

Demant

Statutory report on corporate governance 2019



Demant is a Danish Company listed on Nasdaq Copenhagen and included in C25.

Pursuant to the Danish Financial Statements Act section 107 b, and section 4.1 of "Rules for issuers of shares" laid down by Nasdaq Copenhagen, Danish companies listed on Nasdaq Copenhagen are covered by a code on corporate governance and shall give a statement on how they address the recommendations issued by the Committee on Corporate Governance.

This statutory report on corporate governance published on the company's website is part of Management's commentary in the annual report and covers the financial year 1 January - 31 December 2019. Our corporate governance report is not comprised by the auditors' statement in connection with Management's Commentary in the annual report.

The report covers the following areas:

1. A description of the company's management structure
2. A description of the company's internal control and risk management systems in connection with the financial reporting process
3. A review of how the company addresses the corporate governance recommendations

1. Management structure

Demant has a two-tier management structure consisting of a Board of Directors and an Executive Board.

The general meeting is the supreme authority in all company matters. The company has one majority shareholder, William Demant Foundation, which directly or indirectly holds between 55-60% of the shares and voting rights at the general meeting.

Board of Directors

Under the company's Articles of Association, the Board of Directors must consist of four to six Board members elected by the shareholders at the general meeting in addition to staff-elected Board members. At publication of the Annual Report 2019, the company's Board of Directors has eight members: Five members elected by the shareholders and three members elected by our employees in Denmark. The members elected by the shareholders are elected for one year at a time and members elected by staff for four years at a time. After each election to the Board, the Board of Directors appoints a chairman and a deputy chairman among its members.

The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the company, and it evaluates the work and performance of the Executive Board. The Board of Directors' duties and responsibilities are set out in its rules of procedure.

Board committees

For the present, the Board of Directors of Demant has established an audit, a nomination, a remuneration and an IT security committee.

Executive Board

The company's Executive Board consists of President & Chief Executive Officer Søren Nielsen and Chief Financial Officer René Schneider.

The Executive Board has the overall responsibility for the activities and the day-to-day operations of the company. The tasks, responsibilities and scope of the Executive Board as well as the guidelines in respect of the delegation of duties between the Board of Directors and the Executive Board are stipulated in the Instructions for the Executive Board.

2. The company's internal control and risk management systems

The Board of Directors and the Executive Board are in an ongoing dialogue on the identification, description and handling of the business risks to which the company may be exposed. Any material risks are described once a year in the Annual Plan and Budget which is approved by the Board of Directors.

In the chapter on risk management activities in our annual report, we provide a review of the main elements of our internal control and risk management systems in connection with the financial reporting process. The text below shows the relevant section of the Demant's Annual Report 2019.

Financial reporting process and internal control

Once a year, we carry out 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-by-month development is very similar, so due to the repetitive nature of our business,

deviations will normally become visible fairly 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 results achieved compared to the approved budgets
- Policies for IT, 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 and that there is no need for setting up an internal audit function.

3. Reporting on Corporate Governance

Demant is subject to the rules governing the recommendations for corporate governance and is required to give a yearly statement on how we adhere to the recommendations laid down by the Committee on Corporate Governance, www.corporategovernance.dk. The recommendations are also part of the disclosure requirements laid down by Nasdaq Copenhagen.

Demant's Board of Directors and Executive Board consider corporate governance an ongoing process and regularly assess to which extent the company should comply with the recommendations and whether the recommendations give rise to amendments to the company's articles of association or managerial processes.

The report has to be prepared according to the "comply-or-explain" principle, meaning that we must either follow the recommendations or explain why we have chosen to deviate from a recommendation and what we do instead.

The Board of Directors takes a stand on each individual recommendation and has chosen to provide relevant and supplementary explanations also to the recommendations that we follow. The few cases where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead. To further increase transparency we have decided to provide supplementary and relevant information, even when we follow the recommendations.

Out of the 47 recommendations there are only four that we deviate from and explain why. The deviations are well-founded and are explained in the report. The complete report is provided in the schedule below.

4 February 2020.

Communication and interaction by the company with its investors and other stakeholders

1.1. Dialogue between company, shareholders and other stakeholders

Recommendation	Compliance	Explanation and comment
<p>1.1.1. The Committee recommends that the board of directors ensure ongoing dialogue between the company and its shareholders, so that the shareholders gain relevant insight into the company and in order for the board of directors to be aware of the shareholders' views, interests and opinions in respect to the company.</p>	<p>We comply</p>	<p>Demant aims to maintain a high level of information to all existing and potential shareholders and communicates with its shareholders and investors at the annual general meeting and through the annual report, company announcements and investor news, investor and analysts meetings, investor presentations, direct contact, website, webcasts, capital market days, etc.</p> <p>The company has an Investor Relations function (IR), and Management also frequently participates in IR-related events. By way of example, we typically hold more than 400 individual meetings per year where existing and potential shareholders meet company representatives and ask questions. Meetings are held in many different parts of the world including at our own premises where stakeholders can get a deeper insight into how we work.</p> <p>IR work is carried out in an open dialogue and we strive to answer any questions in a comprehensive and timely manner while ensuring that no sensitive information is disclosed. At all times, we observe relevant rules, regulations and ethics concerning public disclosure of sensitive information, including the rules governing Nasdaq Copenhagen. We strive to provide easy access for IR stakeholders to management and other key employees.</p> <p>The primary form of communication is company announcements and Investor news, including annual and interim reports. Immediately after publication, they are uploaded on our website, www.demant.com.</p> <p>All registered shareholders are offered the possibility to receive an e-mail upon the company's publication of the annual report, interim report and other company announcements. Investor presentations will be available on our website at the same time as or immediately after such presentation is/has been made.</p> <p>On an ongoing basis, Management gives feedback to the Board of Directors on the company's IR work to enable the Board to get an insight into the dialogue with our shareholders, including into shareholders' views on strategy, communication, financial performance and targets, capital allocation etc.</p> <p>Contact details for management and the IR function are available on our website.</p>

Recommendation	Compliance	Explanation and comment
<p>1.1.2. The Committee recommends that the board of directors adopts policies on the company's relationship with its stakeholders, including shareholders, and that the board of directors ensures that the interests of the stakeholders are respected in accordance with company policies.</p>	<p>We comply</p>	<p>The company has identified a number of specific stakeholders, comprising our customers, users, shareholders, investors, employees, suppliers and other business partners as well as the public, authorities and politicians.</p> <p>The Board of Directors has approved the company's policies on relations with all important stakeholders and ensures on a current basis that good and constructive relations exist with such stakeholders. Some of these policies include a Third Party Compliance Code governing relations with any individual or legal entity with whom the Demant Group is collaborating, e.g. suppliers, distributors, manufacturers, and a Business Ethics Policy in relation to our staff and their interaction with customers and other stakeholders. Selected policies and documents are available on our website.</p> <p>As part of the work with Corporate Social Responsibility (CSR), the company has adopted policies within this area. In 2009, we stated 14 principles, describing Management's overall responsibility for and approach to business ethics, the environment, human rights and corporate governance. In 2010, the company furthermore joined the UN's Global Compact and the reporting system for CO2 emission through the Carbon Disclosure Project. In 2016, we updated our reporting structure and framework in order to adhere to new regulatory changes. You can read more on our website under "Responsibility".</p> <p>The company is 115 years old and has a solid foundation for our activities and our interaction with stakeholders. Since its foundation, the company has been committed to disseminating knowledge of and remedial treatment of hearing impairment. The company's managerial policy builds on high standards of integrity, quality and fairness in its business conduct, including responsibility for the environment and the surrounding society.</p> <p>The company strives to sell its products in the most professional manner, as a result of which we have invested heavily in the distribution of Group products. Products are becoming better and better, but also more and more sophisticated, as a result of which training and education play an increasingly important role. We arrange targeted training and educational sessions when new products are introduced to enable the company's customers to provide users with the best advice and service.</p> <p>Through relevant industry and user organisations, Demant also contributes funds, resources and know-how to disseminate knowledge of hearing impairments and of their remedial treatment.</p> <p>It is the company's objective to safeguard a high and consistent level of information to stock market players with a view to forming the basis of a fair pricing of the company's shares. This flow of information will contribute to reducing the company-specific risk associated with investing in company shares and thus reducing the company's cost of capital.</p>

Recommendation	Compliance	Explanation and comment
<p>1.1.3. The Committee recommends that the company publish quarterly reports.</p>	<p>We explain</p>	<p>We do not believe that quarterly reports will promote a better understanding of our activities, so for the past many years, we have published quarterly interim management statements without actual figures, but with updates on the Group and its financial position and results in relation to the full-year guidance, including important events and transactions in the period under review.</p> <p>We believe that interim management statements after the first and the third quarters provide the market with valuable information.</p>
<p>1.2. General meeting</p>		
<p>1.2.1. The Committee recommends that in organising the company's general meeting, the board of directors plans the meeting to support active ownership.</p>	<p>We comply</p>	<p>The company's physical setting allows us to hold annual general meetings in-house, and we believe, it furthers active ownership that the company's shareholders are able to meet our Board members and Executive Board face-to-face and visit our head office.</p> <p>In connection with the general meeting, all relevant documents will be uploaded on our website prior to and after the general meeting, and the actual meeting will also be webcast.</p>
<p>1.2.2. The Committee recommends that proxies or votes by post for the general meeting allow shareholders to consider each individual item on the agenda.</p>	<p>We comply</p>	<p>Shareholders in the company are entitled to attend the company's general meetings by proxy or accompanied by an adviser. Written proxies can either be given to the Board of Directors or to a third party, and the company will place a written or electronic proxy form at the disposal of the shareholders.</p> <p>Proxies and votes by post are prepared in such a manner that they allow shareholders to record voting instructions for each individual item on the agenda.</p>
<p>1.3. Takeover bids</p>		
<p>1.3.1. The Committee recommends that the company set up contingency procedures in the event of takeover bids, from the time that the board of directors has reason to believe that a takeover bid will be made. The contingency procedures should establish that the board of directors should not without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which, in reality, prevent the shareholders from deciding on the takeover bid themselves.</p>	<p>We comply</p>	<p>The company's main shareholder, William Demant Foundation, directly or indirectly holds 55-60% of the share capital and votes in Demant. William Demant Foundation has a statute according to which the Foundation is precluded from reducing its shareholdings to less than 50% through the sale of shares. This means that a takeover cannot be carried through, which would be communicated to a potential bidder.</p> <p>The rules of procedure for the Board of Directors include a short procedure to be followed, should such a situation occur.</p>

2 Tasks and responsibilities of the board of directors

2.1. Overall tasks and responsibilities

Recommendation	Compliance	Explanation and comment
<p>2.1.1. The Committee recommends that at least once annually the board of directors consider the matters that should be included in the board's performance of its work.</p>	<p>We comply</p>	<p>The Board of Directors is responsible for the overall strategic management as well as the financial and managerial supervision of the company. The Board's duties and responsibilities are set out in its rules of procedure which are reviewed once a year and revised when needed.</p> <p>In order to ensure that the Board's tasks are planned and performed in a timely manner, such tasks are predetermined in an annual cycle (annual wheel) for the Board of Directors.</p>
<p>2.1.2. The Committee recommends that at least once annually the board of directors consider the overall strategy of the company with a view to ensuring value creation in the company.</p>	<p>We comply</p>	<p>The company's overall goals, strategies, action plans and investment policy, including its financial scope are presented in a comprehensive Annual Plan and Budget, which will be discussed and approved by the Board of Directors. Substantial changes to the plans made or strategies laid down will, however, not await the annual discussion by the Board, but will be discussed on a current basis, should the need arise</p>
<p>2.1.3. The Committee recommends that the board of directors ensure that the company has a capital and share structure which supports that the strategy and long-term value creation of the company are in the best interest of the shareholders and the company, and that the board of directors explain this in the management commentary and/or on the company's website.</p>	<p>We comply</p>	<p>At regular intervals, the Board of Directors evaluates whether the company's capital and share structures are in the best interest of the shareholders and support the company's strategy and value creation. The Board of Directors and the Executive Board will at regular intervals also review the share liquidity.</p> <p>The company uses buy back of shares to channel the Group's excess cash flow back to the shareholders. In line with the Group's normal practice, our share buy-back will on an ongoing basis be adjusted to the extent of our acquisitions and investments.</p> <p>In the company's annual report, we account for the decisions made on the company's share and capital structure.</p>

Recommendation	Compliance	Explanation and comment
<p>2.1.4. The Committee recommends that the board of directors annually review and approve guidelines for the executive board; this includes establishing requirements for the executive board's reporting to the board of directors.</p>	We comply	<p>The duties, responsibilities and scope of the Executive Board as well as the guidelines in respect of the delegation of duties between the Board of Directors and the Executive Board are stipulated in the Instructions for the Executive Board. Once a year, the Board of Directors will assess and – if required – revise the instructions.</p> <p>Good communication routines have been established between the Executive Board and the Board of Directors including efficient reporting practices.</p> <p>The Board of Directors' supervisory control with the Executive Board is primarily exercised through the reports received from the Executive Board, including financial data, through entries into the audit protocols and through discussions with the Executive Board at Board meetings, committee meetings and an ongoing dialogue with the Chairmanship of the Board.</p>
<p>2.1.5. The Committee recommends that at least once annually, the board of directors discuss the composition, developments, risks and succession plans of the executive board.</p>	We comply	<p>The Chairman of the Board evaluates on a continuous basis and reviews at least once a year with the other Board members whether the company is properly organised and managed in a satisfactory manner, including a review of the composition and development of the Executive Board.</p>
<p>2.2. Corporate social responsibility</p>		
<p>2.2.1. The Committee recommends that the board of directors adopt policies on corporate social responsibility.</p>	We comply	<p>As part of our CSR efforts, we have adopted policies in respect of corporate social responsibility. The policies are approved by the Board of Directors. Selected policies are available on our website.</p>
<p>2.3. Chairman and vice-chairman of the board of directors</p>		
<p>2.3.1. The Committee recommends appointing a vice chairman of the board of directors, who will assume the responsibilities of the chairman in the event of the chairman's absence, and who will also act as effective sparring partner for the chairman.</p>	We comply	<p>The Board of Directors has elected a Deputy Chairman to head the board meetings, should the Chairman be prevented from participating. The Chairman and the Deputy Chairman regularly discuss the work of the Board of Directors.</p>

Recommendation	Compliance	Explanation and comment
<p>2.3.2. The Committee recommends that, if the board of directors, in exceptional cases, asks the chairman of the board of directors or other board members to perform special activities for the company, including briefly participating in the day-to-day management, a board resolution to that effect should be passed to ensure that the board of directors maintains its independent, general management and control function. Resolutions on the chairman's or other board members' participation in day-to-day management and the expected duration hereof should be publicly announced.</p>	<p>We comply</p>	<p>This recommendation is incorporated into the rules of procedure of the Board of Directors, should a situation arise that necessitates such action.</p>

3.1. Composition

Recommendation	Compliance	Explanation and comment
<p>3.1.1. The Committee recommends that the board of directors annually evaluate and in the management commentary account for:</p> <ul style="list-style-type: none"> the competencies that it must have to best perform its tasks; the composition of the board of directors; and the special competencies of each member. 	We comply	<p>The Board of Directors has laid down which skills and professional experience the Board of Directors should possess to support the company's long-term growth. At least once a year, the Board will assess whether the development of the company would call for new qualifications on the Board.</p> <p>A listing of such skills is available on our website as well as the composition of the Board of Directors in office at any time and the skills and experience of each Board member.</p> <p>The Board members' profiles, their individual competences and other executive duties are also presented in the company's annual report.</p>
<p>3.1.2. The Committee recommends that the board of directors annually discuss the company's activities to ensure relevant diversity at management levels and prepare and adopt a policy on diversity. The policy should be published on the company's website.</p>	We comply	<p>In continuation of recent years' initiatives, recommendations and legislation on diversity at management levels, Group companies are focusing more strongly on promoting women in executive positions. To this end, the Group in 2012 established a diversity policy as well as specific initiatives aimed at ensuring equal terms between the genders when it comes to both employment and promotion. Measurements are launched on a yearly basis to follow up on the development.</p> <p>Once a year, the Executive Board will review the development with the Board of Directors and discuss if further initiatives are required.</p> <p>As we already in 2014 reached our target in respect of female Board members, the Board in February 2016 set a new target and deadline: Before the end of 2020, the Board of Directors aims to have at least two female members. At the annual general meeting in March 2020, the Board of Directors will propose election of another female member and thus – if adopted – reach the target set.</p> <p>The company has chosen to publish its policy and objectives on gender diversity as well as an annual account of the development in this area on its website.</p>

Recommendation	Compliance	Explanation and comment
<p>3.1.3. The Committee recommends that the selection and nomination of candidates for the board of directors be carried out through a thorough and transparent process approved by the board of directors. When assessing its composition and nominating new candidates, the board of directors should, in addition to the need for competencies and qualifications, take into consideration the need for integration of new talent and diversity.</p>	<p>We comply</p>	<p>The Board of Directors has established a nomination committee. According to the charter of the committee one of its duties is to nominate and recommend candidates to the Board of Directors. Before recommending new candidates to the annual general meeting the entire Board of Directors will thus discuss the new candidate.</p> <p>In the composition of the Board of Directors, focus is on ensuring the necessary competencies, qualifications and experience that must be present in order for the Board to be able to perform its duties in the best possible way.</p> <p>In the annual evaluation of the Board of Directors' work, each member has the opportunity to comment on the collective competences of the Board.</p> <p>Great importance is attached to international experience and management experience from listed companies as well as diversity. On nomination of new candidates, the appointment of female candidates will in future carry particular weight.</p>
<p>3.1.4. The Committee recommends that the notice convening a general meeting where the agenda includes the election of members to the board of directors, include (in addition to the statutory requirements) a description of the qualifications of nominated candidates, including information about the candidates':</p> <ul style="list-style-type: none"> • other executive functions, including positions on executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign enterprises; and • demanding organisational tasks. <p>Furthermore, it should be indicated if the candidates to the board of directors are considered independent.</p>	<p>We comply</p>	<p>The notice convening a general meeting includes a description of the skills and experience of any candidates proposed for re-election as well as information on other executive offices in Danish and foreign companies.</p> <p>In the event that the Board of Directors proposes new candidates for the Board, a fairly extensive curriculum vitae will be presented to the general meeting together with the proposal. All information on the professional qualifications of such candidate, which is deemed significant in respect of the company, including any international experience, will be included in such presentation.</p> <p>As regards both new and renominated candidates for the Board of Directors, the recommendation to the shareholders will include information on whether the candidate is considered independent.</p>

Recommendation	Compliance	Explanation and comment
<p>3.1.5. The Committee recommends that members of the company's executive board be not members of the board of directors and that a resigning chief executive officer be not directly elected as chairman or vice chairman for the same company.</p>	We explain	<p>The members of Demant's Executive Board are not members of the Board of Directors.</p> <p>The former CEO of the company is Deputy Chairman of the Board. When Niels Jacobsen stepped down as CEO of the company in 2017, he became CEO of William Demant Invest, which is fully owned by William Demant Foundation. William Demant Invest manages the majority shareholding in Demant. Niels Jacobsen's position as Deputy Chairman reflects the ownership of the company.</p>
<p>3.1.6. The Committee recommends that members of the board of directors elected by the general meeting be up for election every year at the annual general meeting.</p>	We comply	<p>In compliance with the company's Articles of Association, Board members elected by the shareholders are elected for one year at a time.</p>

3.2. Independence of the board of directors

<p>3.2.1. The Committee recommends that at least half of the members of the board of directors elected by the general meeting be independent persons, in order for the board of directors to be able to act independently of special interests.</p> <p>To be considered independent, this person may not:</p> <ul style="list-style-type: none"> • be or within the past five years have been a member of the executive board, or senior staff member in the company, a subsidiary or an associated company; • within the last five years, have received significant remuneration from the company/group, a subsidiary or an associated company in a different capacity than as member of the board of directors; • represent or be associated with a controlling shareholder; 	We explain	<p>Due to changes with regards to independency after the annual general meeting in March 2019, we deviate from the recommendation with the present composition of the Board of Directors.</p> <p>Of the five Board members presently elected by the shareholders at the annual general meeting, Benedikte Leroy and Lars Rasmussen are considered independent, Niels B. Christiansen and Niels Jacobsen are not considered independent as they are associated with William Demant Foundation, and Peter Foss is not considered independent as he has been a Board member for more than 12 years.</p> <p>Niels B. Christiansen, Niels Jacobsen, Benedikte Leroy and Lars Rasmussen stand for re-election at the annual general meeting in March 2020. Peter Foss does not stand for re-election. The Board proposes that Anja Madsen be elected new member of the Board. If adopted, the changes mean that at least half of the members of the Board of Directors will be independent. Additionally, the changes will mean that the Board of Directors will reach the target of at least two female members by the end of 2020.</p> <p>The reasons for them not being considered independent are provided in the company's annual report and on our website.</p>
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Recommendation	Compliance	Explanation and comment
<ul style="list-style-type: none"> • within the past year, have had significant business relations (e.g. personally or indirectly as partner or employee, shareholder, customer, supplier or member of management in companies with corresponding connection) with the company, a subsidiary or an associated company; • be or within the past three years have been employed or been a partner in the same company as the auditor elected by the general meeting; • be part of the executive management in a company with cross-management representation in the company; • have been a member of the board of directors for more than 12 years; or • be a close relative of persons who are not considered independent. <p>Even if a member of the board of directors is not covered by the above criteria, certain conditions may exist that will lead the board of directors to decide that one or more members cannot be regarded as independent.</p>	We explain	

3.3. Members of the board of directors and the number of other management functions

<p>3.3.1. The Committee recommends that each member of the board of directors assess the expected time commitment for each function so that the member does not take on more functions than he/she can complete at a satisfactory level for the company.</p>	We comply	Prior to nominating a new Board member, the Chairman will make sure that such member has the time required to perform his or her duties on the Board of Directors. In the ongoing dialogue with the Chairman, the individual Board members will consider whether they have the necessary time to perform their duties as Board members.
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Recommendation	Compliance	Explanation and comment
<p>3.3.2. The Committee recommends that the management commentary, in addition to the provisions laid down by legislation, includes the following information about the members of the board of directors:</p> <ul style="list-style-type: none"> • the position of the relevant person; • the age and gender of the person in question; • the person's competencies and qualifications that are relevant to the company; • whether the member is considered independent; • the member's date of appointment to the board of directors; • expiry of the current election term; • the member's participation in the meetings of the board of directors and committee meetings; • other management functions, including memberships in executive boards, boards of directors, and supervisory boards, including board committees in Danish and foreign enterprises and demanding organisational tasks; and • the number of shares, options, warrants and similar owned by the member in the company and other group companies, as well as changes to the member's portfolio of the mentioned securities which have occurred during the financial year. 	<p>We comply</p>	<p>The annual report and our website include a list of all Board members with all relevant details as well as information on whether the individual Board member is considered independent, when the individual member joined the Board of Directors, whether they were re-elected and that their election period is one year (four years for staff-elected Board members).</p> <p>At year-end 2019, all Board members were shareholders in the company. The shareholding of each Board member and any changes in such holding in the past year will appear from our annual report.</p>
<p>3.3.3. The Committee recommends that the annual evaluation procedure, cf. section 3.5, include an evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account.</p>	<p>We comply</p>	<p>An evaluation of what is regarded as a reasonable level for the number of other management functions, where the number, level and complexity of the other individual management functions are taken into account, is included in the annual evaluation procedure.</p>

Recommendation	Compliance	Explanation and comment
3.4. Board committees		
<p>3.4.1. The Committee recommends that the company publish the following on the company's website:</p> <ul style="list-style-type: none"> • the terms of reference of the board committees; • the most important activities of the committees during the year and the number of meetings held by each committee; and • the names of the members of each committee, including the chairmen of the committees, as well as information regarding which members are independent members and which members have special competencies. 	We comply	<p>The company has established an audit, a nomination, a remuneration and an IT Security committee.</p> <p>The terms of reference of these committees as well as information on their members, the number of meetings held etc. is available on the company's website.</p>
<p>3.4.2. The Committee recommends that a majority of the members of a board committee be independent.</p>	We explain	<p>All five Board members elected by the shareholders are members of the audit committee. Two of them are considered independent, whereas three are not considered independent. Thus, the majority of audit committee members are not independent. The chairman of the audit committee is independent.</p> <p>The nomination committee is composed of the Chairman and the Deputy Chairman of the company, the Chairman and the Deputy Chairman of William Demant Foundation, and the CEO of the company. The Chairman of the Board of Directors is also chairman of the nomination committee. This composition reflects that William Demant Foundation is the company's majority shareholder. Due to that, the majority of the nomination committee members are not independent.</p> <p>The remuneration committee is composed of the Chairman and the Deputy Chairman of the company, none of them being independent. Thus, the majority of the remuneration committee members are not independent.</p> <p>The IT security committee is composed of the Chairman and the Deputy Chairman of the company, none of them being independent, and the chairman of the audit committee who is independent. With this composition, the majority of the IT security committee members are not independent.</p>

Recommendation	Compliance	Explanation and comment
<p>3.4.3. The Committee recommends that the members of the board of directors set up an audit committee and that a chairman is appointed who is not the chairman of the board of directors.</p>	<p>We comply</p>	<p>Demant's Board of Directors has established an audit committee.</p> <p>The Board of Directors appoints the Chairman of the audit committee, who is independent and who will not at the same time be the Chairman of the Board of Directors.</p> <p>The audit committee members all have substantial financial knowledge and experience in accounting and auditing matters.</p>
<p>3.4.4. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the board of directors about:</p> <ul style="list-style-type: none"> • significant accounting policies; • significant accounting estimates; • related party transactions; and • uncertainties and risks, including in relation to the outlook for the current year. 	<p>We comply</p>	<p>Audit committee meetings coincide with ordinary Board meetings. Prior to each meeting, a separate agenda is issued with fixed items and special reports predetermined in a full-year wheel chart for the audit committee, covering among other things accounting policies, significant accounting estimates, related party transactions as well as uncertainties and risks.</p>

Recommendation	Compliance	Explanation and comment
<p>3.4.5. The Committee recommends that the audit committee:</p> <ul style="list-style-type: none"> • annually assesses the need for an internal audit function and, in such a case, presents mandates and recommendations on selecting, appointing and removing the head of any internal audit function and on the budget of the internal audit function; • ensure that if an internal audit has been established, a description of its functions is approved by the board of directors; • ensure that if an internal audit has been established, adequate resources and competencies are allocated to carry out the work; and • monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function. 	<p>We comply</p>	<p>The company has no internal audit function but uses internal control systems that are monitored by the Board of Directors on an ongoing basis. Our auditors also assess the internal control systems in their communication with our Board of Directors.</p> <p>As part of the tasks of the audit committee, the committee will continuously and at least once a year assess any need for an internal audit function. If such need should arise, the audit committee would provide a recommendation and framework for such internal audit function.</p>

Recommendation	Compliance	Explanation and comment
<p>3.4.6. The Committee recommends that the board of directors establish a nomination committee, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> • describing the qualifications required by the board of directors and the executive board and for a given position, indicating the time expected to be spent carrying out a specific position, as well as assessing the competencies, knowledge and experience found in the two governing bodies; • annually assessing the structure, size, composition and results of the board of directors and the executive board and recommend any changes to the board of directors; • annually assessing the competencies, knowledge, experience and succession of the individual members of management, and report to the board of directors in this respect; • recommending candidates for the board of directors and the executive board; and • proposing an action plan to the board of directors on the future composition of the board of directors, including proposals for specific changes. 	<p>We comply</p>	<p>The Board of Directors of Demant has set up a nomination committee.</p> <p>The Chairman of the Board of Directors is Chairman of the nomination committee.</p> <p>The composition of the committee and its terms of reference are published on our website.</p> <p>Nomination committee meetings are held as often as the Chairman finds it necessary however, at least once a year.</p>

Recommendation	Compliance	Explanation and comment
<p>3.4.7. The Committee recommends that the board of directors establish a remuneration committee, which is at least, responsible for the following preparatory tasks:</p> <ul style="list-style-type: none"> • recommending the remuneration policy (including the “General Guidelines for incentive-based Remuneration”) to the board of directors and the executive board for approval by the board of directors prior to approval by the general meeting; • making proposals to the board of directors on remuneration for members of the board of directors and the executive board, as well as ensuring that the remuneration is in compliance with the company’s remuneration policy and the assessment of the performance of the persons concerned. The committee should have information on the total remuneration that members of the board of directors and the executive board receive from other companies in the group; • recommending a remuneration policy applicable for the company in general; and • assisting with the preparation of the annual remuneration report. 	<p>We comply</p>	<p>The Board of Directors of Demant has set up a remuneration committee.</p> <p>The Chairman of the Board of Directors is Chairman of the remuneration committee.</p> <p>The composition of the committee and its terms of reference are published on our website.</p> <p>Remuneration committee meetings are held as often as the Chairman finds it necessary however, at least once a year.</p>
<p>3.4.8. The Committee recommends that the remuneration committee does not consult with the same external advisers as the executive board of the company.</p>	<p>We comply</p>	<p>In questions relating to remuneration, our Board of Directors and our Executive Board would not use the same external advisers, should such a situation occur.</p>

Recommendation	Compliance	Explanation and comment
3.5. Evaluation of the performance of the board of directors and the executive board		
<p>3.5.1. The Committee recommends that the board of directors establish an evaluation procedure for an annual evaluation of the board of directors and the individual members. External assistance should be obtained at least every third year. The evaluation should inter alia include:</p> <ul style="list-style-type: none"> • contribution and results; • cooperation with the executive board; • the chairman's leadership of the board of directors; • the composition of the board of directors (including competencies, diversity and the number of members); • the work in the committees and the committee structure; and • the organisation and quality of the material that is submitted to the board of directors. <p>The evaluation procedure and the general conclusions should be described in the management commentary and on the company's website. The chairman should account for the evaluation of the board of directors, including the process and general conclusions, on the general meeting prior to the election of the board of directors.</p>	We comply	<p>The Board of Directors has adopted an evaluation procedure.</p> <p>The Chairman is in charge of the annual evaluation of the work done by the Board of Directors and reports to the entire Board once a year.</p> <p>Every other year, the Chairman of the Board performs this evaluation through personal, individual interviews with the Board members, and every other year, the evaluation is carried out by means of questionnaires filled out by the Board members. In both instances, the results of the evaluation are discussed at the subsequent Board meeting.</p> <p>The Board members consider this evaluation procedure appropriate and satisfactory. The Board of Directors has decided to include external assistance when the next evaluation is due.</p>

Recommendation	Compliance	Explanation and comment
<p>3.5.2. The Committee recommends that at least once annually, the board of directors evaluate the work and performance of the executive board in accordance with pre-defined criteria. Furthermore, the board of directors should evaluate the need for changes to the structure and composition of the executive board, in light of the company's strategy.</p>	<p>We comply</p>	<p>In consultation with the other Board members, the Chairman of the Board evaluates once a year the work and results of the Executive Board and the need for changes to the structure and composition of the executive board, in light of the company's strategy.</p>
<p>3.5.3. The Committee recommends that the executive board and the board of directors establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the board of directors and the chief executive officer, and that the outcome of the evaluation be presented to the board of directors.</p>	<p>We comply</p>	<p>Once a year, the Chairman of the Board conducts an evaluation interview with the CEO. The cooperation between the Executive Board and the Board of Directors is also reviewed and commented in the annual evaluation procedure, cf. 3.5.1.</p>

4.1. Form and content of the remuneration policy

Recommendation	Compliance	Explanation and comment
<p>4.1.1. The Committee recommends that the board of directors prepare a remuneration policy for the board of directors and the executive board, which includes:</p> <ul style="list-style-type: none"> • a detailed description of the components of the remuneration for members of the board of directors and the executive board; • the reasons for choosing the individual components of the remuneration; • a description of the criteria that form the basis for the balance between the individual components of the remuneration; and • an explanation for the correlation between the remuneration policy and the company's long-term value creation and relevant related goals. <p>The remuneration policy should be approved by the general meeting at least every fourth year and upon any material amendments and it should be published on the company's website.</p>	We comply	<p>At the annual general meeting in March 2019, an updated version of the remuneration policy was approved. The remuneration policy is compliant with the recommendations.</p> <p>At the annual general meeting in March 2020 a revised remuneration policy will be presented to comply with the new rules in the Companies act.</p>

Recommendation	Compliance	Explanation and comment
<p>4.1.2. The Committee recommends that if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> • limits should be set on the variable components of the total remuneration package; • a reasonable and balanced composition should be maintained between remuneration for members of management and the value creation for shareholders in the short and long term; • clarity should be established about performance criteria and measurability for the award of variable components; • variable remuneration should not only consist of short-term remuneration components, and that long-term remuneration components must have a vesting or maturity period of at least three years; and • the company should have the ability to reclaim, in full or in part, variable components of remuneration that were paid on the basis of information, which subsequently are found to be incorrect. 	We comply	The remuneration policy includes variable components and contains information as suggested in the recommendation.
<p>4.1.3. The Committee recommends that remuneration of members of the board of directors does not include share options or warrants.</p>	We comply	The Board of Directors receive a fixed fee and no variable components, share option schemes or similar arrangements.
<p>4.1.4. The Committee recommends that if, in relation to long-term incentive programmes, a share-based remuneration is used, the programmes should have a vesting or maturity period of at least three years after being allocated and should be roll-over programmes, i.e. the options should be granted periodically.</p>	We comply	<p>A long-term incentive program is established for the Executive Board containing an annually revolving share-based cash remuneration where shadow shares are granted periodically once a year and with a maturity period of three years.</p> <p>The Board of Directors do not receive share-based remuneration. See also 4.1.3.</p>

Recommendation	Compliance	Explanation and comment
<p>4.1.5. The Committee recommends that the total value of the remuneration relating to the notice period, including severance pay, does not exceed two years of remuneration, including all components of the remuneration.</p>	We comply	<p>Members of the Executive Board are not entitled to more than 24 months' notice in the event of dismissal.</p> <p>Members of the Executive Board are not entitled to severance pay.</p>
4.2. Disclosure of remuneration		
<p>4.2.1. The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified annually in the chairman's statement at the company's general meeting.</p>	We comply	The company's remuneration policy and compliance with such policy will be explained in the Chairman's report at the annual general meeting.
<p>4.2.2. The Committee recommends that shareholders at the general meeting consider proposals for approval of remuneration for the board of directors for the current financial year.</p>	We comply	A proposal in respect of remuneration to be paid to the Board of Directors for the current financial year is presented to the shareholders at the general meeting for adoption.
<p>4.2.3. The Committee recommends that the company prepares a remuneration report that includes information on the total remuneration received by each member of the board of directors and the executive board from the company and other companies in the group and associated companies for the last three years, including information on the most important content of retention and resignation arrangements and that the correlation between the remuneration and company strategy and relevant related goals be explained.</p> <p>The remuneration report should be published on the company's website.</p>	We comply	The company prepares a remuneration report that is published on the company's website.

5.1. Identification of risks and transparency about other relevant information

Recommendation	Compliance	Explanation and comment
5.1.1. The Committee recommends that the board of directors consider and in the management commentary account for the most important strategic and business-related risks, risks in connection with the financial reporting as well as for the company's risk management.	We comply	The Board of Directors will consider essential strategic and business risks as well as risks in respect of the presentation of accounts and the company's activities and results. Through dialogue with the Executive Board and the company's auditors, the Board of Directors will get a good insight into the company's risk profile. Furthermore, the Board of Directors is continuously updated on market and business changes. The company's risk management activities are out-lined in our annual report.

5.2. Whistleblower scheme

5.2.1. The Committee recommends that the board of directors establish a whistleblower scheme for expedient and confidential notification of serious wrongdoing or suspicions thereof.	We comply	<p>The Board of Directors has decided to establish a whistleblower scheme in the Group.</p> <p>During 2019, we have worked on the content and process of the introduction of a global whistleblower scheme. It will be launched in 2020.</p> <p>We encourage our employees and third parties to raise their concerns on serious and sensitive improper actions that fail to comply with our Group's Code of Conduct and/or applicable laws and regulations.</p>
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5.3. Contact to auditor

5.3.1. The Committee recommends that the board of directors ensure regular dialogue and exchange of information between the auditor elected by the general meeting and the board of directors, including that the board of directors and the audit committee meet with the auditor elected by the general meeting at least once annually without the executive board present. This also applies to the internal auditor, if any.	We comply	The Board of Directors and our auditors meet at least twice a year to maintain a dialogue and exchange information. Once a year, at the meeting where the financial statements are approved, the auditors and the Board of Directors also meet without the presence of the Executive Board.
5.3.2. The Committee recommends that the audit agreement and auditor's fee be agreed by the board of directors and the auditor elected by the general meeting based on a recommendation from the audit committee.	We comply	Prior to start-up of the auditing process, the auditors' remuneration and the audit agreement are agreed upon with the auditors. The auditors' remuneration is subject to approval by the audit committee and the Board of Directors.