



Demant

Statutory report on
corporate governance
2021

Introduction

Demant is a Danish company listed on Nasdaq Copenhagen and part of the C25 index, consisting of the 25 most traded stocks.

Pursuant to section 107b of the Danish Financial Statements Act and clause 4.1 of Rules for issuers of shares laid down by Nasdaq Copenhagen, Danish companies listed on Nasdaq Copenhagen are subject to a code on corporate governance and shall give a statement on how they address the recommendations issued by the Danish 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 to 31 December 2021. This corporate governance report is not covered by the independent auditors' report 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 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 the time of publication of the Annual Report 2021, the company's Board of Directors has eight members:

Five members elected by the shareholders and three members elected by our staff 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 from 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

At present, the Board of Directors of Demant has four committees, consisting of an audit, a nomination, a remuneration and an IT security committee.

Executive Board

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

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

2. Internal control and risk management systems

The Board of Directors and the Executive Board are in ongoing dialogue about 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 Risk management activities chapter in our annual report, we review the main elements of our internal control and risk management systems in connection with the financial reporting process. The text below is an extract from the relevant section of Demant's Annual Report 2021.

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.

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 Danish 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 Board of Directors takes a stand on each individual recommendation and has chosen to provide relevant and supplementary explanations to the recommendations that we follow. The few cases (3 out of the 40 recommendations) where we have chosen to deviate from a recommendation are well-founded, and we explain what we do instead to further increase transparency. The complete report is provided in the schedule below.

8 February 2022

1 Interaction with the company's shareholders, investors and other stakeholders

1.1. Communication with the company's shareholders, investors and other stakeholders

Recommendation	Compliance	Explanation or comment
<p>1.1.1. The Committee recommends that the management through ongoing dialogue and interaction ensures that shareholders, investors and other stakeholders gain the relevant insight into the company's affairs, and that the board of directors obtains the possibility of hearing and including their views in its work.</p>	<p>Comply</p>	<p>Demant aims to maintain a high level of information to all existing and potential shareholders, investors and other stakeholders. We communicate with the shareholders and investors at the annual general meeting and through the annual report, company announcements, investor news, investor and analyst meetings, investor presentations, direct contact, website, webcasts, capital market days etc.</p> <p>The company has an Investor Relations (IR) function, 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.</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 for issuers of shares laid down by Nasdaq Copenhagen. We strive to provide easy access for IR stakeholders to our Management and other key employees.</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 insight into the dialogue with our shareholders, including insight into the shareholders' views on our strategy, communication, financial performance and targets, capital allocation etc.</p>

Recommendation	Compliance	Explanation or comment
<p>1.1.2. The Committee recommends that the company adopts policies on the company's relationships with its shareholders, investors and if relevant other stakeholders in order to ensure that the various interests are included in the company's considerations and that such policies are made available on the company's website.</p>	Comply	<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 supports 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. The company's policies are made available on our website.</p> <p>The Board of Directors supports 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. The company's policies are made available on our website.</p>
<p>1.1.3. The Committee recommends that the company publish quarterly reports.</p>	Explain	<p>We do not believe that quarterly reports will promote a better understanding of our activities.</p> <p>For the past many years, we have, however, published quarterly interim management statements 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. With effect from our next Interim Management Statement in May 2022 we will begin to report revenue and growth rates in our Interim Management Statements. The purpose of the changes is to further enhance transparency into the Group's financial performance and allow for easier comparison to peers. We believe that interim management statements after the first and the third quarters with the additional metrics will provide the market with valuable information.</p>

Recommendation	Compliance	Explanation or comment
<p>1.2. The general meeting</p> <p>1.2.1. The Committee recommends that the board of directors organises the company's general meeting in a manner that allows shareholders, who are unable to attend the meeting in person or are represented by proxy at the general meeting, to vote and raise questions to the management prior to or at the general meeting. The Committee recommends that the board of directors ensures that shareholders can observe the general meeting via webcast or other digital transmission.</p>	Comply	<p>The company's physical setting allows us to hold annual general meetings in-house, and we believe that it furthers active ownership that the company's shareholders can meet our Board members and Executive Board face-to-face and visit our head office. Unfortunately, that was not possible in 2021 due to coronavirus, so we held a fully virtual AGM.</p> <p>Taking the increasing digitalisation of society into account and in order to create flexibility for the company when preparing the company's general meetings, we proposed at the AGM in 2021 to authorise the Board of Directors to decide whether to hold the company's general meeting as a virtual event without any physical attendance. The proposal was adopted. However, we intend to hold physical meetings, unless issues like coronavirus arise.</p> <p>Shareholders who are unable to attend the general meeting in person or are represented by proxy at the meeting can vote and raise questions to Demant's Management prior to or at the general meeting.</p> <p>All relevant documents for the general meeting are uploaded on our website prior to and after the general meeting, and the webcast of the meeting is also made available on our website.</p>
<p>1.2.2. The Committee recommends that proxies and postal votes to be used at the general meeting enable the shareholders to consider each individual item on the agenda.</p>	Comply	<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 make a written or electronic proxy form available to the shareholders. Proxies and votes by post are prepared in such a manner that they allow shareholders to give voting instructions for each individual item on the agenda.</p>

Recommendation	Compliance	Explanation and comment
1.3. Takeover bids		
<p>1.3.1. The Committee recommends that the company has a procedure in place in the event of takeover bids, containing a “road map” covering matters for the board of directors to consider in the event of a takeover bid, or if the board of directors obtains reasonable grounds to suspect that a takeover bid may be submitted. In addition, it is recommended that it appears from the procedure that the board of directors abstains from countering any takeover bids by taking actions that seek to prevent the shareholders from deciding on the takeover bid, without the approval of the general meeting.</p>	Comply	<p>The company’s main shareholder, William Demant Foundation, directly or indirectly holds 55-60% of the share capital and votes in Demant. In its charter, 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 procedure to be followed, should such a situation occur.</p>
1.4. Corporate Social Responsibility		
<p>1.4.1. The Committee recommends that the board of directors adopts a policy for the company’s corporate social responsibility, including social responsibility and sustainability, and that the policy is available in the management commentary and/or on the company’s website. The Committee recommends that the board of directors ensures compliance with the policy.</p>	Comply	<p>Demant has a Sustainability Policy in place. In fact, a new sustainability strategy and framework were developed and adopted by the Board of Directors in 2020.</p> <p>The strategy, focus areas and our progress are outlined in highlights in the annual report and simultaneously, we publish our Sustainability Report that includes detailed follow-up on strategy, focus areas, initiatives and activities throughout the year as well as serves as Demant’s Communication on Progress of the United Nations’ Global Compact initiative. We support the UN Global Compact initiative, its 10 fundamental principles and the 17 Sustainable Development Goals.</p> <p>We are dedicated to our sustainability goals and activities governed by our Sustainability Board on a continuous basis, and the Board of Directors follows up on compliance with our Policy on an annual basis.</p>
<p>1.4.2. The Committee recommends that the board of directors adopts a tax policy to be made available on the company’s website.</p>	Comply	<p>We have adopted a Tax Policy for the Group that ensures that we are tax-compliant and that we abide by domestic and international tax legislation, while securing a competitive tax rate for the Demant Group. The Policy applies globally and is available on our website.</p>

2 The duties and responsibilities of the board of directors

2.1. Overall tasks and responsibilities

Recommendation	Compliance	Explanation or comment
<p>2.1.1. The Committee recommends that the board of directors in support of the company's statutory objects according to its articles of association and the long-term value creation considers the company's purpose and ensures and promotes a good culture and sound values in the company. The company should provide an account thereof in the management commentary and/or on the company's website.</p>	Comply	<p>Demant is a purpose-driven global hearing healthcare and technology Group. Our roots are in hearing health and our purpose is to create life-changing differences through hearing health. Our purpose is based on our past, present and future, and it sums up why Demant exists and our legacy to the world.</p> <p>Demant's purpose is the backbone of our strategy and is a commitment 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.</p> <p>Demant's Group values are fundamental to supporting our purpose and 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.</p>
<p>2.1.2. The Committee recommends that the board of directors at least once a year discusses and on a regular basis follows up on the company's overall strategic targets in order to ensure the value creation in the company.</p>	Comply	<p>The Board of Director is committed to ensuring value creation in the company. Once a year, the Board of Directors sets aside dedicated days for a strategy deep dive to discuss and follow up on the strategic targets. In connection with the annual budget discussions, the strategic targets are aligned with the consequences of the drawn-up budget.</p>
<p>2.1.3. The Committee recommends that the board of directors on a continuously basis takes steps to examine whether the company's share and capital structure supports the strategy and the long-term value creation in the interest of the company as well as the shareholders. The Committee recommends that the company gives an account thereof in the management commentary.</p>	Comply	<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. The company uses share buy-backs to channel the Group's excess cash flow back to the shareholders. In line with the Group's normal practice, our share buy-backs are on an ongoing basis and subject to our gearing target adjusted to reflect the extent of our acquisitions and investments. In the company's annual report, we account for the decisions made on the company's share and capital structure.</p>

Recommendation	Compliance	Explanation or comment
<p>2.1.4. The Committee recommends that the board of directors prepares and on an annual basis reviews guidelines for the executive management, including requirements in respect of the reporting to the board of directors.</p>	Comply	<p>The Executive Board's duties, responsibilities and scope of work as well as the guidelines in respect of the delegation of duties from the Board of Directors to 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 these instructions.</p> <p>Good communication routines between the Executive Board and the Board of Directors are established, including efficient reporting practices. 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, through discussions with the Executive Board at Board meetings and committee meetings and through an ongoing dialogue with the Chairmanship of the Board.</p>
<p>2.2. Members of the board of directors</p>		
<p>2.2.1. The Committee recommends that the board of directors, in addition to a chairperson, appoints a vice chairperson, who can step in if the chairperson is absent and who can generally act as the chairperson's close sparring partner.</p>	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>
<p>2.2.2. The Committee recommends that the chairperson in cooperation with the individual members of the board of directors ensures that the members up-date and supplement their knowledge of relevant matters, and that the members' special knowledge and qualifications are applied in the best possible manner.</p>	Comply	<p>As part of the annual evaluation procedure, cf. 3.5.1 below, the Chairman's and the Board members' skills are evaluated, including the need for any update of knowledge. As part of the annual evaluation, the Board will also discuss how to apply the qualifications and skills of the Board with a view to adding to value creation in the company.</p>
<p>2.2.3. The Committee recommends that if the board of directors, in exceptional cases, requests a member of the board of directors to take on special duties for the company, for instance, for a short period to take part in the daily management of the company, the board of directors should approve this in order to ensure that the board of directors maintains its independent overall management and control function. It is recommended that the company publishes any decision on allowing a member of the board of directors to take part in the daily management, including the expected duration thereof.</p>	Comply	<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 The composition, organisation and evaluation of the board of directors

3.1 Composition

Recommendation	Compliance	Explanation or comment
<p>3.1.1. The Committee recommends that the board of directors on an annual basis reviews and in the management commentary and/or on the company's website states</p> <ul style="list-style-type: none"> • which qualifications the board of directors should possess, collectively and individually, in order to perform its duties in the best possible manner, and • the composition of and diversity on the board of directors. 	Comply	<p>The Board of Directors has determined 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 calls for new qualifications on the Board.</p> <p>A list of such skills is available on our website as is 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, diversity, individual competencies and their other positions are also presented in the company's annual report.</p>
<p>3.1.2. The Committee recommends that the board of directors on an annual basis discusses the company's activities in order to ensure relevant diversity at the different management levels of the company and adopts a diversity policy, which is included in the management commentary and/or available on the company's website.</p>	Comply	<p>With an increasing need to attract talent across genders, borders, cultures and backgrounds, diversity and inclusion are important drivers to us.</p> <p>Since 2012, Demant has had a Diversity Policy and has taken specific initiatives aimed at ensuring gender equality. Measures are taken on a yearly basis to follow up on the development. Once a year, the Executive Board will review the development together with the Board of Directors and discuss if further initiatives are required.</p> <p>The age, gender, education and competences 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 now reached an even distribution in terms of gender among the Board members elected by the shareholders.</p>

Recommendation	Compliance	Explanation or comment
<p>3.1.3. The committee recommends that candidates for the board of directors are recruited based on a thorough process approved by the board of directors. The Committee recommends that in assessing candidates for the board of directors – in addition to individual competencies and qualifications – the need for continuity, renewal and diversity is also considered.</p>	Comply	<p>The Board of Directors has set up 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. In the annual evaluation of the Board of Directors' work, each member has the opportunity to comment on the collective competencies of the Board. Great importance is attached to international experience and management experience from listed companies as well as to diversity.</p>
<p>3.1.4. The Committee recommends that the notice convening general meetings, where election of members to the board of directors is on the agenda - in addition to the statutory items - also includes a description of the proposed candidates'</p> <ul style="list-style-type: none"> • qualifications, • other managerial duties in commercial undertakings, including board committees, • demanding organisational assignments and • independence. 	Comply	<p>The notice convening a general meeting includes a description of the skills and experience as well as information on other management functions in Danish and foreign companies of any candidates proposed for re-election.</p> <p>When 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 the candidate, which is deemed significant in respect of the company, including any international experience, will be included in the 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>
<p>3.1.5. The Committee recommends that members to the board of directors elected by the general meeting stand for election every year at the annual general meeting, and that the members are nominated and elected individually.</p>	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>

Recommendation	Compliance	Explanation or comment
<p>3.2. The board of director's independence</p> <p>3.2.1. The Committee recommends that at least half of the members of the board of directors elected in general meeting are independent in order for the board of directors to be able to act independently avoiding conflicts of interests.</p> <p>In order to be independent, the member in question may not:</p> <ul style="list-style-type: none"> • be or within the past five years have been a member of the executive management or an executive employee in the company, a subsidiary or a group company, • within the past five years have received large emoluments from the company/group, a subsidiary or a group company in another capacity than as member of the board of directors, • represent or be associated with a controlling shareholder, • within the past year have had a business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body in companies with similar relations) with the company, a subsidiary or a group company, which is significant for the company and/or the business relationship, • be or within the past three years have been employed with or a partner in the same company as the company's auditor elected in general meeting, • be a CEO in a company with cross-memberships in the company's management, • have been a member of the board of directors for more than twelve years, or • be closely related to persons, who are not independent, cf. the above-stated criteria. <p>Even if a member of the board of directors does not fall within the above-stated criteria, the board of directors may for other reasons decide that the member in question is not independent.</p>	<p>Comply</p>	<p>With the present composition of the Board of Directors, we comply with the recommendation as at least half of the members of the Board of Directors are considered independent.</p> <p>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 Group.</p>

Recommendation	Compliance	Explanation or comment
<p>3.2.2. The Committee recommends that members of the executive management are not members of the board of directors and that members retiring from the executive management does not join the board of directors immediately thereafter.</p>	<p>Explain</p>	<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 a fully owned holding company for William Demant Foundation's investment activities. Voting rights and decisions to buy and sell Demant shares are exercised and made by William Demant Foundation. Niels Jacobsen's position as Deputy Chairman reflects the ownership of the company.</p>
<p>3.3. Members of the board of directors and the number of other managerial duties</p>		
<p>3.3.1. The Committee recommends that the board of directors and each of the members on the board of directors, in connection with the annual evaluation, cf. recommendation 3.5.1., assesses how much time is required to perform the board duties. The aim is for the individual member of the board of directors not to take on more managerial duties than the board member in question is able to perform in a satisfactory manner.</p>	<p>Comply</p>	<p>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 their ongoing dialogue with the Chairman, the individual Board members will consider whether they have the necessary time to perform their duties as Board members.</p>
<p>3.3.2. The Committee recommends that the management commentary, in addition to the statutory requirements, contains the following information on the individual members of the board of directors:</p> <ul style="list-style-type: none"> • position, age and gender, • competencies and qualifications relevant to the company, • independence, • year of joining the board of directors, • year of expiry of the current election period, • participation in meetings of the board of directors and committee meetings, • managerial duties in other commercial undertakings, including board committees, and demanding organisational assignments, and • the number of shares, options, warrants, etc. that the member holds in the company and its group companies and any changes in such holdings during the financial year. 	<p>Comply</p>	<p>The annual report and our website include a list of all Board members, stating 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 he or she has been re-elected and that the election period is one year (four years for staff-elected Board members).</p> <p>The shareholding of each Board member and any changes in such holding in the past year will appear from our annual report.</p>

Recommendation	Compliance	Explanation or comment
3.4. Board committees		
<p>3.4.1. The Committee recommends that the management describes in the management commentary:</p> <ul style="list-style-type: none"> • the board committees' most significant activities and number of meetings in the past year, and • the members on the individual board committees, including the chairperson and the independence of the members of the committee in question. <p>In addition, it is recommended that the board committees' terms of reference are published on the company's website.</p>	Comply	<p>The company has set up an audit, a nomination, a remuneration and an IT security committee. The most significant activities of the committees, which are carried out in addition to the normal tasks of the committees pursuant to the committee charters, are described in the management commentary. The most significant activities of the remuneration committee are also described in the Remuneration Report.</p> <p>The terms of reference of these committees as well as information on their members, the number of meetings held etc. are available on the company's website.</p>
<p>3.4.2. The Committee recommends that board committees solely consist of members of the board of directors and that the majority of the members of the board committees are independent.</p>	Explain	<p>All five Board members elected by the shareholders are members of the audit committee. Three of them are considered independent whereas two are not considered independent. Thus, the majority of the audit committee members are considered 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. Thus, the majority of the nomination committee members are not independent, and the committee does not solely consist of members of the Board of Directors.</p> <p>The remuneration committee is composed of the Chairman and the Deputy Chairman of the company of whom none are 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, of whom none are 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 or comment
<p>3.4.3. The Committee recommends that the board of directors establishes an audit committee and appoints a chairperson of the audit committee, who is not the chairperson of the board of directors. The Committee recommends that the audit committee, in addition to its statutory duties, assists the board of directors in:</p> <ul style="list-style-type: none"> • supervising the correctness of the published financial information, including accounting practices in significant areas, significant accounting estimates and related party transactions, • reviewing internal control and risk areas in order to ensure management of significant risks, including in relation to the announced financial outlook, • assessing the need for internal audit, • performing the evaluation of the auditor elected by the general meeting, • reviewing the auditor fee for the auditor elected by the general meeting, • supervising the scope of the non-audit services performed by the auditor elected by the general meeting, and • ensuring regular interaction between the auditor elected by the general meeting and the board of directors, for instance, that the board of directors and the audit committee at least once a year meet with the auditor without the executive management being present. <p>If the board of directors, based on a recommendation from the audit committee, decides to set up an internal audit function, the audit committee must:</p> <ul style="list-style-type: none"> • prepare terms of reference and recommendations on the nomination, employment and dismissal of the head of the internal audit function and on the budget for the department, • ensure that the internal audit function has sufficient resources and competencies to perform its role, and • supervise the executive management's follow-up on the conclusions and recommendations of the internal audit function. 	<p>Comply</p>	<p>Demant's Board of Directors has set up an audit committee.</p> <p>The Board of Directors appoints the chairman of the audit committee who must be independent and who must not also be Chairman of the Board of Directors. The audit committee members all have substantial financial knowledge and experience in accounting and auditing matters.</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 pre-determined 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> <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 or comment
<p>3.4.4. The Committee recommends that the board of directors establishes a nomination committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • describing the required qualifications for a given member of the board of directors and the executive management, the estimated time required for performing the duties of this member of the board of directors and the competencies, knowledge and experience that is or should be represented in the two management bodies, • on an annual basis evaluating the board of directors and the executive management's structure, size, composition and results and preparing recommendations for the board of directors for any changes, • in cooperation with the chairperson handling the annual evaluation of the board of directors and assessing the individual management members' competencies, knowledge, experience and succession as well as reporting on it to the board of directors, • handling the recruitment of new members to the board of directors and the executive management and nominating candidates for the board of directors' approval, • ensuring that a succession plan for the executive management is in place, • supervising executive managements' policy for the engagement of executive employees, and • supervising the preparation of a diversity policy for the board of directors' approval. 	<p>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. The composition of the committee and its terms of reference are published on our website. Nomination committee meetings are held as often as deemed necessary by the chairman, however at least once a year.</p> <p>The nomination committee evaluates on a continuous basis and reviews at least once a year together 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>

Recommendation	Compliance	Explanation or comment
<p>3.4.5. The Committee recommends that the board of directors establishes a remuneration committee to perform at least the following preparatory tasks:</p> <ul style="list-style-type: none"> • preparing a draft remuneration policy for the board of directors' approval prior to the presentation at the general meeting, • providing a proposal to the board of directors on the remuneration of the members of the executive management, • providing a proposal to the board of directors on the remuneration of the board of directors prior to the presentation at the general meeting, • ensuring that the management's actual remuneration complies with the company's remuneration policy and the evaluation of the individual member's performance, and • assisting in the preparation of the annual remuneration report for the board of directors' approval prior to the presentation for the general meeting's advisory vote. 	<p>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>Among its other tasks, the committee also proposes changes to the Remuneration Policy to ensure compliance between the Policy and the actual remuneration and prepares the Remuneration Report.</p>

Recommendation	Compliance	Explanation or comment
3.5. Evaluation of the performance of the board of directors and the executive management		
<p>3.5.1. The Committee recommends that the board of directors once a year evaluates the board of directors and at least every three years engages external assistance in the evaluation. The Committee recommends that the evaluation focuses on the recommendations on the board of directors' work, efficiency, composition and organisation, cf. recommendations 3.1.-3.4. above, and that the evaluation as a minimum always includes the following topics:</p> <ul style="list-style-type: none"> • the composition of the board of directors with focus on competencies and diversity • the board of directors and the individual member's contribution and results, • the cooperation on the board of directors and between the board of directors and the executive management, • the chairperson's leadership of the board of directors, • the committee structure and the work in the committees, • the organisation of the work of the board of directors and the quality of the material provided to the board of directors, and • the board members' preparation for and active participation in the meetings of the board of directors. 	Comply	<p>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.</p> <p>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.</p>
<p>3.5.2. The Committee recommends that the entire board of directors discusses the result of the evaluation of the board of directors and that the procedure for the evaluation and the general conclusions of the evaluation are described in the management commentary, on the company's website and at the company's general meeting.</p>	Comply	<p>The findings of the evaluation are presented and discussed at the subsequent Board meeting in order to make overall conclusions of the evaluation. The outcome is described in the annual report and on the company's website and is outlined at the company's general meeting.</p>
<p>3.5.3. The Committee recommends that the board of directors at least once a year evaluates the work and results of the executive management according to pre-established criteria, and that the chairperson reviews the evaluation together with the executive management. In addition, the board of directors should on a continuous basis assess the need for changes in the structure and composition of the executive management, including in respect of diversity, succession planning and risks, in light of the company's strategy.</p>	Comply	<p>Once a year, the Chairman of the Board conducts an evaluation interview with the CEO. Once a year, the Chairman of the Board, in consultation with the other Board members, evaluates the work and results of the Executive Board and any need for changes to the structure and composition of the Executive Board in light of the company's strategy.</p> <p>The cooperation between the Executive Board and the Board of Directors is also reviewed and commented on in the annual evaluation procedure, cf. 3.5.1.</p>

4.1. Remuneration of the board of directors and the executive management

Recommendation	Compliance	Explanation or comment
<p>4.1.1. The Committee recommends that the remuneration for the board of directors and the executive management and the other terms of employment/service is considered competitive and consistent with the company's long-term shareholder interests.</p>	Comply	<p>Demant's 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 creation and long-term interests of the company.</p> <p>Demant's Remuneration Policy elaborates on the alignment of the remuneration with Demant's strategy, long-term interests and sustainability.</p> <p>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.</p> <p>The company's Remuneration Policy and compliance with such Policy will be explained in the Chairman's report at the annual general meeting.</p>
<p>4.1.2. The Committee recommends that share-based incentive schemes are revolving, i.e. that they are periodically granted, and that they primarily consist of long-term schemes with a vesting or maturity period of at least three years.</p>	Comply	<p>A long-term incentive programme is established for the Executive Board, containing annually revolving share-based cash remuneration where "shadow shares" with a maturity period of three years are granted once a year.</p>
<p>4.1.3. The Committee recommends that the variable part of the remuneration has a cap at the time of grant, and that there is transparency in respect of the potential value at the time of exercise under pessimistic, expected and optimistic scenarios.</p>	Comply	<p>There is a cap of six months' salary for each Executive Board member, which varies with the share price development during the maturity period. Scenarios are not relevant as no performance criteria are involved.</p>

Recommendation	Compliance	Explanation or comment
<p>4.1.4. The Committee recommends that the overall value of the remuneration for the notice period, including severance payment, in connection with a member of the executive management's departure, does not exceed two years' remuneration including all remuneration elements.</p>	Comply	In the event of dismissal, Executive Board members' notice period cannot exceed 24 months. For the duration of the notice period, the Executive Board member is entitled to remuneration. However, members of the Executive Board are not entitled to severance pay.
<p>4.1.5. The Committee recommends that members of the board of directors are not remunerated with share options and warrants</p>	Comply	Members of the Board of Directors receive a fixed fee but are not entitled to any variable components, share options or similar arrangements.
<p>4.1.6. The Committee recommends that the company has the option to reclaim, in whole or in part, variable remuneration from the board of directors and the executive management if the remuneration granted, earned or paid was based on information, which subsequently proves to be incorrect, or if the recipient acted in bad faith in respect of other matters, which implied payment of a too large variable remuneration.</p>	Comply	<p>As far as short- and long-term incentives are concerned, a mechanism is included whereby a member of the Executive Board who resigns or is given notice of termination due to gross negligence or wilful misconduct shall not be entitled to any pay-out.</p> <p>As the variable remuneration does not include performance criteria, it is not deemed relevant to include a clause on reclaim in case of incorrect information.</p>

5.1. Identification of risks and openness in respect of additional information

Recommendation	Compliance	Explanation or comment
<p>5.1.1. The Committee recommends that the board of directors based on the company's strategy and business model considers, for instance, the most significant strategic, business, accounting and liquidity risks. The company should in the management commentary give an account of these risks and the company's risk management.</p>	Comply	<p>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 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 outlined in our annual report.</p>
<p>5.1.2. The Committee recommends that the board of directors establishes a whistleblower scheme, giving the employees and other stakeholders the opportunity to report serious violations or suspicion thereof in an expedient and confidential manner, and that a procedure is in place for handling such whistleblower cases.</p>	Comply	<p>On request from the Board of Directors, Demant has established a whistleblower scheme for the Group, which includes a number of appropriate procedures for handling cases.</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>