy must be approved at the annual general meeting at least every four years.

Once every year, the remuneration committee reviews the remuneration level for the following year and recommends any changes to the Board that the Board will propose for adoption at the annual general meeting. The remuneration of the Board members for the previous year is disclosed in the Remuneration Report. The annual general meeting finally approves the actual remuneration of the Board for the previous year and the remuneration level for the following year under a separate item on the agenda.

The Remuneration Policy is applicable from the remuneration allocated for the calendar year 2022 based on the performance year 2022.

The Remuneration Policy is available on [www.demant.com](http://www.demant.com).

## Deviations from the Remuneration Policy

To achieve the overall objective of this Remuneration Policy, the Board of Directors may in special circumstances and based on the recommendation of the remuneration committee decide to deviate on an individual basis from the policy if parts of the policy no longer drive business performance, the achievement of the company's strategy or motivation and retention. In such cases, the Board of Directors is obliged to explain the reason for the deviation at the following annual general meeting and to include a description of the deviation in the Remuneration Report presented at this annual general meeting.

## Approval

This Remuneration Policy was adopted at the annual general meeting on 10 March 2022.

## 6. Appendix: Amendments

This Remuneration Policy will replace the Remuneration Policy approved at the annual general meeting in March 2020, with a minor change made in February 2021.

The Remuneration Report for 2020 was approved at the annual general meeting on 5 March 2021 without comments by shareholders.

The main changes in this Remuneration Policy are:

- Introduction of a cash-based short-term incentive programme for the Executive Board. Any payout and the size of such payout under the programme is dependent on the achievement of performance criteria.
- Introduction of performance criteria achievement under the long-term incentive programme for the Executive Board to ensure that pay-out under this programme is dependent on the achievement of these criteria.
- Grant of restricted stock units (RSUs) instead of “shadow shares” under the long-term incentive programme.
- The clawback provision is altered to take into account any incorrect information provided in connection with the performance criteria based on which remuneration is paid.
- An Executive Board member’s entitlement to remuneration throughout the period during which a non-competition clause is exercised is included.

In order to take a step further in realising Demant’s overall strategy, while being able to attract, retain and motivate the members of the Executive Board, the Board of Directors believes that offering a short- and long-term incentive programme to the Executive Board will be beneficial and support the alignment of the interests of the members of the Executive Board with the interests of the shareholders. By introducing performance criteria to be achieved, the Board of Directors believes that value generation, the sustainability of the company and the long-term interests of the company are further underlined.

10 March 2022