2019
Annual Report

Demant

It’s important for me to continue doing the things I enjoy as an advocate, doctoral student, and most importantly as a mother. It’s important that I’m able to hear with less worry and with ease in my every-day life.

The Ponto 4 has helped me become more confident with my hearing health. I’m able to hear sounds from different directions and determine where the sound is coming from.

Camilla Gilbert, user of bone anchored hearing system Oticon Medical Ponto 4
Photo page 3

Contents

Key figures and financial ratios – year

	2019	2018	2017	2016	2015
Income statement, DKK million					
Revenue	14,946	13,937	13,189	12,002	10,665
Gross profit	11,325	10,784	10,026	9,030	7,895
Gross profit – adjusted*	11,325	10,825	10,064	9,102	7,895
R&D costs	1,120	1,009	919	839	763
EBITDA	3,110	2,978	2,742	2,346	2,203
Amortisation and depreciation etc.	959	446	404	404	325
Operating profit (EBIT)	2,151	2,532	2,338	1,942	1,878
Operating profit (EBIT) – adjusted*	2,151	2,652	2,504	2,130	1,902
Net financial items	-240	-164	-111	-101	-69
Profit before tax	1,911	2,368	2,227	1,841	1,809
Profit for the year	1,467	1,830	1,759	1,464	1,439
Balance sheet, DKK million					
Net interest-bearing debt	6,221	5,835	4,030	4,036	3,703
Net interest-bearing debt including lease liabilities	8,185	-	-	-	-
Assets	21,798	17,935	16,222	15,548	14,390
Equity	7,645	7,059	7,433	6,966	6,500
Other key figures, DKK million					
Investment in property, plant and equipment, net	561	409	292	299	375
Cash flow from operating activities (CFFO)	2,149	1,683	1,872	1,679	1,592
Cash flow from operating activities (CFFO) – adjusted*	2,149	1,765	2,023	1,756	1,602
Free cash flow	1,338	1,185	1,387	1,223	1,129
Average number of employees	15,352	14,250	13,280	12,339	10,803
Financial ratios					
Gross profit margin	75.8%	77.4%	76.0%	75.2%	74.0%
Gross profit margin – adjusted*	75.8%	77.7%	76.3%	75.8%	74.0%
EBITDA margin	20.8%	21.4%	20.8%	19.5%	20.7%
Profit margin (EBIT margin)	14.4%	18.2%	17.7%	16.2%	17.6%
Profit margin (EBIT margin) – adjusted*	14.4%	19.0%	19.0%	17.7%	17.8%
Return on equity	19.5%	25.7%	24.0%	21.5%	23.7%
Equity ratio	35.1%	39.4%	45.8%	44.8%	45.2%
Gearing multiple (NIBD/EBITDA)	2.4	2.0	1.5	1.7	1.7
Gearing multiple including lease liabilities	2.6	-	-	-	-
Earnings per share (EPS), DKK**	6.00	7.32	6.84	5.53	5.30
Cash flow per share (CFPS), DKK**	8.82	6.76	7.30	6.37	5.89
Free cash flow per share, DKK**	5.49	4.76	5.41	4.64	4.18
Dividend per share, DKK**	-	-	-	-	-
Equity value per share, DKK**	31.4	28.3	28.9	26.4	24.1
Price earnings (P/E)	35.0	25.3	25.4	22.2	25.0
Share price, DKK**	209.8	184.9	173.5	122.8	131.4
Market capitalisation adjusted for treasury shares, DKK million	50,470	45,308	43,864	31,829	35,126
Average number of shares outstanding, million	243.55	249.14	256.56	263.75	270.13
Key figures, EUR million* **					
Revenue	2,002	1,867	1,767	1,608	1,428
Operating profit (EBIT) – adjusted*	288	355	335	285	255
Profit for the year	196	245	236	196	193
Equity	1,023	945	995	933	870
Cash flow from operating activities (CFFO) – adjusted*	288	236	271	235	215
Market capitalisation adjusted for treasury shares	6,757	6,066	5,872	4,261	4,702

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities. On computation of the return
on equity, average equity is calculated, duly considering share buy-backs. The gearing multiple is calculated as net interest-bearing debt relative to EBITDA.

*Adjusted for costs related to the 2016-2018 restructuring programme.
**Per share of nominally DKK 0.20.
***On translation of key figures and financial ratios from Danish kroner to euros, Danmarks Nationalbank's rate of exchange as of 31 December 2019 of 746.97 has been used for balance sheet items, and the average rate of exchange for 2019 of 746.60 has been used for the income statement and cash flow items.

Key figures and financial ratios – half-year

	H2 2019	H1 2019	H2 2018	H1 2018	H2 2017	H1 2017
Income statement, DKK million						
Revenue	7,596	7,350	7,160	6,777	6,684	6,505
Gross profit	5,624	5,701	5,583	5,201	5,087	4,939
Gross profit – adjusted*	5,624	5,701	5,614	5,211	5,108	4,956
R&D costs	568	552	517	492	461	458
EBITDA	1,528	1,582	1,537	1,441	1,486	1,256
Amortisation and depreciation etc.	490	469	231	215	207	197
Operating profit (EBIT)	1,038	1,113	1,306	1,226	1,279	1,059
Operating profit (EBIT) – adjusted*	1,038	1,113	1,380	1,272	1,362	1,142
Net financial items	-121	-119	-92	-72	-56	-55
Profit before tax	917	994	1,214	1,154	1,223	1,004
Profit for the period	700	767	936	894	961	798
Balance sheet, DKK million						
Net interest-bearing debt	6,221	5,654	5,835	5,061	4,030	4,081
Net interest-bearing debt including lease liabilities	8,185	7,613	-	-	-	-
Assets	21,798	20,759	17,935	17,224	16,222	16,082
Equity	7,645	7,596	7,059	6,943	7,433	7,248
Other key figures, DKK million						
Investment in property, plant and equipment, net	310	251	211	198	168	124
Cash flow from operating activities (CFFO)	1,102	1,047	687	996	986	886
Cash flow from operating activities (CFFO) – adjusted*	1,102	1,047	714	1,051	1,054	969
Free cash flow	636	702	239	946	727	660
Average number of employees	15,660	15,044	14,565	13,934	13,514	13,047
Financial ratios						
Gross profit margin	74.0%	77.6%	78.0%	76.7%	76.1%	75.9%
Gross profit margin – adjusted*	74.0%	77.6%	78.4%	76.9%	76.4%	76.2%
EBITDA margin	20.1%	21.5%	21.5%	21.3%	22.2%	19.3%
Profit margin (EBIT margin)	13.7%	15.1%	18.2%	18.1%	19.1%	16.3%
Profit margin (EBIT margin) – adjusted*	13.7%	15.1%	19.3%	18.8%	20.4%	17.6%
Return on equity	18.1%	21.0%	26.0%	25.1%	25.7%	22.3%
Equity ratio	35.1%	36.6%	39.4%	40.3%	45.8%	45.1%
Gearing multiple (NIBD/EBITDA)	2.4	2.0	2.0	1.7	1.5	1.6
Gearing multiple including lease liabilities	2.6	2.3	-	-	-	-
Share price, DKK**	2.88	3.12	3.77	3.55	3.75	3.10
Cash flow per share (CFPS), DKK**	4.54	4.28	2.78	3.97	3.86	3.43
Free cash flow per share, DKK**	2.62	2.87	0.97	3.77	2.85	2.56
Dividend per share, DKK**	-	-	-	-	-	-
Equity value per share, DKK**	31.4	31.1	28.3	27.6	28.9	28.1
Price earnings (P/E)	35.0	32.7	25.3	36.2	25.4	27.3
Share price, DKK**	209.8	204.1	184.9	256.8	173.5	168.5
Market capitalisation adj. for treasury shares, DKK million	50,470	49,783	45,308	63,887	43,864	43,222
Average number of shares outstanding, million	242.70	244.40	247.13	251.15	255.18	257.94
Key figures, EUR million* **						
Revenue	1,018	984	959	908	897	873
Operating profit (EBIT) – adjusted*	139	149	185	170	183	153
Profit for the year	93	103	125	120	129	107
Equity	1,023	1,017	945	929	995	971
Cash flow from operating activities (CFFO) – adjusted*	148	140	96	141	141	130
Market cap. adjusted for treasury shares	6,757	6,665	6,066	8,553	5,874	5,788

Financial ratios are calculated in accordance with "Recommendations and Ratios" from CFA Society Denmark. The free cash flow is calculated as the sum of cash flow from operating activities (CFFO) and investing activities (CFFI) before acquisitions and disposals of enterprises, participating interests and activities. On computation of the return
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CEO letter

Dear reader

This year, the World Health Organization published new numbers on the prevalence of hearing loss. It is estimated that around 466 million people worldwide suffer from disabling hearing loss and that this number will have almost doubled to 900 million people in 2050. This forecast is a clear indication of the absolute necessity to continue the progress we have already made in hearing health: Enabling people to live active lives, to keep working and to interact socially – even if their hearing is severely impaired or just not what it used to be. The true value lies in the tremendous benefits of using modern hearing device technology, in the positive outcome of hearing treatment by a professional and in reducing the risk of cognitive and physical illnesses, resulting from denial of the importance of hearing treatment. Every day, we see the benefits of proper hearing care, so at Demant, we will continue to emphasise the importance of not just hearing care, but hearing health in a broader sense.

Innovative products contribute to proper hearing care. With dedicated innovative force, we have also this year written important chapters in the future of hearing healthcare. Our Hearing Devices business activity offers very impressive and full product portfolios that attract customers, culminating in the spring launch of Oticon Opn S and the autumn launch of Oticon Xceed, Xceed Play and CROS/BiCROS for people with severe to profound hearing loss. Our unique product offering goes back to the core of Oticon's Open Sound system and the power of this technology to support the user in the most difficult and noisy listening situations. In spring and autumn, both Bernafon and Sonic introduced new products, thereby considerably expanding their portfolios, and – perhaps most notably – the first Philips-branded products were launched in April and additional Super Power and Ultra Power styles in September 2019. Reflected in our growing presence in the US and our recent successful launch in China, the commercial response to this well-known consumer brand has turned out to be just as positive as we expected. All products are seeing good traction in a highly competitive market.

Our business activities Hearing Implants and Diagnostics contribute to similar life-changing user experiences. Just before summer, our Hearing Implants brand, Oticon Medical, launched their bone anchored product, Ponto 4, which is based on the unique Open Sound system originally developed for our hearing aids. Ponto 4 quickly became a customer success with user testimonials of improved hearing. In Diagnostics, we have been successful with new innovative efforts to improve remote care and automated hearing tests. Furthermore, our engagement in balance treatment is becoming an increasingly big part of our business, and it is amazing to see how patients severely impaired by dizziness and vertigo problems can go back to their normal lives after having undergone spinning chair treatment.

At Demant, we strongly believe in access to specialised hearing care, and we will continue to invest in hearing care of the future. We have become a very significant global retailer and our approach to hearing care is based on the needs of each individual user. We focus on professionalising and digitalising the customer journey, enabling us to always provide a targeted and personalised customer experience across all touchpoints.

In 2019, the Demant Group reached its 115th anniversary and the year saw many first-time events. We introduced new brands: the new Philips HearLink hearing aids and the new Demant corporate brand – a change from William Demant Holding. Our endeavours in headsets and intelligent audio and video solutions reached an important milestone when we introduced the new company and brand, EPOS. With EPOS being fully consolidated into the Demant Group, I look forward to seeing even more R&D synergies, such as advanced signal processing, evolve between our healthcare and headsets activities in the years to come and thus supporting continued strong growth in this part of our business. Our Diagnostics business activity also keeps evolving. In 2019, we changed the descriptive name of Diagnostic Instruments to Diagnostics to better reflect the fact that we are active in many areas and that the share of consolidated revenue generated by Diagnostics' balance, service and disposables businesses is growing. All these first-time events reflect our commitment to develop and drive growth through a multi-business and multi-brand approach backed by Demant, our core and common platform.

Because of our continuous growth and expansion, many new people have joined our Group. In the first half-year, we worked extremely hard to launch many new products and services in preparation for a productive second half-year. Then the unforeseen and most critical event occurred, which impacted the whole Group and our ability to perform. Ransomware criminals intruded our systems, our core IT infrastructure, which forced us to shut down our IT systems and shortly after begin the recovery of systems, servers and infrastructure across all regions. Although time-consuming and costly, we managed to successfully recover our systems from back-ups without having to pay ransom and thus support destructive criminals.

The IT incident impacted our performance in the last four months of the year, and the results for 2019 should therefore be seen in the light of the estimated DKK 550 million negative impact on the Group's revenue and profit, which is dissatisfactory and frustrating. However, our corporate culture, our team spirit and our ability to act and deliver in difficult times carried us through and enabled us to come out of the year with good momentum in all business activities. In the hearing aid wholesale business, we thus report 9% underlying organic revenue growth, which is well above the market growth rate, and we continue to see improvements in our hearing aid retail business where we report 4% underlying organic growth. We saw strong organic growth in Hearing Implants of 21% driven by very high growth in the cochlear implants segment in the first half-year and the same strong growth trend in the second half-year in the bone anchored hearing systems segment thanks to the launch in June of Ponto 4. Diagnostics generated strong organic growth of 10%.

Despite some challenging months in autumn, I am proud of the technological achievements of all Demant's business activities, Hearing Devices, Hearing Implants, Diagnostics and Communications, which are to the benefit of our many customers and users whom I cannot thank enough for their loyalty and collaboration in 2019.

Increasingly important to us and our shareholders, to our customers and to the users of our solutions are responsibility and sustainability. Demant has been committed to the UN Global Compact since 2010, and for the past two years, we have worked on incorporating the Sustainable Development Goals into our CSR approach.

With special focus on improving people's health and quality of life and on encouraging technological innovation, we build on our incredible heritage from the Demant family and their efforts to create life-changing differences for people with hearing loss. Based on the products we deliver and the very DNA of the Group, we exploit this opportunity to create significant changes in the world by standing up for all people's right to good health – especially the almost half a billion hearing-impaired people. But increasingly, and especially noteworthy this year, we also focus on responsible environmental practices. We are making progress in our efforts to reduce packaging and excess materials, and we are investigating new, sustainable materials for our products. We are also committed to supporting the Danish Government's goal to reduce greenhouse gas emissions by 70% by 2030.

When I meet employees all over the world, I see a fantastic and diverse crowd. I thank all employees for their contribution to Demant in 2019. I would also like to thank our shareholders for their commitment to Demant in a year where our normal operations were disrupted. Even at such challenging times, we are met with engagement and patience.

May the past year and the present time make way for a productive 2020.

Søren Nielsen

At a glance

1904 **Paving new ways** **2020**

For more than 115 years, Demant has played a vital part in developing innovative technologies and gathering know-how to help improve people's hearing and break new grounds in the field of audio.

In every aspect, at every touchpoint, Demant is **active and engaged**: From hearing devices and hearing implants, diagnostic equipment and hearing care to intelligent audio and video solutions.

15,837
NUMBER OF EMPLOYEES

R&D INVESTMENTS
1.1
BILLION DKK

Life-changing hearing health

Securing hearing health also means contributing to healthy lives and **well-being for all**. It is the very core of our business.

Our hearing devices, hearing implants and diagnostic equipment as well as the hearing care and services we provide all actively improve the quality of life of users and customers and have a **positive impact on society**.

In 2019, we helped more than **2 million hearing aid users** and, with our hearing implants, we helped **well above 10,000 users** with profound, conductive and single-sided hearing loss. Our technology helped diagnose a three-digit million number of people with suspicion of hearing loss and screened a two-digit million number of newborns.

Our ambition is to create positive changes in our sphere of influence, while conducting business responsibly and ensuring a long-term profile and reach. We are here to stay and to improve.

We are committed to **minimising our negative impact** on the environment.

We work actively to **reduce, recycle and avoid** excess materials and scraps and to introduce sustainable materials in our operational activities and production.

With the intention announced in December 2019 to significantly reduce our climate impact, we support the Danish Government's ambition to deliver a **70% reduction of emissions** from greenhouse gasses by 2030 compared to 1990.

Our business – four business activities, shared functions and distribution across the Group

Demant

Hearing Devices
- Oticon
- Philips
- Bernafon – Your hearing · Our passion
- Sonic – Everyday Sounds Better

Hearing Implants
- Oticon Medical

Diagnostics
- MAICO
- Interacoustics
- amplivox
- gsi Grason-Stadler
- MedRx
- audioscan – Professional Verification

Communications
- Sennheiser Communications
- EPOS

Shared functions

Distribution activities

Financial highlights

Group revenue 2019	Group EBIT 2019	Group EBIT outlook 2020
14,946 DKK MILLION (+7%)	2,151 DKK MILLION (-15%)	2,650-2,950 DKK MILLION

Strategy

In a world where integrity and authenticity are key decision drivers, having an original purpose is an essential reference point for the whole Group. Everyone at Demant are doing their utmost to live up to the purpose that has permeated the organisation and its employees since the beginning in 1904:

> To create life-changing differences through hearing health

Business model to drive growth in the hearing healthcare and headset markets

Favourable demographic trends – particularly the growing ageing population – as well as general consumer trends continue to drive growth in the hearing healthcare market. We are thus addressing an attractive market, and our strategic ambition is to further expand our position as the leading global hearing healthcare company with the broadest, deepest and most innovative product offering. Similarly, we see an attractive and fast-growing market for intelligent audio and video solutions, which represents a great opportunity for us to expand our Communications business activity. We invest heavily in R&D, including new areas, such as artificial intelligence, cloud and connectivity solutions. One of our focus areas is to exploit synergies across our business activities and thus enable our customers and users to benefit from our multi-business and multi-brand approach backed by a comprehensive global distribution set-up and efficient infrastructure. We have a strong local presence in all regions and key markets, and we continue to expand significantly in markets with great potential, such as China. In all our businesses, capacity and scale are becoming increasingly important, and as a Group, we have the necessary scale to compete effectively.

Demant has a strong track record of successfully developing businesses from being relatively small to becoming market leaders. In the past decades, our Hearing Devices business activity has succeeded in gaining material market shares through our strong wholesale business and retail activities. We have furthermore built market-leading entities in the fields of diagnostics and bone anchored hearing systems (BAHS), and it is our clear long-term ambition to also take our cochlear implants business on a similar journey. Our enterprise solutions and gaming headsets businesses hold similar potential to gain market shares and to become very sizeable global players.

Do you want to know more about Demant and the Group's activities in 2019?

Our purpose is to create life-changing hearing health. Every day, employees around the world do their utmost to live up to this purpose. Watch the video "I am sound", and see how we define life-changing hearing health.
www.demant.com/investor-relations/annual-report-2019/#sound

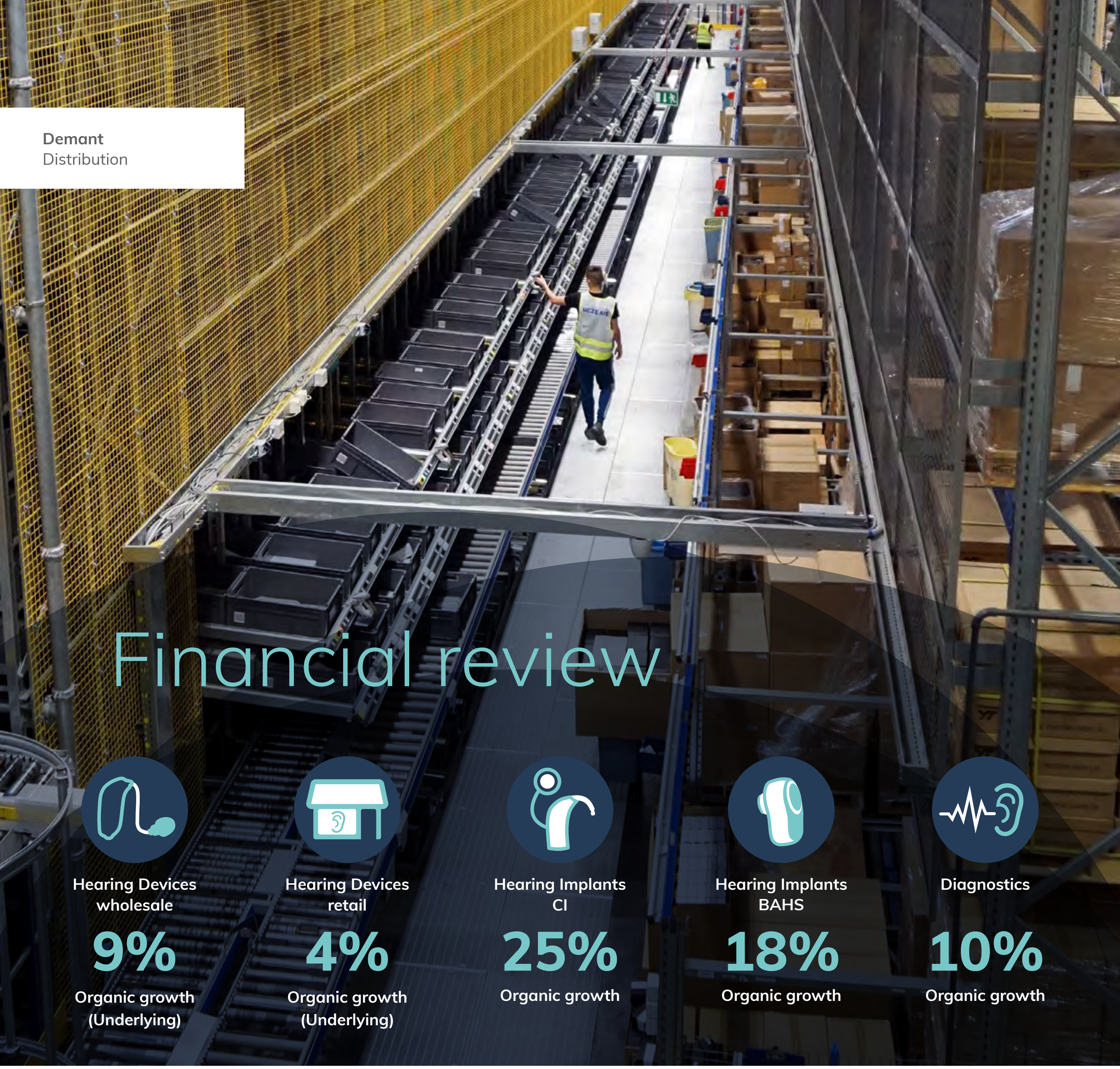
"It has been a major change," said Mei Mei Swane Lund when she was upgraded to Oticon Opn S. Watch the movie.
www.demant.com/investor-relations/annual-report-2019/#opns

Young Sustainable Developmental Goals – meet our colleagues whose project on greener and smarter packaging of hearing aids has become part of a UN programme.
www.demant.com/investor-relations/annual-report-2019/#sdg

Watch this movie and meet Camilla Gilbert who has felt the benefits of Oticon Medical's newest bone anchored sound processor, Ponto 4.
www.demant.com/investor-relations/annual-report-2019/#ponto4

EPOS – Demant welcomed a new company brand to the Group whose vision is to perfect audio and video experiences by delivering innovative design and performance.
www.demant.com/investor-relations/annual-report-2019/#epos

Why is balance rehabilitation important and how does it work? Watch the video and presentation of Interacoustics' balance rehabilitation portfolio.
www.demant.com/investor-relations/annual-report-2019/#balance



Demant
Distribution

Financial review

Hearing Devices wholesale	Hearing Devices retail	Hearing Implants CI	Hearing Implants BAHS	Diagnostics
9%	**4%**	**25%**	**18%**	**10%**
Organic growth (Underlying)	Organic growth (Underlying)	Organic growth	Organic growth	Organic growth

Revenue growth of 7% despite significant headwind from IT incident

New flagship products driving 9% underlying organic growth in hearing aid wholesale business

Reported EBIT of DKK 2,151 million with estimated negative impact of IT incident of DKK 550 million

2020 Outlook: EBIT of DKK 2,650-2,950 million after a negative spill-over effect of IT incident of DKK 100-150 million

- Consolidated revenue for 2019 amounted to DKK 14,946 million, corresponding to a growth rate of 7%. Organic growth accounted for 4 percentage points, acquisitions for 2 percentage points and exchange rate effects for less than 2 percentage points. Adjusted for an estimated negative revenue impact of the IT incident of DKK 575 million, underlying organic growth for the Group was 8%.

- In Hearing Devices, growth in local currencies amounted to 4%. Reported organic growth in the hearing aid wholesale business was 5% driven by the successful uptake of the new flagship products launched in all brands in the first half-year, including Oticon Opn S and Philips HearLink. Growth was driven by unit growth of 8%, whereas growth in the average selling price (ASP) was -3% after a sequential improvement in the second half-year compared to the first half-year. Adjusted for the estimated negative impact of the IT incident, underlying organic growth for 2019 was 9%. Over the next months, we will further expand our product portfolio when we introduce new rechargeable mid-priced products in all brands.

- Our hearing aid retail business saw growth of 4% in local currencies, all of which was acquisitive growth, whereas the reported organic growth rate was flat. In the US and Australia, we saw negative growth due to the significant negative impact of the IT incident. In the US, we also saw an increasing share of managed care, which reduced the retail ASP, partly offset by positive unit growth. Adjusted for the estimated negative impact of the IT incident, the underlying organic growth rate was 4% driven by good performances in our European markets. Acquisitive growth predominately related to a large acquisition made in the US in the first half of 2018.

- Hearing Implants delivered strong – entirely organic – growth of 21% in local currencies after seeing growth accelerating in the second half-year. Organic growth in our cochlear implants (CI) business was 25% driven by the continued success of our Neuro system. Our bone anchored hearing systems (BAHS) business delivered organic growth of 18% after significant growth acceleration in the second half-year driven by the new Ponto 4 sound processor launched in June 2019.

- In Diagnostics, growth in local currencies was strong and amounted to 11% of which 10 percentage points were organic growth and 1 percentage point related to acquisitions made during the year. North America, in particular, delivered a strong performance, and growth was furthermore fuelled by tender wins.

- Sennheiser Communications delivered growth of 4%, or an underlying growth rate of 12% measured as sales to external customers. Growth was mainly driven by wireless products in the Mobile Music segment. However, due to unfavourable product mix effects, increased spending on R&D and distribution and very strong comparative figures, Sennheiser Communications' contribution to the Group's operating profit (EBIT) decreased materially by 37% to DKK 66 million. As planned, the announced demerger of the joint venture is expected to be completed during 2020 with financial effect from 1 January 2020.

- For the Group as a whole, we estimate that the IT incident had a total negative financial impact on EBIT in 2019 of DKK 550 million (previously DKK 550-650 million). This number comprises DKK 575 million in lost sales (previously DKK 600-700 million), of which slightly more than half relates to our hearing aid wholesale business and slightly less than half to our hearing aid retail business, and DKK 75 million in direct costs (previously DKK 50 million), which is partly offset by the insurance coverage of DKK 100 million. This estimate is, however, subject to material uncertainty, as we cannot accurately determine the Group's performance, had the IT incident not occurred. For 2020, we expect a negative spill-over effect on EBIT of DKK 100-150 million, primarily due to an impact on sales. The major part of this effect relates to our hearing aid wholesale business, as we have lost time relative to our original plans and, despite regaining momentum at the end of 2019, we entered 2020 at a lower run rate than anticipated prior to the incident. We also expect some spill-over effect on our hearing aid retail business, specifically relating to Australia where our lead generation has not yet reached a normal level.

- The Group's gross profit margin was 75.8%, or a decrease of 1.6 percentage points compared to 2018, which can primarily be attributed to the IT incident and secondarily to a significant increase in sales of rechargeable products. Year-over-year, capacity costs grew by 12% of which 7 percentage points were organic due to increased R&D efforts initiated during 2018 and higher distribution costs, particularly in our hearing aid retail business. However, on a sequential basis, growth in the second half-year was slightly less than 3% compared to the first half-year. Reported EBIT for the Group amounted to DKK 2,151 million, which was in the middle of our latest guidance range of DKK 2,000-2,300 million. The decrease of 15% compared to reported EBIT last year is due to the significant negative impact of the IT incident. The corresponding EBIT margin was 14.4% compared to 18.2% in the same period last year. Adjusted for the estimated impact of the IT incident, EBIT amounted to DKK 2,701 million.

- Adjusted for the effect of IFRS 16 and a one-off effect related to the demerger of Sennheiser Communications, cash generation was strong and cash flow from operating activities (CFFO) increased by 17% to DKK 1,976 million driven by net working capital improvements, higher dividends received and lower tax payments. Free cash flow before acquisitions decreased by 2% to DKK 1,165 million. Share buy-backs amounted to DKK 946 million for the year. As at the end of 2019, net interest-bearing debt excluding lease liabilities (NIBD) amounted to DKK 6,221 million, and our gearing multiple was 2.0 measured as NIBD relative to normalised EBITDA adjusted for the impact of IFRS 16 and the IT incident. On a reported basis, our gearing multiple was 2.4 and thus temporarily exceeded our target range of 1.7-2.2 as a direct consequence of the IT incident.

- As a result of the consolidation of EPOS (previously Sennheiser Communications) with financial effect from 1 January 2020, we will realise several one-offs with an estimated combined positive EBIT effect of DKK 200-400 million. These will be recognised as special items in the Group's EBIT. The one-offs will have a negative effect on our cash flow of DKK 100-200 million. These one-off effects are not included in our outlook for the year.

- Outlook for 2020:

    - We expect to generate organic sales growth significantly above the market growth rate partly due to the negative impact in 2019 of the IT incident. This excludes sales growth related to the consolidation of EPOS. Based on exchange rates as of 3 February 2020 and including the impact of exchange rate hedging, we expect an exchange rate effect of slightly below 1% on revenue in 2020. Based on revenue from acquisitions completed as of today, we expect growth from acquisitions of 1%.

    - We expect an EBIT of DKK 2,650-2,950 million after the negative spill-over effect from the IT incident of DKK 100-150 million. The results generated by EPOS (excluding positive one-offs of DKK 200-400 million) is an integrated part of our outlook for 2020.

    - We expect to generate solid growth in CFFO and in the free cash flow before acquisitions (excluding negative EPOS-related one-offs of DKK 100-200 million) as a result of the expectation of higher EBIT. We will spend the free cash flow after acquisitions on buying back shares, while observing our aim to maintain a gearing multiple of 1.7-2.2 measured as NIBD relative to normalised EBITDA (adjusted for the impact of IFRS 16).

Unless otherwise indicated, the commentary below on our financial results is based on reported figures, i.e. 2018 figures include costs related to the 2016-2018 restructuring programme.

The table below shows figures for 2018 adjusted for these restructuring costs, which amounted to DKK 120 million, resulting in an adjusted EBIT of DKK 2,652 million for 2018.

Income statement
DKK million

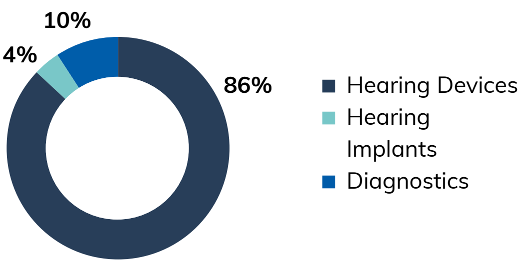
	2019	2018	Growth	Restr. costs 2018	Adjusted 2018	Growth
Revenue	14,946	13,937	7%	-	13,937	7%
Production costs	-3,621	-3,153	15%	-41	-3,112	16%
Gross profit	**11,325**	**10,784**	**5%**	**-41**	**10,825**	**5%**
Gross profit margin	75.8%	77.4%			77.7%	
R&D costs	-1,120	-1,009	11%	-15	-994	13%
Distribution costs	-7,421	-6,616	12%	-37	-6,579	13%
Administrative expenses	-851	-761	12%	-27	-734	16%
Share of profit after tax, associates and joint ventures	118	134	-12%	-	134	-12%
Other operating income	100	-	-	-	-	-
Operating profit (EBIT)	**2,151**	**2,532**	**-15%**	**-120**	**2,652**	**-19%**
Operating profit margin (EBIT margin)	14.4%	18.2%			19.0%	

Revenue
For 2019, revenue for the Group amounted to DKK 14,946 million, corresponding to a growth rate of 6% in local currencies of which organic growth contributed by 4 percentage points and acquisitive growth by 2 percentage points. Exchange rates had a positive impact on revenue of less than 2 percentage points, and total reported growth for the period was 7%.

In local currencies, Hearing Devices grew by 4% driven by organic growth in the hearing aid wholesale business of 5% and acquisitive growth in the hearing aid retail business of 4%. The latter saw flat organic growth. Hearing Implants delivered strong – entirely organic – growth of 21% in local currencies, with cochlear implants (CI) delivering 25% and bone anchored hearing systems (BAHS) delivering 18%. Diagnostics also delivered a strong performance, generating 11% growth in local currencies of which 10 percentage points were organic growth.

Revenue by business activity

DKK million	2019	2018	Change DKK	Change LCY	Change Org.
- Wholesale			6%	5%	5%
- Retail			6%	4%	0%
Hearing Devices	12,837	12,129	6%	4%	2%
- CI			25%	25%	25%
- BAHS			20%	18%	18%
Hearing Implants	622	509	22%	21%	21%
Diagnostics	1,487	1,299	14%	11%	10%
Total	**14,946**	**13,937**	**7%**	**6%**	**4%**



Revenue growth was negatively impacted by lost sales related to the IT incident that occurred at the beginning of September. We estimate a total negative impact on consolidated revenue of DKK 575 million of which slightly more than half relates to our hearing aid wholesale business and slightly less than half to our hearing aid retail business. The table below shows organic growth rates adjusted for the estimated negative impact of the IT incident. Please refer to *IT incident* for further details.

Organic growth by business activity

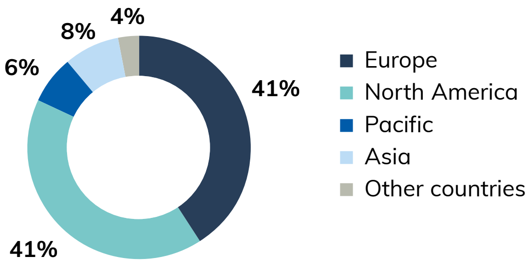
	H1 2019	H2 2019	Underlying* H2 2019	2019	Underlying* 2019
- Wholesale	6%	4%	13%	5%	9%
- Retail	2%	-2%	6%	0%	4%
Hearing Devices	4%	1%	10%	2%	7%
- CI	35%	15%	15%	25%	25%
- BAHS	4%	32%	32%	18%	18%
Hearing Implants	17%	25%	25%	21%	21%
Diagnostics	7%	13%	13%	10%	10%
Total	**5%**	**3%**	**11%**	**4%**	**8%**

* *Growth rates are adjusted for the estimated negative impact of the IT incident.*

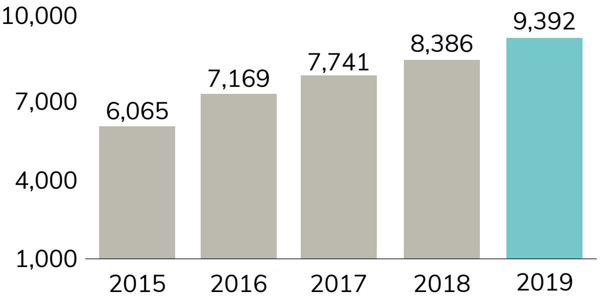
On a reported basis, we saw solid growth of 6% in local currencies in Europe driven by organic growth in our hearing aid wholesale business and in Hearing Implants. In North America, growth was 4% in local currencies driven mostly by acquisitions in our hearing aid retail business and strong organic growth in Diagnostics, albeit with a material negative impact of the IT incident. In relative terms, our Pacific region saw a particularly significant negative impact of the IT incident and grew by 2% in local currencies, whereas our Asia and Other countries regions generated strong growth in local currencies of 12% and 21%, respectively, driven by organic growth.

Revenue by geographic region

DKK million	2019	2018	Change DKK	Change LCY	Change Org.
Europe	6,110	5,745	6%	6%	5%
North America	6,194	5,766	7%	4%	1%
Pacific	908	911	0%	2%	1%
Asia	1,188	1,059	12%	12%	11%
Other countries	546	456	20%	21%	21%
Total	**14,946**	**13,937**	**7%**	**6%**	**4%**



Capacity costs – DKK million



Organic growth rates, year-over-year

	H1 2019	H2 2019	FY 2019
R&D costs	12%	10%	11%
Distribution costs	8%	4%	6%
Administrative expenses	8%	13%	10%
Total	**9%**	**5%**	**7%**

Gross profit
Gross profit increased by 5% to DKK 11,325 million, resulting in a gross profit margin of 75.8%, or a decrease of 1.6 percentage points compared to 2018 of which we estimate that 1.2 percentage points relate to the IT incident, resulting from estimated lost sales of DKK 575 million and additional production costs of DKK 50 million. Additionally, we saw an increase in production costs driven by higher sales of rechargeable devices, particularly in the second half-year, which had a dilutive effect on the gross profit margin.

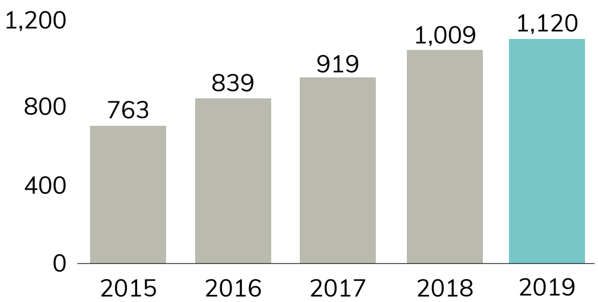
Capacity costs

DKK million	2019	2018	Change DKK	Change LCY	Change Org.
R&D costs	1,120	1,009	11%	11%	11%
Distribution costs	7,421	6,616	12%	10%	6%
Administrative expenses	851	761	12%	11%	10%
Total	**9,392**	**8,386**	**12%**	**10%**	**7%**

Total capacity costs increased by 12% to DKK 9,392 million for the year of which 2 percentage points are attributable to exchange rate effects. In local currencies, growth was 10%, with organic growth accounting for 7 percentage points and acquisitive growth for 3 percentage points – the latter mainly relating to our hearing aid retail business. Year-over-year, growth in capacity costs decelerated significantly in the second half-year compared to the first half-year driven by lower organic growth in costs. On a sequential basis, total capacity costs in the second half-year grew by slightly less than 3% compared to the first half-year. This modest sequential growth was mainly driven by acquisitions and by costs directly associated with the IT incident, which in our estimate amounted to DKK 25 million.

Entirely due to organic growth, we saw a material increase in R&D costs after we stepped up our R&D efforts during 2018. The increased activity level was particularly pronounced in software where we established and expanded our software development centre in Poland. We also saw increasing costs related to the development of new connectivity solutions.

R&D costs – DKK million



Distribution costs increased by 10% in local currencies, with organic growth accounting for 6 percentage points with increased spending in China and in Hearing Implants coupled with general cost inflation. Almost entirely related to our hearing aid retail business, acquisitive growth accounted for 4 percentage points. In the second half-year, organic growth in distribution costs was 4%, a material deceleration compared to the 8% reported in the first half-year.

Administrative expenses for the year increased by 10% organically with growth acceleration in the second half-year due to costs directly associated with the IT incident.

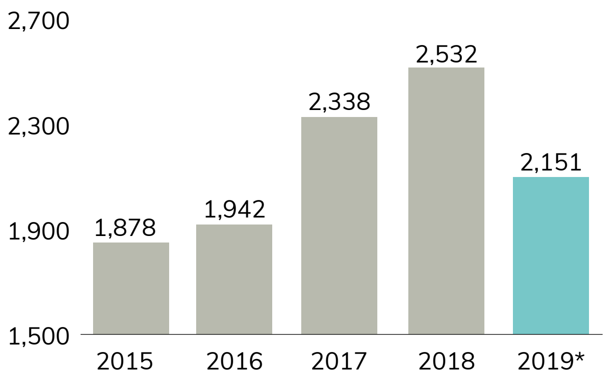
Operating profit
Consolidated operating profit (EBIT) for the year amounted to DKK 2,151 million and we thus ended the year in the middle of our latest guidance range of DKK 2,000-2,300 million. This corresponds to a negative growth rate of 15% compared to 2018.

The resulting EBIT margin was 14.4%, a significant decrease compared to 2018. The lower EBIT is due to the significant, negative financial impact of the IT incident, which in our estimate amounted to DKK 550 million in 2019. Adjusted for this estimated effect, EBIT was DKK 2,701 million.

Our hearing aid wholesale business had a slow start to the year prior to the introduction of new products, which started in February and was rolled out at scale at the end of March. This weighed on EBIT in the first half-year, but we saw a strong improvement towards the end of the period and at the beginning of the second half-year. However, the IT incident profoundly impacted EBIT in the second half-year, as it interrupted our business at a crucial time where we were executing on our plan to materially accelerate our growth and profitability thanks to the many new products launched in the first half-year. We managed to gain momentum towards the end of the year, although not quite to the extent anticipated prior to the IT incident. EBIT in our hearing aid retail business was also severely impacted by the IT incident, particularly in the US and Australia, and by a negative one-off effect related to the new hearing healthcare reform in France. We estimate that the negative one-off effect of the new reform amounted to DKK 50 million in EBIT for Hearing Devices at the beginning of the year of which the major part related to our hearing aid retail business.

Although still loss-making, Hearing Implants saw a material improvement in EBIT in 2019, particularly in the second half-year due to very impressive performance by our BAHS business. This was driven by strong revenue growth, but was partly offset by increased spending on R&D and distribution. Diagnostics also contributed positively to EBIT growth and continued to invest in future growth. The Group's share of profit after tax from associates and joint ventures decreased by 12% to DKK 118 million, primarily due to a lower contribution from our share of profit from Sennheiser Communications, which had an extraordinarily successful year in 2018.

Operating profit (EBIT) – DKK million



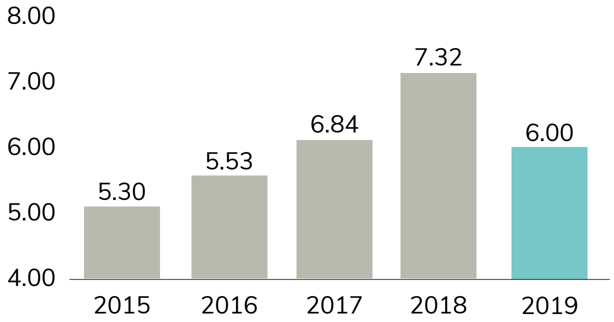
Reported EBIT for 2019 negatively impacted by DKK 550 million as a result of the IT incident.

The total impact on the income statement of the fair value adjustments of non-controlling interests and estimated earn-outs was DKK 22 million in 2019 (DKK 7 million in 2018). Please refer to Note 6.1 for more details.

Financial items
Reported net financial items amounted to DKK -240 million, or a decrease of DKK 76 million on 2018. This is partly due to the effect of IFRS 16, which amounted to DKK 46 million, and partly due to higher interest expenses, resulting from an increase in the net interest-bearing debt in the period.

Profit for the year
The Group's reported profit before tax for 2019 amounted to DKK 1,911 million, or a decrease of 19% compared to the year before. Tax amounted to DKK 444 million, resulting in an increase in the effective tax rate to 23.2% from 22.7% in 2018. Reported net profit for the year was DKK 1,467 million, or a decrease of 20% on 2018. The resulting reported earnings per share (EPS) was DKK 6.00, or a decrease of 18% from DKK 7.32 in 2018.

Earnings per share – DKK



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

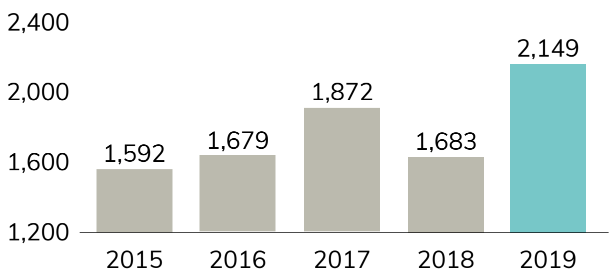
Cash flow statement

Cash flow by main items

DKK million	2019	2018	Change
Operating profit	2,151	2,532	-15%
CFFO	2,149	1,683	28%
Net investments	-811	-498	63%
Free cash flow	1,338	1,185	13%
Acquisition and divestment of enterprises, participating interests and activities	-603	-940	-36%
Share buy-backs	-946	-1,751	-46%
Other financing activities	754	1,123	-33%
Cash flow for the year	**543**	**-383**	**-242%**

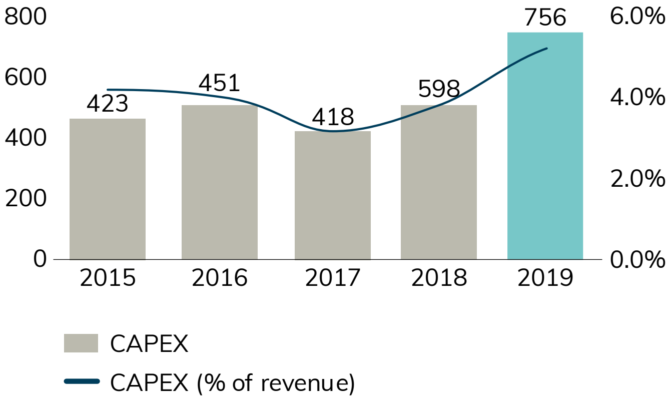
In 2019, consolidated cash flow from operating activities (CFFO) amounted to DKK 2,149 million, corresponding to an increase of 28% compared to the year before. Reported CFFO was positively impacted by IFRS 16, but negatively impacted by a one-off effect of the demerger of Sennheiser Communications and adjusted for these two one-off effects, CFFO increased to DKK 1,976 million, or by 17% on an underlying basis. The strong cash generation was driven by improvements in net working capital, an increase in dividends received from associates and joint ventures and lower tax payments compared to 2018.

Cash flow from operating activities (CFFO) – DKK million



Our net investments in tangible and intangible assets (CAPEX) increased by DKK 158 million, or 26%, to DKK 756 million. Most of this increase relates to the current expansion of our head-quarters in Denmark.

CAPEX – DKK million



Net investments in other non-current assets increased by DKK 155 million to DKK 55 million. The increase was driven by the major settlement in 2018 of loans issued to acquired entities, which had a positive effect of DKK 291 million on our investing activities that year (recognised as disposal of other non-current assets).

Reported free cash flow before acquisitions and divestments increased by 13% to DKK 1,338 million, resulting from a positive impact of IFRS 16, but a negative one-off effect of the demerger of Sennheiser Communications. Adjusted for these effects, the underlying free cash flow was -2%. Cash flow to acquisitions decreased by 36% to DKK 603 million, which is lower than previously communicated due to the timing of the acquisition of a network of retail stores in France, which was previously recognised as investments in associates. The acquisition was completed in early 2020 instead of at the end of 2019 as previously expected. Share buy-backs decreased by 46% to DKK 946 million after our buy-back of shares had been suspended temporarily as a result of the IT incident. Net cash flow for the year amounted to DKK 543 million.

Balance sheet

Balance sheet by main items

DKK million	2019	2018	Change
Lease assets	1,937	-	-
Other non-current assets	12,947	11,930	9%
Inventories	1,852	1,641	13%
Trade receivables	3,209	2,763	16%
Cash	792	630	26%
Other current assets	1,061	971	9%
Total assets	**21,798**	**17,935**	**22%**
Equity	7,645	7,059	8%
Lease liabilities	1,964	-	-
Other non-current liabilities	3,763	3,390	11%
Trade payables	652	499	31%
Other current liabilities	7,774	6,987	11%
Total equity and liabilities	**21,798**	**17,935**	**22%**

As of 31 December 2019, the Group's total assets amounted to DKK 21,798 million, which is an increase of 22% compared to 2018. The increase was mainly driven by the implementation of IFRS 16, which took effect on 1 January 2019 (please refer to Note 9.1), but we also saw an increase in goodwill from acquisitions. Adjusted for the effect of IFRS 16, acquisitions and exchange rate effects, organic growth in total assets was 5%.

The Group's net working capital was DKK 3,141 million as of 31 December 2019, up by 11% compared to the year before. The increase was mainly driven by increased inventories and trade receivables related to the demerger of Sennheiser Communications and adjusted for this effect, net working capital increased by 1%.

Net interest-bearing debt (NIBD) increased significantly as a result of IFRS 16, but if we exclude the effect of IFRS 16, growth was much more modest. NIBD excluding lease liabilities increased by 7% to DKK 6,221 million. The resulting net gearing multiple (NIBD/EBITDA) was 2.0 as of 31 December 2019 based on normalised EBITDA, i.e. excluding the effects of IFRS 16 and the IT incident. On a reported basis, the net gearing multiple was 2.4 as of 31 December 2019 and, as expected, it thus temporarily exceeded our target range of 1.7-2.2 as a direct consequence of the IT incident.

Total equity increased by 8% to DKK 7,645 million of which DKK 9 million is attributable to non-controlling interests and DKK 7,636 million to the shareholders of Demant A/S. The increase was mainly driven by the realised profit for the year, but was partly offset by share buy-backs. These buy-backs totalled 4,658,659 shares at an average price of DKK 203.12, amounting to DKK 946 million in total.

Employees
As of 31 December 2019, the Group had 15,837 employees (1,689 in Denmark) compared to 14,744 employees (1,681 in Denmark) at the beginning of the year. The number of employees in Denmark reflects the final closure of the Group's production facilities in Thisted, Denmark, at the beginning of 2019.

Events after the balance sheet date
With financial effect from 1 January 2020 and as communicated in September 2018, Sennheiser Communications, our joint venture with Sennheiser electronic GmbH & Co. KG, will be demerged, and the Gaming and Enterprise Solutions business segments will consequently be fully consolidated line-by-line into the financial statements for the Group for the 2020 financial year. For 2019, our share of profit is recognised as share of profit after tax, associates and joint ventures and included in the Group's EBIT. The demerger is expected to be completed during 2020.

There have been no other events that materially change the assessment of this Annual Report 2019 from the balance sheet date and up to today.

New accounting standards
Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases in the balance sheet with effect from 1 January 2019. Management has decided to apply the modified retrospective method under which comparative figures are not restated. Please refer to Note 9.1 for more details on the impact of IFRS 16.

Bernafon
Leox 713 hearing device

Outlook

The hearing healthcare market
As a leading global provider of hearing healthcare solutions, the Demant Group is active in all key product segments, sales channels and geographic regions. Due to this unique position in the marketplace, the Group has access to a large and attractive hearing healthcare market with solid and structural underlying growth drivers. In addition, our EPOS business (previously Sennheiser Communications) competes in the market for headsets and solutions for the professional call centre and office market (Enterprise Solutions) and in the market for gaming headsets (Gaming).

In general, we consider the global hearing healthcare market to be very stable. However, official market statistics are not fully comprehensive, so our market growth assumptions listed below should be seen in this light. These market growth assumptions, which now include the hearing aid retail market, are in line with our previous long-term expectations and serve as our current best estimates of market trends in 2020:

- The hearing aid market will see a unit growth rate of 4-6% and a decrease in the ASP of a low single-digit percentage in both wholesale and retail. In terms of value, we thus estimate that the hearing aid market will grow by 2-4%.
- The hearing implant market will see a value growth rate of 10-15%.
- The diagnostic market will see a value growth rate of 3-5%.
- The total hearing healthcare market will see a value growth rate of around 4% (now including our estimate for the hearing aid retail market).
- The enterprise solutions and gaming headset markets will both see value market growth rates of 8-10%.

Special items
Our outlook for 2020 below is given on the basis of reported numbers for 2019 after the significant negative impact of the IT incident. This will positively impact growth rates for 2020. For 2020 specifically, we have included an estimated negative spill-over effect of the IT incident of DKK 100-150 million on EBIT, primarily due to an impact on sales. The major part of this effect relates to our hearing aid wholesale business as we have lost time relative to our original plans and, despite regaining momentum at the end of 2019, we entered 2020 at a lower run rate than anticipated prior to the incident. We also expect some negative spill-over effect on our hearing aid retail business, specifically relating to Australia where our lead generation has not yet reached a normal level.

As a result of the consolidation of EPOS with financial effect from 1 January 2020, we will realise several one-offs with an estimated combined positive EBIT effect of DKK 200-400 million. These will be recognised as special items in the Group's EBIT. The one-offs will have a negative effect on our cash flow of DKK 100-200 million. These one-off effects are not included in our outlook for the year.

Outlook for 2020:
- We expect to generate organic sales growth significantly above the market growth rate partly due to the negative impact in 2019 of the IT incident. This excludes sales growth related to the consolidation of EPOS. Based on exchange rates as of 3 February 2020 and including the impact of exchange rate hedging, we expect an exchange rate effect of slightly below 1% on revenue in 2020. Based on revenue from acquisitions completed as of today, we expect growth from acquisitions of 1%.

- We expect an EBIT of DKK 2,650-2,950 million after the negative spill-over effect from the IT incident of DKK 100-150 million. The results generated by EPOS (excluding positive one-offs of DKK 200-400 million) is an integrated part of our outlook for 2020.

- We expect to generate solid growth in CFFO and in the free cash flow before acquisitions (excluding negative EPOS-related one-offs of DKK 100-200 million) as a result of the expectation of higher EBIT. We will spend the free cash flow after acquisitions on buying back shares, while observing our aim to maintain a gearing multiple of 1.7-2.2 measured as NIBD relative to normalised EBITDA (adjusted for the impact of IFRS 16).

Oticon
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Our business

Growth

4%

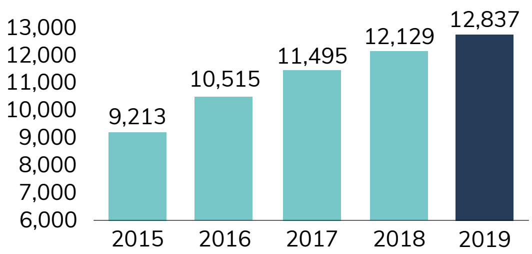
IN LOCAL CURRENCIES

Revenue

12,837

DKK MILLION

Revenue (DKK million)



Growth of 4% in local currencies despite significant, negative impact from the IT incident driven by a very broad range of product launches and continuous acquisitions

Hearing Devices

Introduction
Overall, our Hearing Devices business activity experienced a volatile 2019 where we faced several challenges, but also carried out a very significant launch of new flagship hearing aids in all our four hearing aid brands. Growth was 4% in local currencies of which organic and acquisitive growth each accounted for 2 percentage points. We had a weak start to the year due to an ageing product cycle, including the lack of a competitive rechargeable solution, coupled with an intense competitive environment in the hearing aid wholesale market and a negative impact of the new French reform on our hearing aid retail business. Following very significant launch programmes in all our hearing aid brands, growth then accelerated, although we saw a higher-than-normal level of returns of legacy rechargeable products. Traction was disrupted by the IT incident that hit us at the beginning of September, which significantly impacted our business and our financial performance. Despite improved sales momentum, the run rate at the end of the year did not fully reach the level we had anticipated prior to the incident. If we adjust for the estimated negative sales impact of the IT incident on Hearing Devices, underlying organic growth was 7%. Please refer to *IT incident* for more details. Looking ahead, we expect to leverage our highly competitive product portfolio in our hearing aid wholesale business – which will be further expanded with new rechargeable mid-priced products over the next months – and to continuously improve our hearing aid retail business to gain further momentum.

Market conditions and business trends
In 2019, we saw very healthy unit growth rates in most major markets, including stockbuilding by the NHS at the beginning of the year in preparation for Brexit. Overall, we estimate that growth in global unit sales of hearing aids was at the high end of our general medium- to long-term growth expectations of 4-6% unit growth per year.

After a relatively slow start to the year, unit growth in the US accelerated during the year, and total unit growth was 6.5% according to statistics from the Hearing Industries Association (HIA). The commercial part of the market saw 6.0% growth, and the large public channel, Veterans Affairs (VA), saw 8.4% growth. We estimate that a significant part of this growth was driven by an increasing part of hearing aid purchases in the US being covered partly or fully by insurance – a trend that we have seen for a couple of years now. We estimate that the trend accelerated in 2019. Consequently, some managed care organisations have emerged as substantial players in the market where they source hearing aids directly from manufacturers and then refer users to hearing care professionals to have these products fitted. In return, the managed care organisations pay the professionals a fixed fitting fee, which has a negative impact on the retail average selling price (ASP), even though it supports unit growth.

On the regulatory front, the US Food and Drug Administration (FDA) will no later than in August 2020 introduce draft legislation to establish a new over-the-counter (OTC) category of hearing aids, but the exact timing has not been confirmed officially. As a member of HIA, we closely monitor and analyse developments and are in active dialogue with the FDA. We maintain our view that any impact of the new OTC category will be limited.

In Europe, we estimate that the number of units sold grew by a high single-digit percentage driven by high growth in the NHS and strong growth in Germany and in several of the small markets in the region. In France, a new hearing healthcare reform took effect on 1 January 2019, so growth fluctuated somewhat throughout the year due to the gradual phasing in of higher reimbursement levels between 2019 and 2021. Overall, unit growth in France was solid at wholesale level, but is estimated to be flat at retail level.

Looking beyond the US and Europe, we estimate that China continued to see double-digit unit growth rates and that unit growth was solid in Japan thanks to growth acceleration in the second half-year. Australia only saw modest unit growth after a weak beginning to the year.

There are no reliable industry statistics available on the development of prices in the global hearing aid wholesale market, but we believe that channel and geography mix shifts and a generally competitive business environment all had a negative effect on pricing in 2019 despite the somewhat positive effect of the increasing adoption of rechargeable technology. We thus estimate that the value growth rate in the hearing aid wholesale market was in line with our medium- to long-term estimate of 2-4%. We also believe that growth in the ASP in the hearing aid retail market was slightly negative due to channel and geography mix shifts, although with significant variations across markets because of differences in reimbursement schemes, customer preferences and product mixes. We thus estimate that the global value growth rate in hearing aid retail was also 2-4%.

Hearing aid wholesale
Our hearing aid wholesale business delivered 5% growth in local currencies of which slightly less than 5 percentage points relate to organic growth and slightly less than 1 percentage point to acquisitions made in 2019 of two networks providing value-added services to hearing healthcare professionals.

After a slow start to the year, particularly in terms of sales in the premium segment, growth accelerated following the roll-out of new platforms in all brands and in most major markets. The roll-out started in February and ramp-up at the end of March, although the introduction of rechargeable products in the upper mid-priced segments took place slightly later in May. The new products saw encouraging uptake, particularly the rechargeable versions, although net sales were hampered by a significantly higher-than-normal level of returns of products based on legacy silver-zinc rechargeable technology. These product returns were the result of users – while still in their trial period – choosing to swap existing devices for the new products and the new, strong rechargeable solutions based on lithium-ion technology. The negative impact lasted until the end of August and was particularly pronounced in markets, such as the US and France, with a high share of rechargeable products.

After a period of accelerating growth driven by the many new product launches, our ability to service both existing and new customers was significantly impacted by the IT incident that occurred on 3 September. We were thus unable to deliver on our ambitious growth targets in the second half-year despite a strong finish to the year driven by the strength and width of our product portfolio and by relatively soft comparative figures. We also saw disappointing growth in sales to the VA in the US in the second half-year. If we adjust for the estimated negative sales impact of the IT incident, the underlying organic growth rate in our hearing aid wholesale business was 9% for the year.

Despite improved momentum and the fact that only limited supply chain constraints remained at the end of the year, the run rate at the beginning of 2020 has been lower than anticipated prior to the incident. As previously communicated, we have thus seen a spill-over effect in 2020, which is mainly due to less business coming from new customers, whereas existing customers have generally been loyal and understanding of the circumstances. We are confident that we have not permanently lost existing customers at any material scale.

Reported growth in 2019 was the result of strong unit growth of 8% driven by sales to the NHS, large retail chains and customers in Asia, particularly in China. ASP growth was -3% due to product mix shifts in the first half-year, but we saw a sequential improvement in the second half-year compared to the first half-year thanks to an improved product mix. On the cost side, we saw a material increase in production costs in our hearing aid wholesale business due to strong unit growth and continued growth in sales of rechargeable devices. Furthermore, the gross profit margin was diluted by the negative impact of the IT incident on sales and production costs. Capacity costs increased materially driven by our increased R&D efforts in 2018 – not least within software and connectivity solutions. The latter includes solutions based on the Audio Streaming for Hearing Aids (ASHA) specification for Android™ devices as well as the new Bluetooth LE Audio standard announced by the Bluetooth Special Interest Group in January 2020.

Introduced at the end of February and rolled out at scale towards the end of March and during April, the Oticon Opn S product family has successfully cemented our position as a leader in audiology. Furthermore, it features strong rechargeability based on lithium-ion technology and thus plays well into the strong and growing demand for rechargeable products. To further meet this demand, we will expand our rechargeable offering to more users over the next months by introducing our latest Velox S platform to the mid-priced segment with our new Oticon Ruby product family. These new products, which will include both miniRITE and BTE styles in two price points, will complement our strong product portfolio, which was most recently expanded in August 2019 with the successful launch of new Super Power and Ultra Power devices for adults and children. On 5 February 2020, Oticon will introduce a new brand strategy. In a clear and simple way, the new brand concept communicates Oticon's dedication to providing life-changing technology, its status as technology pioneer and its commitment to deliver innovative solutions for the benefit of hearing care professionals and users. Already established as a world-leading technology brand, with this change, Oticon wants to completely change the way in which hearing technology works and is experienced as life-changing for users.

Philips
HearLink

2019 marked the launch of the first generation of products under the Philips brand. This new family of premium products, Philips HearLink, was rolled out in the first half-year, and we have seen a successful uptake in the channels where it has been introduced. We expanded the product portfolio further in August 2019 with Super Power and Ultra Power devices. In some instances, the IT incident caused a delay to the planned roll-out, but we continue to see a lot of interest in the Philips products thanks to their unique combination of strong technology and a brand that is trusted and recognised all over the world. We will introduce new mid-priced rechargeable products over the coming months, and we continue to broaden the reach of Philips-branded products to new markets, including China where we have recently launched the brand. We believe that the Philips brand will help us address a broader part of the hearing aid market and thus contribute meaningfully to growth over the coming years.

Our Bernafon and Sonic brands also launched new flagship product families in the first half of 2019 under the names of Bernafon Viron and Sonic Captivate. These launches were followed up by new Super Power and Ultra Power devices in August, Bernafon Leox and Sonic Trek. Over the next months, we will introduce new products in the mid-priced segment that offer rechargeability, which will further support growth.

In North America, organic growth was slightly positive in 2019 with solid unit growth, but negative ASP development due to negative mix effects, including increasing sales under managed care schemes. We saw weak growth at the beginning of the year before our new product launches helped accelerate growth in the latter part of the first half-year and into the first months of the second half-year. In May, we introduced Philips-branded products to a very large customer in the US as a replacement for Bernafon-branded products, and after an initial ramp-up period, growth accelerated in the second half-year. In the VA channel, growth was negative in the second half-year due to increased competition. At the end of 2019, our market share in the channel was 15.6% measured in units compared to 20.4% at the end of 2018. It is our clear ambition to regain momentum with this important channel.

Europe saw very solid organic growth based on a combination of strong unit growth and negative ASP development. The primary growth drivers were the UK, thanks to stockbuilding by the NHS in preparation for Brexit, Germany, Spain and Denmark. In France, we saw increased competition, but growth was supported by sales through our retail business.

We saw strong organic growth in Asia driven by China and South Korea, in particular, whereas growth in our Pacific region was negative due to a material negative impact of the IT incident. Our Other countries region saw strong organic growth.

Hearing aid retail
Our hearing aid retail business saw growth of 4% in local currencies, with flat organic growth and slightly less than 5% growth from acquisitions, particularly a large acquisition made in the US in the first half of 2018. 2019 started with material headwind from the new hearing healthcare reform in France that took effect on 1 January 2019 and caused a postponement in the recognition of revenue. The total negative impact of the reform amounted to around DKK 50 million for Hearing Devices of which the by far major amount could be attributed to our hearing aid retail business. However, underlying growth in the business improved compared to 2018 until we were hit by the IT incident in September. This resulted in a significant number of clinics being unable to service users in their regular fashion, and the IT incident thus had a significant impact on reported growth. At the end of 2019, our hearing aid retail business had largely normalised, except in Australia where we unfortunately saw some of the consequences of the incident continue to the end of the year and carry over into 2020. If we adjust for the estimated negative sales impact of the IT incident, the underlying organic growth rate in our hearing aid retail business was 4% in 2019 after seeing an acceleration in the second half-year where underlying organic growth was 6%.

Driven by further acquisitions – predominately completed in the first half of 2018 – we saw a material increase in distribution costs in our hearing aid retail business in 2019, but growth decelerated significantly in the second half-year. Overall, profitability was significantly impacted by the IT incident as our cost base remained more or less unchanged despite lost sales.

In North America, we saw a significant negative impact of the IT incident, and organic growth was negative for the year, whereas acquisitive growth was strong, mainly due to the acquisition in the first half of 2018 of the remaining shares of a US-based store network, which was previously recognised as investments in associates. In the US, we reached several important milestones during the year, including the rebranding of our store network to improve marketing efficiency and the readjustment of our sales organisation and key management roles. However, we see a need to further refine how we work with managed care, as the increased share of sales has put pressure on the retail ASP, as described above. Underlying unit growth was strong as we managed to increase productivity in response to the lower ASP and we will continue to focus on further improvements. In 2020, we will further optimise the operating model of stores acquired as part of a large acquisition in 2018, including lowering the marketing spend, which may however negatively affect organic growth.

In 2019, we saw solid growth in Europe due to a combination of organic and acquisitive growth, with the latter predominately relating to France. At the beginning of 2020, we completed another acquisition in France, as we increased our ownership of a large French network of retail stores based on a model of shared ownership with audiologists. We previously held a non-controlling interest in the network and as a result of the shared ownership model, the acquisition only has limited impact on the Group's income statement. The network will remain independent from our existing network in France. Organic growth in France was negatively impacted by the reform at the beginning of 2019, which impacted the timing of revenue recognition, but growth largely normalised during the remainder of the year. In addition to solid underlying growth in France, Poland, Sweden and Spain also delivered strong organic growth.

In Australia, we saw negative organic growth, as strong performance in the first half-year was offset by a significant negative impact of the IT incident in the second half-year. We had expected to see a normalisation by the end of 2019, but unfortunately, we saw some of the consequences of the incident continue for a longer period of time than anticipated and carry over into 2020. On a commercial note, we have now rebranded our Australian retail shops to Audika to improve lead generation and marketing efficiencies.

Growth

21%

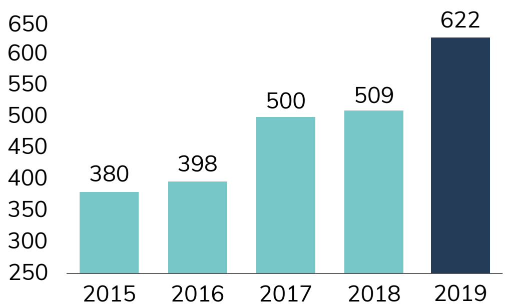
IN LOCAL CURRENCIES

Revenue

622

DKK MILLION

Revenue (DKK million)



Very strong growth in Hearing Implants leading to market share gains in both business segments driven by Neuro 2 in CI and Ponto 4 in BAHS

Hearing Implants

Introduction
In 2019, our Hearing Implants business activity, which operates under the Oticon Medical brand, realised 21% growth in local currencies, which was entirely organic growth. As anticipated, growth accelerated in the second half-year due to strong sales of the new, ground-breaking Ponto 4 sound processor for bone anchored hearing systems (BAHS) launched in June. Growth in cochlear implants (CI) was very strong throughout 2019 thanks to the continued success of our Neuro system, including the Neuro 2 sound processor launched in 2018.

Cochlear implants – market conditions and business trend
We estimate that the CI market growth rate was 8-10% in value in 2019, including a slight decline in the global ASP due to geographic mix effects, competition and pressure on public tenders in some markets. The estimated growth rate is slightly lower than our general expectations of a long-term growth rate of 10-12%, as CIs continue to be among the most successful hearing rehabilitation devices available for people with profound hearing impairment. A number of important drivers will contribute to driving further growth in the coming years, including increased penetration, an increasing pool of elderly people needing a CI as well as new indications, such as single-sided deafness and severe tinnitus. Innovation remains key in the CI industry and all manufacturers spend significant resources on R&D. Scale and cutting-edge technology are prerequisites for becoming a successful player in the industry, which is also true of our CI business that benefits from being part of the Demant Group.

Cochlear implants
In 2019, our CI business delivered 25% entirely organic revenue growth thanks to the continued success of our Neuro system, including the Neuro 2 sound processor launched in February 2018. Revenue growth was particularly strong in the first half-year where we delivered 35% organic growth – partly due to the timing of tender activities. Towards the end of the year, we saw some slowdown in the growth momentum and delivered 15% revenue growth. For the full year, the revenue growth rate was significantly above the estimated market growth rate driven by strong export sales, by Brazil and by a number of European markets, including Germany, Italy and Spain. In the UK and Canada, we recently obtained approval of Neuro 2, and we therefore expect to grow our business significantly in these markets in 2020. We continue to receive positive feedback on the Neuro system and to see new growth opportunities arise. In addition, we recently published our Reliability Report 2019, demonstrating that our Neuro system is one of the most reliable systems in the industry, which continues to be a driver in our dialogue with key opinion leaders and enables us to increase our penetration into clinics all over the world.

Our plans to obtain regulatory approval of the Neuro system in the US are progressing as expected, and we expect to submit our final application for pre-market approval in the first quarter of 2020.

Bone anchored hearing systems – market conditions and business trends

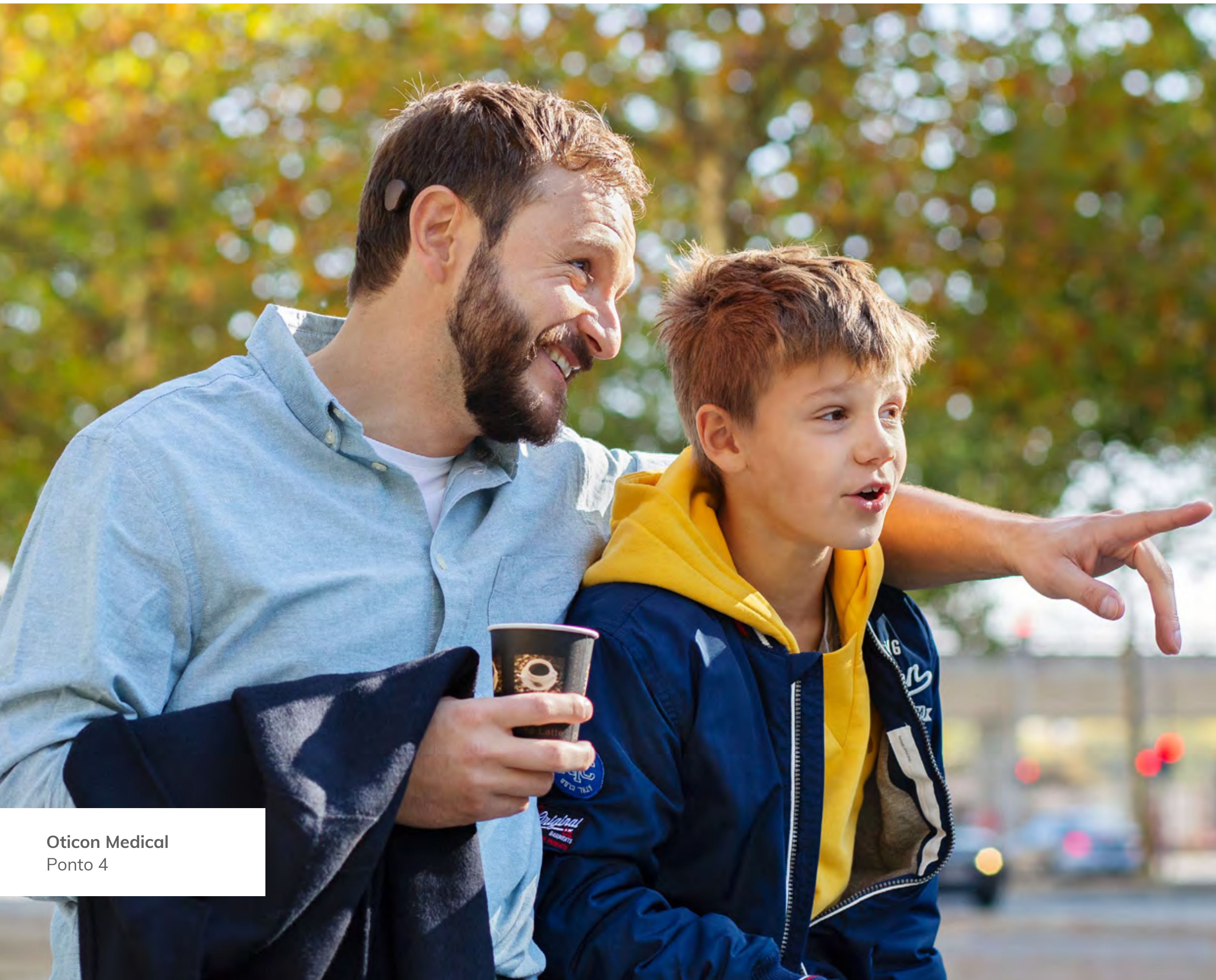
The market for BAHS is considered one of the fastest growing segments in hearing healthcare with annual growth rates in value of 10-15%, which can however fluctuate significantly year-over-year, depending on the timing of product launches. We estimate that in 2019 the global market growth rate in value was at the lower end of the range. There are several solutions in the marketplace that address some of the clinical indications for bone conduction devices, including passive and active transcutaneous systems (without abutment, but with an implant that is connected to an external sound processor through magnetic attraction) as well as percutaneous systems (with abutment), which are still the gold standard. A widespread penetration of other solutions will depend heavily on whether the solutions are adopted for distribution through the highly diverse reimbursement systems that exist around the world.

Bone anchored hearing systems

Our BAHS business delivered 18% revenue growth in 2019, all of which was organic growth. After seeing modest organic growth of 4% in the first half-year, we saw significant growth acceleration in the second half-year where we delivered 32% organic growth driven by the launch of the Ponto 4 sound processor in June. Ponto 4 is based on the powerful Velox S platform known from Oticon's premium hearing device, Oticon Opn S, and offers industry-leading audiology and wireless streaming from smartphones in addition to being the smallest BAHS sound processor on the market. We have received – and continue to receive – very positive feedback on Ponto 4 from customers and end-users, which is a strong testament to the synergies of the R&D competencies in the Demant Group.

Geographically, growth was mainly driven by the US and Australia. We also saw high growth rates in a number of European markets, including Scandinavia and Germany, whereas growth in the UK was weaker than expected, as the reimbursement of Ponto 4 took effect later than anticipated.

With the strong momentum gained in the second half of the year and with a highly competitive product line-up – both in the mild to moderate segment with Ponto 4 and in the severe to profound segment with Ponto 3 SuperPower – our BAHS business is in a favourable position to continue its strong momentum in 2020.



Oticon Medical
Ponto 4

Growth

11%

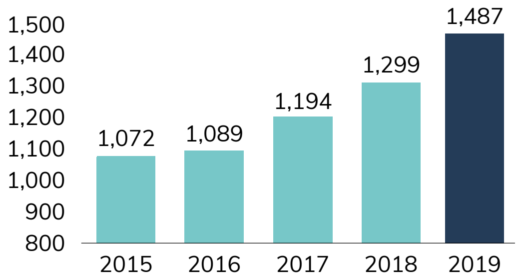
IN LOCAL CURRENCIES

Revenue

1,487

DKK MILLION

Revenue (DKK million)



Significant growth and expansion of our market-leading position in Diagnostics thanks to an innovative product portfolio and a strong distribution set-up

Diagnostics

Introduction

With 11% growth in local currencies of which organic growth accounted for 10 percentage points, 2019 was another year of strong performance by our Diagnostics business. We managed to exploit our strong momentum throughout the year and to further expand our leading position in the market despite strong comparative figures. Our Diagnostics business activity includes, among others, the audiometer businesses Grason-Stadler (USA), Amplivox (UK), MAICO (Germany and USA), MedRx (USA) and Interacoustics (Denmark). In addition, Diagnostics markets consumables under the Sanibel brand and distributes products through Diatec in a number of countries, and in the US, Diagnostics operates the distribution entity e3. In 2019, Audioscan, a key player in the hearing aid fitting segment, became part of the Demant family after several years of close partnership in North America.

Market conditions and business trends

In 2019, the global market for hearing-diagnostic instruments and accessories amounted to approx. DKK 3 billion at the wholesale level. The market for hearing-diagnostic instruments alone is estimated to have grown by approx. 5%, which is at the upper end of our long-term growth expectations of 3-5%. The market for diagnostic equipment for hearing and balancing purposes is constantly developing – not only from a product perspective, but also due to the increasing importance of software and databases and the ongoing consolidation in the industry. In the past year, we have seen a number of new tablet-based screening and fitting solutions in the market. We have also continued the expansion of our next-generation tablet-based hearing screening and diagnostics solutions – some of them based on the Automated Method for Testing Auditory Sensitivity (AMTAS) technology, which supports the audiologist in providing a professional experience to clients in remote areas and in certain channels, such as Veterans Affairs. Another growing area are products for tele-health where we have introduced several leading solutions.

Diagnostics

In 2019, growth was broadly based across brands and product categories with particularly strong growth in sales of newborn hearing screening equipment, audiometers and balance equipment. Revenue from services and disposables was also a strong growth driver in 2019 – a trend that we have seen for several years. It is key to grow our service business in our constant endeavours to build close relationships with our customers. Geographically, North America was the main growth driver due to the continued success of e3. We also recorded strong growth in Asia driven by China and South Korea as well as in our Other countries region due to a large tender win in the second half-year.

We continue to see great potential for further growth in Diagnostics – especially in fitting equipment, balance equipment and newborn hearing screening equipment. At the EUHA congress in Nuremberg, Germany, in autumn, Interacoustics launched a new hearing device fitting system, Affinity Compact, which will help support our growth in this important segment. In addition, we are in a favourable position to grow our business and capitalise on the opportunities in balance equipment and newborn hearing screening equipment due to our many recent product launches and activities.

A continuously high level of innovation, a strong distribution set-up, a multi-brand approach and the ability to successfully enter new business areas remain cornerstones of the growth strategy in Diagnostics.

Maico
Easy Screen BERAphone

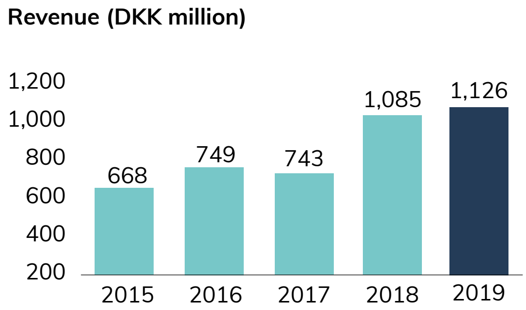
12%

UNDERLYING GROWTH

Revenue

1,126

DKK MILLION



12% underlying growth in Sennheiser Communications primarily driven by wireless products

Communications

Introduction
Sennheiser Communications, our 50/50 joint venture with Sennheiser electronic GmbH & Co. KG (Sennheiser KG), develops and manufactures headsets and solutions for the professional call centre and office market (Enterprise Solutions) as well as headsets for the Gaming and Mobile Music segments. In 2019, Sennheiser Communications delivered 12% growth in local currencies adjusted for inventory effects.

As announced in 2018, we made a joint decision with Sennheiser KG that as of 1 January 2020, the joint venture would evolve into different set-ups. For more than 15 years, the joint venture has been very successful developing innovative products, resulting in market share gains in all business segments, and the demerger is carried through in good faith. The demerger is the result of an increasing need for dedicated end-to-end focus in all business segments in response to changing market dynamics. The Mobile Music business segment will be part of the Sennheiser Consumer business in the future, and the Enterprise Solutions and Gaming business segments will evolve into EPOS, a high-end audio and video solutions company for enterprises and gamers, which will be a part of the Demant Group

Market conditions and business trends
The global market for enterprise solutions has continued to develop favourably with estimated sales at wholesale level of approx. DKK 10 billion in 2019. We estimate that in the past year, the market growth rate has been approx. 8%. The positive UCC (Unified Communication and Collaboration) trend, which covers the aggregation of communication services (e-mail, instant messaging, voice, click-to-dial, presence, video conferencing, virtual whiteboard etc.) into a single interface remains the major growth driver. Also, the “prosumer” trend continues with consumer-like products in the office space, and features such as active noise cancellation play an increasingly important role. In addition, we are seeing a trend towards increasing focus on strategic collaborations.

The gaming market is becoming increasingly mature, and overall interest is growing. We estimate that the gaming headset market is worth approx. DKK 10 billion with annual growth rates of 8-10%. Due to very strong comparative figures in 2018 driven by the “Fortnite effect”, we estimate that the market for gaming headsets saw negative growth of approx. 10% in 2019. Still, the gaming community is growing rapidly, and professional gamers are becoming superstars with large fan bases. To capture this trend, we are investing heavily in partnerships with popular e-sport teams to leverage the perception of our premium solutions. Interaction with gamers through social media is equally important in order to build awareness. On the product side, the wireless trend we have seen in the past years in consumer headsets is expanding into the gaming segment, driving an opportunity for smaller in-ear form factors.

Sennheiser Communications
For 2019, Demant’s share of the profit in Sennheiser Communications is recognised under share of profit after tax, associates and joint ventures in the consolidated financial statements. However, the full income statement for the Sennheiser Communications joint venture is shown on the next page. The company reports wholesale revenue from sales into Sennheiser KG’s inventory, thereby acting as a manufacturer of headsets, while benefitting from the distribution set-up in Sennheiser KG. Revenue (sales into Sennheiser KG’s inventory) realised in 2019 amounted to DKK 1,126 million, corresponding to an increase of 4% on last year.

Income statement

(DKK million)	2019	2018
Revenue	1,126	1,085
Production costs	-673	-586
Gross profit	**453**	**499**
Gross profit margin	40.2%	46.0%
R&D costs	-145	-125
Distribution costs	-120	-92
Administrative expenses	-17	-15
Share of profit after tex, associates and joint ventures	-	-
Operating profit (EBIT)	**171**	**267**
EBIT-margin	15.2%	24.6%
Tax on profit for the year	-38	-61
Profit for the year	133	207
Demant share of profit, 50%	**66**	**104**

At year-end 2019, the underlying business (sales from Sennheiser KG's inventory to customers) had increased by 12% compared to 2018, and growth was first and foremost driven by wireless products in the Mobile Music segment. In Enterprise Solutions, growth was in line with the estimated market growth rate driven by increased sales across a range of markets in Europe, North America and Asia. Despite strong comparative figures due to the "Fortnite effect", growth in the Gaming segment was positive and driven by increased sales of PC gaming headsets. Overall, Sennheiser Communications' contribution to the Group's EBIT was materially lower than last year due to negative mix shifts, exchange rate effects and increased spending on R&D and distribution.

Demant launches EPOS: a high-end audio and video solutions company for enterprises and gamers
EPOS specialises in premium audio and video solutions for enterprises and gamers, with design and performance based on leading and advanced technologies as paramount parameters. EPOS will manufacture and sell the existing Sennheiser Communications Enterprise Solutions and Gaming portfolios co-branded as EPOS | SENNHEISER products, while also introducing a new EPOS-branded portfolio. Going forward, we will report EPOS revenue under the Communications (previously Personal Communication) business activity, which is in line with what we already do for other business activities in the Demant Group. As previously announced, the video collaboration space will be a strategic focus area for the business going forward. EPOS has strengthened its position in the video space through a strategic investment in Solaborate, which has developed a leading all-in-one video and audio communication and collaboration device platform. The video conferencing market, which is a natural territory for EPOS and offers attractive growth opportunities, is expected to grow from around DKK 12 billion in 2019 to almost DKK 20 billion by 2022.

From 2020 and onwards, we will fully consolidate the EPOS business line-by-line into the Group's financial statements, which will impact reported figures. Compared to the 2019 income statement for the joint venture, we expect the following factors to impact the consolidated income statement in 2020:

- Revenue of around two-thirds of total revenue generated in the joint venture in 2019 plus a mark-up from taking over end-to-end distribution of around one-third
- Production costs of around two-thirds of total 2019 production costs in the joint venture
- R&D costs in line with those of the joint venture in 2019, as we maintain our capacity to invest in future growth
- An increase in distribution costs in line with the revenue mark-up (in absolute numbers) less a modest margin
- Increased administrative expenses to facilitate end-to-end distribution
- Negligible contribution to the share of profit after tax, associates and joint ventures by Solaborate
- Contribution to consolidated EBIT slightly lower than in 2019 (DKK 66 million)

As such, we expect EPOS to contribute with significant revenue, but also significant costs, so we expect to see a net dilution of the consolidated gross profit margin and EBIT margin. The results generated by EPOS is an integrated part of our outlook for 2020. As a result of the consolidation of EPOS with financial effect from 1 January 2020, we will realise several one-offs with an estimated combined positive effect on EBIT of DKK 200-400 million, which will be recognised as special items. The one-offs will have a negative effect on our cash flow of DKK 100-200 million. These one-off effects are not included in our outlook for the year.


EPOS | SENNHEISER
IMPACT 5066

IT incident

As communicated in several company announcements in 2019, the Group's IT infrastructure was hit by cybercrime on 3 September 2019 when a ransomware intrusion led us to immediately shut down IT systems across multiple sites and business units. From the outset, the incident had a profound impact on our ability to operate our business, and on 26 September 2019, we announced that we estimated a total impact on EBIT of DKK 550-650 million. Thanks to a great effort by our entire organisation, we gradually managed to recover from back-ups and normalise our IT infrastructure with support from our global IT partners. On 11 October 2019, we communicated that our IT infrastructure had normalised.

For the Group as a whole, we now estimate that the incident had a total negative financial impact on our reported EBIT in 2019 of DKK 550 million. This estimated net effect includes a negative sales impact of DKK 575 million, direct costs of around DKK 75 million and an insurance coverage of DKK 100 million. The direct costs are split between production costs of DKK 50 million and capacity cost items of DKK 25 million. The insurance coverage is recognised as a separate item under Other operating income before EBIT.

Of the total estimated negative sales impact, slightly more than half relates to our hearing aid wholesale business and slightly less than half to our hearing aid retail business. From a financial perspective, our Hearing Implants and Diagnostics business activities were largely unaffected by the IT incident, although they of course faced a number of operational impacts. The table below shows organic growth rates adjusted for the estimated negative sales impact of the IT incident.

In 2020, we expect a negative spill-over effect on EBIT of DKK 100-150 million, primarily due to an impact on sales. The major part of this estimated effect relates to our hearing aid wholesale business, as we have lost time relative to our original plans and, despite regaining momentum at the end of 2019, we entered 2020 at a lower run rate than anticipated prior to the IT incident. We also expect some negative spill-over effect on our hearing aid retail business, relating to Australia where our lead generation has not yet reached a normal level. Hearing Implants and Diagnostics will not see any financial impact of the IT incident in 2020.

While working to recover and normalise our IT infrastructure, we have focused on leveraging the insights gained in the process to further strengthen our IT security, and we will continue this important work going forward. Please see *Risk management activities* for more details. Since we had already stepped up our investments in IT security prior to the incident, such investments will not be a material cost driver for the Group.

Organic growth by business activity

	H1 2019	H2 2019	Underlying* H2 2019	2019	Underlying* 2019
- Wholesale	6%	4%	13%	5%	9%
- Retail	2%	-2%	6%	0%	4%
Hearing Devices	4%	1%	10%	2%	7%
- Cochlear implants	35%	15%	15%	25%	25%
- BAHS	4%	32%	32%	18%	18%
Hearing Implants	17%	25%	25%	21%	21%
Diagnostics	7%	13%	13%	10%	10%
Total	**5%**	**3%**	**11%**	**4%**	**8%**

**Growth rates are adjusted for the estimated negative impact of the IT incident.*

Shareholder information and corporate governance

Shareholder information

Specification of movements in share capital

(DKK 1.000)	2019	2018	2017	2016	2015
Share capital at 1.1.	50,474	51,793	53,216	54,425	56,662
Capital reduction	-1,416	-1,319	-1,423	-1,209	-2,237
Share capital at 31.12.	**49,057**	**50,474**	**51,793**	**53,216**	**54,425**
Nominal value per share, DKK	0.2	0.2	0.2	0.2	1
Total number of shares, thousand	245,287	252,368	258,966	266,081	54,425
Share information[1)]					
Highest share price, DKK	237.2	318.6	188.9	145.0	138.0
Lowest share price, DKK	160.5	167.4	122.3	105.6	91.4
Share price, year-end, DKK	209.8	184.9	173.5	122.8	131.4
Market capitalisation, DKK million[2)]	50,470	45,341	43,864	31,829	35,126
Average trading turnover, DKK million[2)]	112.4	128.6	69.3	63.1	68.5
Average number of shares, million[2)]	243.55	249.14	256.6	263.75	270.13
Number of shares at 31.12., million[2)]	240.56	245.22	252.82	259.19	267.3
Number of treasury shares at 31.12., million	4.7	7.1	6.1	6.9	4.8

[1)] *In 2016, the nominal value of all shares outstanding was changed from DKK 1.00 to DKK 0.20, and comparative figures for 2015 have been adjusted accordingly.*
[2)] *Excluding treasury shares.*

Share capital and price development
As of 31 December 2019, Demant's nominal share capital was DKK 49,057,407 divided into 245,287,035 shares of DKK 0.20 each.

All shares are the same class and carry one vote each. The change compared to the year before is due to the reduction of the company's nominal share capital by DKK 1,416,188 through the cancellation of treasury shares approved at the annual general meeting on 19 March 2019.

The Board of Directors has been authorised by the annual general meeting to increase the company's share capital by a nominal value of up to DKK 6,664,384. Furthermore, the Board of Directors has been authorised to increase the share capital by an additional nominal value of up to DKK 2,500,000 in connection with the issued shares being offered to employees. Both authorisations are valid until 1 April 2021.

The price of Demant shares increased by 13.5% in 2019, and on 31 December 2019, the share price was DKK 209.80, corresponding to a market capitalisation of DKK 50.5 billion (excluding treasury shares). The average daily trading turnover was DKK 112.4 million. The company is a constituent of the OMX Copenhagen 25 Index (C25), which covers the 25 largest and most frequently traded shares on Nasdaq Copenhagen. The C25 Index increased by 26.0% during the year.

Ownership
William Demant Foundation holds the majority of shares in Demant through its investment company William Demant Invest and has previously communicated its intention to maintain an ownership interest of 55-60% of Demant's share capital. As of 31 December 2019, William Demant Foundation held – either directly or indirectly – approx. 57% of the share capital.

As per company announcement no. 2017-08 dated 27 July 2017, Canada Pension Plan Investment Board owned 20,352,691 shares, or 7.86% of the share capital, at the time.

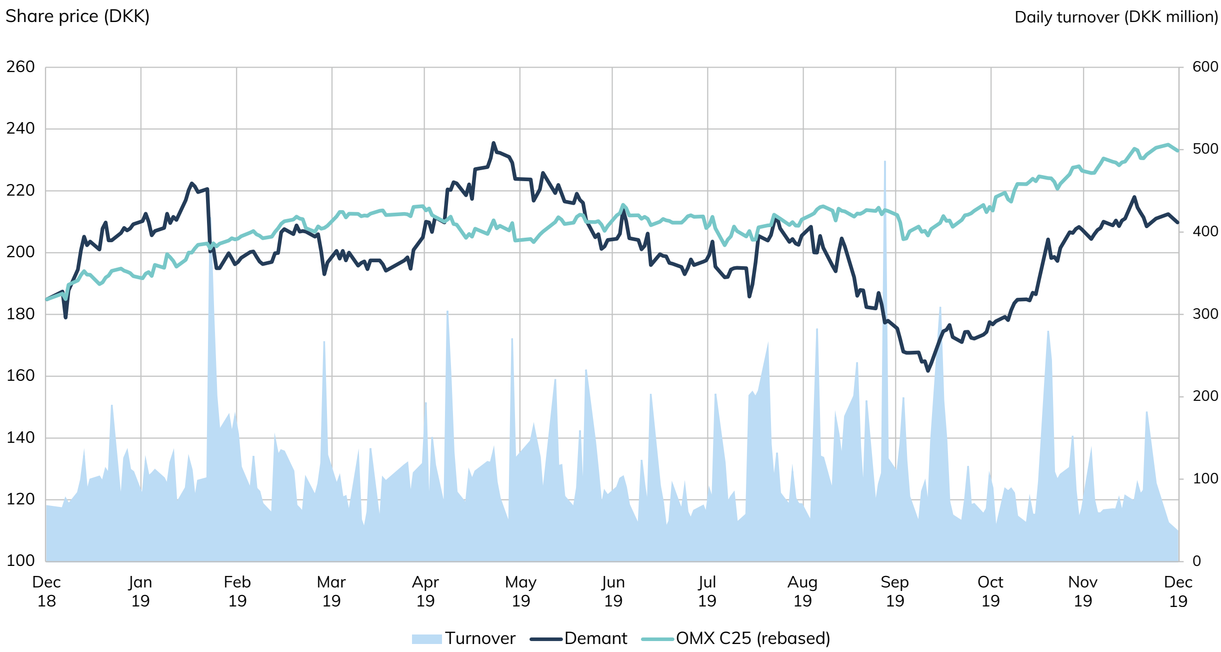
No other shareholders had flagged an ownership interest of 5% or more as of 31 December 2019.

As of 31 December 2019, the company held 4,725,862 treasury shares, corresponding to 1.93% of the share capital.

William Demant Foundation

William Demant Foundation, Demant's majority shareholder, was founded in 1957 by William Demant, son of the company's founder Hans Demant. Its primary goal is to safeguard and expand the Demant Group's business and provide support for various commercial and charitable causes with particular focus on the field of audiology and hearing impairment. At the end of 2011, the majority of William Demant Foundation's shares in Demant were transferred to its wholly owned subsidiary, William Demant Invest. Charitable tasks are thus handled by the Foundation itself and the Foundation's business activities by William Demant Invest. Voting rights and decisions to buy and sell Demant shares are still exercised and made, respectively, by William Demant Foundation.

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



Dividend and share buy-backs
The company will use its substantial cash flow from operating activities for investments and acquisitions, and any excess liquidity will, as a rule, be used for continuous share buy-backs.

Until the next annual general meeting in March 2020, the Board of Directors has been authorised to let the company buy back shares at a nominal value of up to 10% of the share capital. The purchase price may, however, not deviate by more than 10% from the price quoted on Nasdaq Copenhagen.

Shareholder information

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

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

We also maintain an active and open dialogue with analysts as well as current and potential investors, which helps us stay updated on the views, interests and opinions of the company's various stakeholders. At our annual general meeting and through presentations, individual meetings, participation in investor conferences, webcasts, capital market days etc., we aim to maintain an ongoing dialogue with a broad spectrum of IR stakeholders, and in 2019, we held more than 500 investor meetings and presentations. We also use our website, www.demant.com, as a means of communication with our stakeholders. At the end of 2019, 28 equity analysts were covering Demant. We refer to our website for a full list of analyst coverage.

Annual general meeting 2020
The annual general meeting will be held on Tuesday, 10 March 2020 at 4:00 p.m. at the company's head office, Kongebakken 9, 2765 Smørum, Denmark.

Contact information for investors and analysts
Phone: +45 3917 7300
E-mail: info@demant.com

Company announcements and investor news in 2019

7 Jan	Managers' transactions
19 Feb	Annual Report 2018
19 Feb	William Demant Holding changes name to Demant – investor news
19 Feb	Notice to annual general meeting
19 Mar	Decisions of annual general meeting
10 Apr	Demant is bringing Philips hearing aids to market – investor news
23 Apr	Capital reduction as well as total number of voting rights and capital
7 May	Interim Management Statement
14 Aug	Interim Report 2019
3 Sep	IT infrastructure incident
4 Sep	Update on IT infrastructure incident
6 Sep	Update on IT infrastructure incident – investor news
17 Sep	Update on IT infrastructure incident
26 Sep	Estimated financial impact of IT infrastructure incident
2 Oct	Change of date of publication of Interim Management Statement
11 Oct	Update on IT infrastructure recovery process
18 Nov	Interim Management Statement
26 Nov	Demant launches EPOS – investor news
26 Nov	Financial calendar 2020

Financial calendar 2020

28 Jan	Deadline for submission of items for the agenda of the AGM
4 Feb	Annual Report 2019
10 Mar	Annual general meeting
5 May	Interim Management Statement
17 Aug	Interim Report 2020
22-23 Sep	Capital Market Days
3 Nov	Interim Management Statement

Søren B. Andersson
Vice President, IR
(leaving Demant
as of 1 March 2020)

Mathias Holten Møller
Investor Relations Officer
(Head of Investor Relations
as of 1 March 2020)

Christian Lange
Strategic Financial Analyst
(Investor Relations Officer
as of 1 March 2020)

Risk management activities

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

In general, we act in a stable market with a limited number of players, and under normal circumstances, the risks to which the Group may be exposed do not change in the short term.

Business risks

The major risks to which the Group may be exposed are of a business nature – be they risks within the Group's control or external risks due to, for instance, the behaviour of the competition.

The hearing healthcare market in which we act is a highly product-driven market where our significant R&D initiatives help underpin our market position. It is thus vital in the long term to maintain our innovative edge and to attract the most qualified and competent staff. Our continuous development of new products carries inherent product risks, including the risk of delay of launches of new products. However, due to our constant focus on all links in the value chain, such delays rarely occur. We closely monitor our supply situation and seek to ensure that we always have an inventory level that can counter any interruptions in production. Product recalls also constitute a business risk in relation to bone anchored hearing systems and cochlear implants, specifically in relation to claims-related costs, such as the cost of replacing products, medical expenses, compensation for actual damage as well as legal fees.

An important part of our ongoing product innovation is to take out, protect and maintain patents for our own groundbreaking product development and technology. These are indeed complicated processes in the hearing healthcare industry, and we therefore maintain and develop our competencies in this area on an ongoing basis. It is our policy to continuously monitor that third-party products do not infringe our patents and that our products do not infringe third-party patents. The Group is involved in a few legal disputes, but we are of the opinion that these do not or will not significantly affect the Group's financial position. As a rule, we seek to make adequate provisions for legal proceedings.

As a major player in the hearing healthcare market, the Group is also exposed to certain regulatory risks in terms of changes to product requirements, reimbursement schemes and public tenders in the markets where we operate. In August 2017, US lawmakers passed new legislation, requiring the Food and Drug Administration (FDA) to introduce a new over-the-counter (OTC) category of hearing aids within three years. We expect any impact of this legislation on the hearing aid industry to be limited, but until the final design of the category has been defined by the FDA, the impact of this legislation is considered part of the regulatory risks to which the Group is exposed.

Over the past couple of years, we have seen an increasing part of hearing aid purchases in the US being covered either partly or fully by insurance. The resulting emergence of a number of large managed care organisations could potentially pose a risk to the ASP in hearing aid wholesale due to consolidation on fewer hands of large volumes of hearing aids. It could also pose a risk to our hearing aid retail business, as managed care organisations aim to capture the margin on product sales at the expense of hearing aid retailers by only offering retailers a fee for performing the actual fitting of the hearing aids.

On a similar note, discussions are currently ongoing in the US about potentially introducing Medicare coverage for hearing aids. Even though these discussions are still at an early stage, the passing of legislation to that effect could potentially pose a risk for hearing aid sales in the US, depending on the final design of such legislation.

While we closely follow the progress of the UK's planned exit from the EU (Brexit), we do not expect any significant impact on our business regardless of the outcome. It is the nature of our business to operate across markets with different characteristics, including different customs clearance processes. Our logistical and operational set-ups are flexible, and short lead times allow us to adapt to the business environment.

Overall, we feel well positioned to respond to regulatory changes, and our broad presence in the hearing healthcare market should help minimise any impact on the Group as a whole.

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

As our Group becomes increasingly digitalised, more devices and control systems are connected online, resulting in a broader interface across the IT infrastructure that could potentially be compromised. Threats may include attempts to access information, computer viruses, denial of service and other digital security breaches. As described in *IT incident*, the Group's IT infrastructure was hit by cybercrime on 3 September 2019 when a ransomware attack led us to immediately shut down IT systems across multiple sites and business units. We have concluded that no personal data was exposed, extracted or accessed due to the incident, and the actual handling of personal data as well as the security around it continue to be of high priority for our Group. The IT incident was reported to the Danish Data Protection Agency (DDPA) within the 72-hour deadline as required by the EU General Data Protection Regulation (GDPR), but we still await the final assessment from the Agency. A review of our response to the IT incident has also been undertaken by the US Office for Consumer Rights (OCR) based on a concern raised by a consumer. Also, we still await the assessment from the OCR. We maintain that personal data was not compromised by the IT incident, but we will of course respect the authorities' assessment of the matter.

We are – and will continue to be – committed to continuously improving the Group's IT security. During the IT incident recovery process, we took steps to initiate a wide range of security activities and detection measures to further improve the level of IT security. The increasing digitalisation also means an increased volume and complexity of the personal data collected by the Group. Both EU and US regulation, as well as many other jurisdictions, require intensive scrutiny of our procedures and organisational measures to ensure the safekeeping of personal data and compliance with legislation. We continue to invest in and allocate resources to our Privacy Office to ensure compliance with these requirements.

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

Exchange rate risks
With 98% of the Group's sales being invoiced in foreign currencies, reported revenue is significantly affected by movements in the Group's trading currencies. The Group seeks to hedge against exchange rate risks – mainly through forward exchange contracts. In relation to exchange rate fluctuations, hedging ensures predictability in terms of profit and gives us the opportunity – and necessary time – to redirect business arrangements in the event of persistent changes in foreign exchange rates. The Group aims to hedge such changes in foreign exchange rates by seeking to match positive and negative cash flows in the main currencies as much as possible and by entering into forward exchange contracts. The Group hedges estimated cash flows, predominantly with a horizon of up to 18 months.

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

DKK million	2019	2018
USD	+45	+52
GBP	+22	+21
CAD	+19	+20
AUD	+8	+9
JPY	+4	+5
PLN	-23	-19

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

Effect on equity, 5% positive change in exchange rates

DKK million	2019	2018
USD	+164	+118
GBP	+18	+15
CAD	+51	+42
AUD	+21	+21
JPY	+4	+3
PLN	-26	+25

The tables above show the impact on consolidated operating profit (EBIT) and equity for the year, given a change of 5% in the currencies with the highest exposure. The exchange rate effect on EBIT has been calculated on the basis of consolidated EBIT for each currency, but does not take the possible exchange rate effect on balance sheet values in those currencies into account.

The material forward exchange contracts in place as of 31 December 2019 to hedge against the Group's exposure to movements in exchange rates appear from the table above.

At the end of 2019, the fair value of the Group's forward exchange contracts was DKK -28 million, consisting of unrealised gains of DKK 13 million and losses of DKK 41 million. Please refer to Note 2.3 for more details.

Interest rate risks
In order to secure attractive interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, more than half of the Group's debt is funded through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk. However, because of the Group's high level of cash generation and relatively low financial gearing, some of our loans are raised on floating terms and predominantly as short-term commitments. All in all, the Group's interest expenses are very low with a manageable interest rate risk.

The Group's net interest-bearing debt (NIBD) excluding lease liabilities was DKK 6,221 million as of 31 December 2019. Based on this level, a rise of 1 percentage point in the general interest rate level will cause an increase in annual interest expenses before tax of DKK 17 million (DKK 29 million in 2018).

Credit risks
The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so in general, credit risks only involve minor losses on loans to individual customers. The accumulated revenue from our ten largest customers accounts for less than 13% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparties provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

Material forward exchange contracts as of 31 December 2019

Currency	Hedging period	Average hedging rate
USD	10 months	656
AUD	7 months	457
GBP	10 months	835
CAD	10 months	489
JPY	11 months	6.07
PLN	11 months	170
EUR	60 months	741

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits with financial institutions for which reason the credit risk of deposits is considered to be low.

Liquidity risks

The Group aims to have sufficient cash resources at its disposal to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2019, has the Group defaulted on loan agreements.

Financial reporting process and internal control

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 very similar from one year to the other, and 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.

Safeguarding corporate assets

Management continuously seeks to minimise the financial consequences of any damage to corporate assets, including operating losses resulting from such damage. We have invested in security and surveillance systems to prevent damage and to minimise such damage, should it arise. Major risks, which cannot be adequately minimised, are identified by the company's Management, which will ensure that appropriate insurance policies are, on a continuous basis, taken out under the Group's global insurance programme administered by recognised and credit-rated insurance brokers and that such insurances are taken out with insurance companies with high credit ratings. The Group's insurance programme has deductible clauses in line with normal market terms. In relation to the IT incident, the company received an insurance coverage of DKK 100 million (see IT incident for a full description of the financial impact of the IT incident). The Board of Directors reviews the company's insurance policies once a year, including the coverage of identified risks, and is briefed regularly on developments in identified risks. The purpose of this reporting is to keep the Board members fully updated and to facilitate corrective action to minimise any such risks.

Corporate Social Responsibility

Donations to research, education, culture and care

153.2

DKK MILLION

CO_2 emission per employee

2%

INCREASE

Reporting on Corporate Social Responsibility

We report on our work within the field of Corporate Social Responsibility (CSR) on an annual basis, resulting in Demant's CSR report, which describes the Demant Management's commitment to ensure that the Group meets its social and environmental responsibilities and that it acts in accordance with business ethics and corporate governance rules. The report also serves as Demant's Communication on Progress report to the UN Global Compact and as our statement on the UK Modern Slavery Act. In addition, the report serves as the statutory report to be presented under section 99a and 99b of the Danish Financial Statements Act. On the following pages, we highlight the CSR achievements of the year, but the full report is available on our website: www.demant.com/media#documentlibrary

Our framework

The Demant Group continues to grow and transform and so does the world around us. Within the Group, we all share a strong purpose of contributing with life-changing hearing health, and as the parent company of a large and complex Group, we have found it necessary to update and frame a one-company approach to our broader corporate responsibility and sustainability work. Consequently, we have conducted a materiality assessment – a process of identifying potential social, environmental and ethical topics, which could affect our business in the future, to define around 40 relevant CSR topics. With focus on our internal practices in the field of CSR and based on a wish to optimise resources and refine the way we define our targets, we will define an updated framework for the Demant Group for 2020-2022.

For many years, Demant's CSR work has been focused on four main themes, which also guided the reporting for 2019: corporate governance, people & society, environmental protection and business ethics. It is evident that people & society are our core contributions to a sustainable future for all. Our contribution to a healthier world has always been and will continue to be part of our DNA. But this year, we have increased our focus on the environment and business ethics as reflected in many new projects and initiatives.

Improving hearing health and giving back

Demant works every day to alleviate hearing loss, and our majority shareholder, William Demant Foundation, contributes even more by making donations to education and research, rehabilitation projects, hearing care programmes and to society in general through several philanthropic activities. William Demant Foundation supports projects in these areas every year and donated DKK 153.2 million in 2019.

An increasing number of young people are at risk of suffering from tinnitus, de facto hearing loss or hearing sensitivity. William Demant Foundation has donated DKK 2 million to support the **Danish Hearing Association** in its efforts to prevent further hearing deficiency among young people in Denmark.

With a grant of DKK 40 million from William Demant Foundation, the leading specialised hospital in Copenhagen, **Rigshospitalet**, will be able to offer patients with complicated audiological challenges specialised treatment and fund research within hearing loss and balance treatment.

William Demant Foundation

DKK 105.6 million to alleviate hearing loss all over the world and to promote education and research projects within hearing healthcare.

DKK 47.6 million to support projects in such areas as culture activities, exhibitions and humanitarian healthcare.

Demant's contribution to securing better hearing health extends beyond the donations made by the Foundation. Our global offices lead various initiatives to make positive changes to fight hearing loss and inspire their surroundings to do the same. Our hearing aid retail business activity has obtained great results with the Campaign for Better Hearing.

Campaign for Better Hearing
An initiative from our hearing aid retailers puts hearing on the healthcare agenda by offering free hearing aids and providing crucial information and education about hearing healthcare and the consequences of untreated hearing loss. Each time someone gets their hearing tested in one of the clinics participating in the campaign, the Campaign for Better Hearing gets a donation. With the donated money, we provide free hearing aids to people who need them, but cannot afford them, based on nominations from the clinics.

So far, ten markets (Australia, Brazil, Canada, France, Ireland, the Netherlands, Portugal, Spain, the UK and the US) have launched the campaign.

In 2019, we have screened 465,633 people with a Campaign for Better Hearing campaign code, raised more than USD 1.75 million and helped 509 persons by providing 865 free hearing aids.

Diversity and inclusion

With an organisational culture characterised by care and respect for others and with an increasing need to attract talent across borders, culture and background, the areas of diversity and inclusion are important drivers. During 2019, we have analysed our work culture with the aim of identifying enablers and barriers for creating an inclusive culture. The analysis will lead to concrete efforts on how to address and handle unconscious biases and other factors that influence the Demant work culture.

We want to be able to attract talents from all parts of the world and across genders. We wish to be an open and inclusive organisation, and we know that diversity is an important driver for innovation. We strive for diversity on the candidate short lists for any vacancy as we want to be sure that we tap into the full talent pool. In 2020, we will revisit our diversity policy to ensure that it is updated and reflects any updated objectives within this field.

We have a clear ambition of continuously growing the share of female managers in the organisation. Continuously expanding our scope of reporting, we currently report on the basis of input from 13 countries and a total of 8,414 employees (out of a total of 15,837 employees). Over the last six years, we have been able to grow the share of female managers in the Group by 8%. However, from 2018 till 2019 the number stayed stable and hence in 2020, we will make an additional effort to continue growth from previous years.

For the Demant Board of Directors, we are obligated to set a time frame target for representation of the under-represented gender in the Board of Directors. Our target is to have at least two female members of the Board before the end of 2020. At the annual general meeting in 2019, the Board proposed election of the candidates, as the Board assessed that the competencies and qualifications of the members met the needs of the company. Hence, the composition of the Board did not change. At the annual general meeting in March 2020, the Board will propose election of another female member and thus – if adopted – reach the target set.

*Based on reporting from 13 countries and a total of 8,414 employees.

CO2 emissions

Demant naturally complies with all current environmental rules and regulations in every country where we operate, and we are committed to minimising our negative impact on the environment as well as to undertaking initiatives that advocate environmental responsibility and reduction of our climate footprint. To reduce our footprint, we continuously aspire to optimise our operations and based on our efforts in previous years, we see potential for improvement.

To track our total corporate CO2 emissions, we collect CO2 emission data annually, which is subsequently published in our CSR report. Key figures on Demant's CO2 emissions can be found below. Total Group CO2 emissions are the total emissions of the entities currently in our scope.

Total Group CO2 emissions (tonnes)

2015:	14,406
2016:	14,973
2017*:	24,265
2018*:	24,811
2019:	27,595

The development should be seen in the light of the ongoing expansion of our business activities and the gradual inclusion of new retail entities into the Demant Group and thus into our reporting. To improve our reporting, we aim to expand our scope by including more retail entities each year. In 2019, this has not been possible, but it is our clear ambition to expand the scope in 2020 and to continue this progress in the years to come.

Demant has a growth strategy, and in terms of both revenue and employees, we see stable and high rates. If we look at CO2 emissions per employee in 2019 compared to 2018, we see a minor increase of 2%. Even though our industry is not a "black" industry, we take the current development very seriously and are committed to working on reducing our footprint. This is also evident in the new, previously mentioned CSR framework for 2020-2022.

Emissions per employee (tonnes)

2015:	2.36
2016:	2.32
2017*:	2.25
2018*:	1.89
2019:	2.03

In the wake of an ambitious climate policy formulated by the Danish government and a target to reach a 70% greenhouse gas reduction by 2030, Demant has the opportunity to contribute to the definition of a more climate-friendly future for the medtech and healthcare sector. We have therefore joined a climate committee initiated by public authorities and industry organisations where we will participate actively in the dialogue and presentation of solutions to meet the 2030 target.

Another example of our environmental initiatives is our stake in an offshore wind farm in the North Sea off the German coast. With all 78 wind turbnes operating, the farm produces electricity equivalent to the consumption of 320,000 households.

**Adjusted numbers due to over-statement in 2017 and 2018.*

Efforts to reduce our environmental impact

We continue to work dedicatedly on reducing waste and substituting materials by more sustainable options in packaging and merchandise. We have therefore initiated projects that focus on reducing, reusing and avoiding excess materials, and by the end of 2020, all packaging used for Demant hearing aids will be reduced.

Focus on sustainability in packaging and hearing aid production
Based on a large user study in 2019, we are changing hearing instruments packaging to make it more sustainable. In the hearing aid production, we work on reducing excess materials and using recycled materials.

Waste optimisation at hearing aid production site
Our hearing aid wholesale production facility in Poland works on waste reduction and proper waste segregation. This includes employee training, introducing systems of waste disposal, updating our communication and reducing the use of disposable plastic in the workplace. In 2019, this strengthened focus has given rise to four targets to reduce our impact on the environment:

- **Energy consumption reduction**
- **Waste reduction**
- **Reduction of volatile organic compounds from isopropyl and ethyl alcohol**
- **Hazardours waste reduction**

Reducing waste in the Diagnostics business activity
At the production facility of Diagnostics, we have had a clear goal to reduce waste, and in 2019, we have implemented an environmental management system according to ISO 14001. The initiatives to support the waste reduction goal is centered around three main areas: packaging, paper and waste.

As a result, we reduced printing on paper in the diagnostics production in 2019. To ensure recycling of waste, we implemented and trained employees in waste segregation. Furthermore, we eliminated all plastic cups, spoons and bottles and replaced them with environmentally friendly materials.

Reducing waste in accordance with ISO 14001

Packaging optimisation

- Reduction of packaging material per shipped unit
- Reduction of transportation space

Paperless factory

- Reduction of printing on paper
- Releasing human resources needed

Waste segregation

- Waste segregation system
- Training and awareness among employees
- Elimination of plastic cups, spoons and bottles

Business ethics

We are convinced that securing high ethical standards is our indisputable responsibility as a business. Having such high standards also plays a significant role in ensuring our continued growth and success. At Demant, we strive to do business with integrity and honesty when we deliver innovative technologies and services to help improve people's health and hearing. We adhere to the United Nations Convention against Corruption and the UK Bribery Act. Our primary goal is for the users to benefit from our products, and we disapprove of business conduct that contributes to distorting market mechanisms. Equally, we want to protect any user data that we process. In 2019, we have increased our strategic efforts and focus on business ethics and are currently working on formulating a new Group Code of Conduct, which sets the standards and ethical principles for all employees and third parties.

Corporate governance

Working with corporate governance
The work on corporate governance is an ongoing process for the Board of Directors and Executive Board. Once a year, the Board of Directors and Executive Board review the company's corporate governance principles. In that context, we consider the corporate governance principles that derive from legislation, recommendations and good practices.

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

When reporting on corporate governance, we follow the "comply or explain" principle. 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 provide supplementary and relevant information, even when we follow the recommendations.

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

Board of Directors
Tasks and responsibilities of the Board of Directors
The Board of Directors is responsible for the overall strategic management and for the financial and managerial supervision of the company, the ultimate goal being to ensure that the company creates value. On an ongoing basis, the Board of Directors evaluates the work of the Executive Board as for instance reflected in the annual plan prepared for the Board of Directors. The Board of Directors' duties and responsibilities are set out in its rules of procedure, and the Executive Board's duties and responsibilities are provided in a set of instructions. The rules of procedure and instructions are reviewed annually by the Board of Directors and updated as deemed necessary.

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

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

Of the five Board members presently elected by the shareholders at the annual general meeting, 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.

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.

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

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

Board committees
The company's Board of Directors has set up an audit committee. The Board of Directors appoints the chairman of the audit committee, who must be independent and must not be Chairman of the Board of Directors. Lars Rasmussen has been Chairman since 2017.

The company's Board of Directors has also set up a nomination committee. The members are the Chairman and the Deputy Chairman of the company's Board of Directors, the Chairman and the Deputy Chairman of the company's major shareholder, William Demant Foundation, and the President & CEO of the company. The Chairman of the Board also chairs the nomination committee.

A remuneration committee, consisting of the Chairman and the Deputy Chairman of the company's Board of Directors, has also been set up. Additionally, the Board of Directors set up an IT security committee in 2019 whose members are the Chairman and the Deputy Chairman of the company's Board of Directors and the chairman of the audit committee.

Meetings in 2019 and attendance
In 2019, the Board of Directors convened on seven occasions. The audit committee held three meetings in connection with ordinary Board meetings. The nomination committee held three meetings, the remuneration committee held two meetings and the IT security committee held one meeting. All members attended all meetings, except Peter Foss, who was excused from one Board meeting.

Evaluation of the performance of the Board of Directors
Once a year, the Chairman of the Board of Directors performs an evaluation of the Board's work. Every other year, such evaluation is performed through personal, individual interviews with the Board members by the Chairman of the Board, and every other year, the evaluation is carried out 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. In connection with the evaluation in 2019, the Board members expressed great satisfaction with the manner in which the Board works, emphasising the constructive working climate in the Board where trust and openness are key elements. As a result of the 2019 evaluation, the Board has decided to include external assistance when the next evaluation is due.

Board of Directors' and Executive Board's remuneration
Demant has a remuneration policy and publishes a remuneration report. Following an amendment to Section 139 and the adoption of a new Section 139(a) of the Danish Companies Act, an updated remuneration policy will be submitted for approval at the annual general meeting to be held on 10 March 2020. The remuneration report is available on our website www.demant.com.

Executive Board

Søren Nielsen
President & CEO
(born 1970, male)
18,367 shares (+2,847)

René Schneider
CFO
(born 1973, male)
11,979 shares (+2,917)

Søren Nielsen joined the company in 1995 and has worked within multiple areas of the Group. Since 2008, Søren Nielsen has been overall responsible for the Group's hearing aid activities and President of Oticon. In 2015, he was appointed COO & Deputy CEO of Demant and he became a member of the Executive Board. After more than 20 years with the Group, he took over as President & CEO of Demant in 2017.

- Oticon A/S, President
- Sennheiser Communications A/S, board member
- HIMPP A/S, board member
- HIMSA A/S, chairman
- HIMSA II A/S, chairman
- EHIMA, President
- Vision RT Ltd., board member
- Committee on Life Science under the Confederation of Danish Industry, chairman
- Committee on Business Policy under the Confederation of Danish Industry, member
- Central Board of the Confederation of Danish Industry, member

Søren Nielsen holds a Master of Science degree in Industrial Management and Product Development from the Technical University of Denmark (DTU). From his many years and extensive experience in the industry, Søren Nielsen has developed profound knowledge within the MedTech industry and a wide network in the global hearing healthcare community.

René Schneider joined the company in 2015 as Chief Financial Officer (CFO) and member of the Executive Board. René Schneider has broad business and financial experience from various management positions with major companies, including Auriga Industries (Cheminova), NeuroSearch, NNIT and Novo Nordisk.

His areas of responsibility in Demant include Finance, HR, Operations, IT, Executive Support, Investor Relations and Legal Affairs.

René Schneider holds a Master of Science degree in Economics from Aarhus University. He has extensive international experience in such areas as streamlining and re-establishing companies, M&A and driving value creation.

Board of Directors

Niels B. Christiansen
Chairman
(born 1966, male)
8,060 shares (unchanged)

Joined the Board of Directors in 2008 and was re-elected in 2019 for a term of one year. He is chairman of the nomination, remuneration and IT security committees and a member of the audit committee. Because of his seat on the boards of William Demant Foundation and William Demant Invest A/S, he is not considered independent.

- LEGO A/S, CEO
- A.P. Møller - Mærsk A/S, board member
- William Demant Foundation, deputy chairman
- William Demant Invest A/S, board member

Niels B. Christiansen holds a Master of Science degree in Engineering from the Technical University of Denmark (DTU) and an MBA from INSEAD in France. His international experience in managing major, global, industrial hi-tech corporations is comprehensive. He has extensive board experience from listed companies as well as strong insight into industrial policy.

Niels Jacobsen
Deputy Chairman
(born 1957, male)
1,001,340 shares (unchanged)

Joined the Board of Directors in 2017 and was re-elected in 2019 for a term of one year. He is a member of the audit, nomination, remuneration and IT security committees. Because of his position as CEO of William Demant Invest A/S, he is not considered independent.

- William Demant Invest A/S, CEO
- KIRKBI A/S, deputy chairman
- Nissens A/S, chairman
- Thomas B. Thrige Foundation, chairman
- ABOUT YOU Holding GmbH, deputy chairman

Additional duties related to William Demant Invest and Demant: Jeudan A/S, chairman; Össur hf., chairman; Vision RT Ltd., chairman; Founders A/S, chairman; Boston Holding A/S, board member and Sennheiser Communications A/S, board member.

Niels Jacobsen holds a Master of Science degree in Economics from Aarhus University. He has extensive leadership experience from major, global companies. His competencies include business management and in-depth knowledge of financial matters, accounting, risk management and M&A. He has broad experience from the global healthcare and MedTech industry.

Thomas Duer
(born 1973, male)
1,335 shares (unchanged)

Staff-elected Board member since 2015. Elected to the Board of Directors in 2019 for a term of four years.

- Danske Sprogseminarer A/S, board member
- Oticon A/S, staff-elected board member since 2011

Thomas Duer holds a Master of Science degree in Electrical Engineering from the Technical University of Denmark (DTU). He is Head of Configuration & Test in R&D and has been with Demant since 2002.

Peter Foss
(born 1956, male)
12,940 shares (unchanged)

Joined the Board of Directors in 2007 and was re-elected in 2019 for a term of one year. He is a member of the audit committee. Because he has been a member of the Board of Directors for more than 12 years, he is not considered independent.

- FOSS A/S and two affiliated companies, chairman
- A.R. Holding af 1999 A/S, board member
- TrackMan A/S, board member

Peter Foss holds a Master of Science degree in Engineering from the Technical University of Denmark (DTU) and a Graduate Diploma in Business Administration (Finance). He has extensive managerial experience from global, market-leading, industrial companies with comprehensive product development as well as broad experience from different lines of business.

Casper Jensen
(born 1979, male)
500 shares

Staff-elected Board member. Joined the Board of Directors in 2019 for a term of four years.

Casper Jensen holds an MBA from Coventry University in the UK. He is Vice President of Sales in Interacoustics, a subsidiary company of the Group, and has been with Interacoustics since 2012.

Benedikte Leroy
(born 1970, female)
3,000 shares (unchanged)

Joined the Board of Directors in 2014 and was re-elected in 2019 for a term of one year. She is a member of the audit committee and is considered independent.

Benedikte Leroy holds a Master of Law degree from the University of Copenhagen. She has extensive international management experience working as general counsel in large, global technology companies within both consumer and business-to-business segments. For many years, she lived and worked in the UK and Belgium.

Jørgen Møller Nielsen
(born 1962, male)
366 shares (unchanged)

Staff-elected Board member since 2017. Elected to the Board of Directors in 2019 for a term of four years. He was also staff-elected Board member from 2011-2015.

Jørgen Møller Nielsen holds a Master of Science degree in Electrical Engineering from the Technical University of Denmark (DTU) and a Diploma in Business Administration (Organisation and Strategy). He is Project Manager at the Group's facility in Ballerup, Denmark, and he has been with the company since 2001.

Lars Rasmussen
(born 1959, male)
22,500 shares (unchanged)

Joined the Board of Directors in 2016 and was re-elected in 2019 for a term of one year. He is chairman of the audit committee and a member of the IT security committee. He is considered independent.

- Ambu A/S, chairman
- Coloplast A/S, chairman
- H. Lundbeck A/S, chairman
- Igenomix s.l., chairman

Lars Rasmussen holds a Bachelor of Science degree in Engineering from Aalborg University and an Executive MBA from SIMI. He has considerable executive management experience from global MedTech companies. His qualifications include management and board experience from listed companies, and he is well versed in such areas as innovation, globalisation, business-to-business and business-to-consumer sales models. Additionally, he has extensive experience of efficiency improvements.

Financial report

Management statement

We have today discussed and approved the Annual Report 2019 of Demant A/S for the financial year 1 January – 31 December 2019.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU, and the Parent financial statements are prepared and presented in accordance with the Danish Financial Statements Act. Further, the Annual Report 2019 has been prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the Parent financial statements give a true and fair view of the Group's and the Parent's assets, liabilities and financial position as of 31 December 2019 as well as of the consolidated financial performance and cash flows and the Parent's financial performance for the financial year 1 January – 31 December 2019.

We also believe that the Management commentary contains a fair review of the development in the Group's and the Parent's business and financial position, the results for the year and the Group's and the Parent's financial position as a whole as well as a description of the principal risks and uncertainties that they face.

We recommend the Annual Report 2019 for adoption at the annual general meeting on 10 March 2020.

Smørum, 4 February 2020

Executive Board

Søren Nielsen, President & CEO

René Schneider, CFO

Board of Directors

Niels B. Christiansen, Chairman

Niels Jacobsen, Deputy Chairman

Thomas Duer

Peter Foss

Benedikte Leroy

Casper Jensen

Jørgen Møller Nielsen

Lars Rasmussen

Independent auditor's report

To the shareholders of Demant A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of Demant A/S for the financial year 1 January to 31 December 2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position as of 31 December 2019, and of the results of its operations and cash flows for the financial year 1 January 2019 to 31 December 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position as of 31 December 2019, and of the results of its operations for the financial year 1 January 2019 to 31 December 2019 in accordance with the Danish Financial Statements Act.

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

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

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

After Demant A/S was listed on Nasdaq OMX Copenhagen, we were appointed auditors for the first time on 29 April 1996 for the financial year 1996. We have been reappointed annually by decision of the general meeting for a total contiguous engagement period of 23 years up to and including the financial year 2019.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year 1 January to 31 December 2019. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for business combinations
Refer to note 6.1 in the consolidated financial statements.

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

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

- The future cash flow projections by discussing with Management and key employees.
- Consulted with subject matter experts regarding the valuation methodologies applied.
- Obtained supporting documentation of Management's estimates and key assumptions and corroborated certain information – including the applied discount rates – with third party sources.
- Tested the mathematical accuracy of the calculations in the models.
- Considered the impact of reasonably possible changes in key assumptions and performed sensitivity calculations to quantify the impact of potential downside changes to Management's models.

Statement on the management commentary
Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern.

If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Copenhagen, 4 February 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

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

Consolidated financial statements

Consolidated income statement

(DKK million)	Note	2019	2018
Revenue	1.1	14,946	13,937
Production costs	1.2 / 1.3 / 1.5 / 1.8	-3,621	-3,153
Gross profit		**11,325**	**10,784**
R&D costs	1.2 / 1.3 / 1.8 / 8.3	-1,120	-1,009
Distribution costs	1.2 / 1.3 / 1.8	-7,421	-6,616
Administrative expenses	1.2 / 1.3 / 1.8 / 8.2	-851	-761
Share of profit after tax, associates and joint ventures	3.4	118	134
Other operating income		100	-
Operating profit (EBIT)		**2,151**	**2,532**
Financial income	4.2	41	39
Financial expenses	4.2	-281	-203
Profit before tax		**1,911**	**2,368**
Tax on profit for the year	5.1	-444	-538
Profit for the year		**1,467**	**1,830**
Profit for the year attributable to:			
Demant A/S' shareholders		1,462	1,823
Non-controlling interests		5	7
		1,467	**1,830**
Earnings per share (EPS), DKK	1.4	6.00	7.32
Diluted earnings per share (DEPS), DKK	1.4	6.00	7.32

Consolidated statement of comprehensive income

(DKK million)	2019	2018
Profit for the year	**1,467**	**1,830**
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, subsidiaries	131	46
Foreign currency translation adjustment, reclassified to the income statement	-14	-
Value adjustment of hedging instruments:		
Value adjustment for the year	-101	-62
Value adjustment transferred to revenue	91	-21
Tax on items that have been or may subsequently be reclassified to the income statement	7	11
Items that have been or may subsequently be reclassified to the income statement	**114**	**-26**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/losses on defined benefit plans	-55	-17
Tax on items that will not subsequently be reclassified to the income statement	10	1
Items that will not subsequently be reclassified to the income statement	**-45**	**-16**
Other comprehensive income/loss	**69**	**-42**
Comprehensive income	**1,536**	**1,788**
Comprehensive income attributable to:		
Demant A/S' shareholders	1,531	1,781
Non-controlling interests	5	7
	1,536	**1,788**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	5	-7
Value adjustment of hedging instruments for the year	22	13
Value adjustment of hedging instruments transferred to revenue	-20	5
Actuarial gains/losses on defined benefit plans	10	1
Tax on other comprehensive income	**17**	**12**

Consolidated balance sheet 31 December

(DKK million)	Note	2019	2018
Assets			
Goodwill		7,826	7,211
Patents and licences		21	35
Other intangible assets		508	439
Prepayments and assets under development		221	181
Intangible assets	3.1	**8,576**	**7,866**
Land and buildings		887	859
Plant and machinery		240	221
Other plant, fixtures and operating equipment		372	326
Leasehold improvements		427	341
Prepayments and assets under construction		135	76
Property, plant and equipment	3.2	**2,061**	**1,823**
Lease assets	3.3	1,937	-
Investments in associates and joint ventures	3.4	963	983
Receivables from associates and joint ventures	3.4 / 4.3 / 4.4	182	167
Other investments	4.3 / 4.5	16	14
Other receivables	1.6 / 3.3 / 4.3 / 4.4	598	564
Deferred tax assets	5.2	551	513
Other non-current assets		**4,247**	**2,241**
Non-current assets		**14,884**	**11,930**
Inventories	1.5	1,852	1,641
Trade receivables	1.6 / 4.3	3,209	2,763
Receivables from associates and joint ventures	4.3	178	170
Income tax		106	129
Other receivables	1.6 / 4.3 / 4.4	521	380
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	13	12
Prepaid expenses		243	280
Cash	4.3 / 4.4	792	630
Current assets		**6,914**	**6,005**
Assets		**21,798**	**17,935**

Consolidated balance sheet 31 December

(DKK million)	Note	2019	2018
Equity and liabilities			
Share capital		49	50
Other reserves		7,587	7,000
Equity attributable to Demant A/S' shareholders		**7,636**	**7,050**
Equity attributable to non-controlling interests		9	9
Equity		**7,645**	**7,059**
Borrowings	4.3 / 4.4	2,512	2,164
Lease liabilities	3.3	1,546	-
Deferred tax liabilities	5.2	314	232
Provisions	7.1	283	231
Other liabilities	4.3 / 7.2	203	194
Deferred income	7.3	451	569
Non-current liabilities		**5,309**	**3,390**
Borrowings	4.3 / 4.4	5,513	4,964
Lease liabilities	3.3	418	-
Trade payables	4.3	652	499
Payables to associates and joint ventures		3	-
Income tax		66	57
Provisions	7.1	38	22
Other liabilities	4.3 / 7.2	1,521	1,395
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	43	32
Deferred income	7.3	590	517
Current liabilities		**8,844**	**7,486**
Liabilities		**14,153**	**10,876**
Equity and liabilities		**21,798**	**17,935**

Consolidated cash flow statement

(DKK million)	Note	2019	2018
Operating profit (EBIT)		2,151	2,532
Non-cash items etc.	1.7	966	370
Change in receivables etc.		-527	-264
Change in inventories		-218	-294
Change in trade payables and other liabilities etc.		174	-37
Change in provisions		46	8
Dividends received		183	87
Cash flow from operating profit		**2,775**	**2,402**
Financial income etc. received		25	28
Financial expenses etc. paid		-280	-200
Realised foreign currency translation adjustments		1	-1
Income tax paid		-372	-546
Cash flow from operating activities (CFFO)		**2,149**	**1,683**
Acquisition of enterprises, participating interests and activities		-603	-940
Investments in and disposal of intangible assets		-195	-189
Investments in property, plant and equipment		-571	-429
Disposal of property, plant and equipment		10	20
Investments in other non-current assets		-329	-397
Disposal of other non-current assets		274	497
Cash flow from investing activities (CFFI)		**-1,414**	**-1,438**
Repayments of borrowings	4.4	-90	-320
Proceeds from borrowings	4.4	1,647	189
Change in short-term bank facilities	4.4	-352	1,258
Repayments of lease liabilities	3.3	-446	-
Transactions with non-controlling interests		-5	-4
Share buy-backs		-946	-1,751
Cash flow from financing activities (CFFF)		**-192**	**-628**
Cash flow for the year, net		**543**	**-383**
Cash and cash equivalents at the beginning of the year		248	651
Foreign currency translation adjustment of cash and cash equivalents		1	-20
Cash and cash equivalents at the end of the year		**792**	**248**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	4.3 / 4.4	792	630
Overdraft	4.3 / 4.4	-	-382
Cash and cash equivalents at the end of the year		**792**	**248**

Acquisition of enterprises, participating interests and activities includes loans of DKK 56 million (DKK 291 million in 2018) classified as other non-current assets, which have been settled as part of acquisitions without cash payments.

Consolidated statement of changes in equity

(DKK million)	Share capital	Other reserves		Retained earnings	Demant A/S' share-holders' share	Non-controlling interests' share	Equity
		Foreign currency translation reserve	Hedging reserve				
Equity at 1.1.2019	**50**	**-88**	**-13**	**7,101**	**7,050**	**9**	**7,059**
Comprehensive income in 2019:							
Profit for the year	-	-	-	1,462	1,462	5	1,467
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	131	-	-	131	-	131
Foreign currency translation adjustment reclassified to income statement	-	-14	-	-	-14	-	-14
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-101	-	-101	-	-101
Value adjustment transferred to revenue	-	-	91	-	91	-	91
Actuarial gains/losses on defined benefit plans	-	-	-	-55	-55	-	-55
Tax on other comprehensive income	-	5	2	10	17	-	17
Other comprehensive income/loss	-	122	-8	-45	69	-	69
Comprehensive income/loss, year	**-**	**122**	**-8**	**1,417**	**1,531**	**5**	**1,536**
Share buy-backs	-	-	-	-946	-946	-	-946
Share-based compensation	-	-	-	1	1	-	1
Capital reduction through cancellation of treasury shares	-1	-	-	1	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-5	-5
Equity at 31.12.2019	**49**	**34**	**-21**	**7,574**	**7,636**	**9**	**7,645**

For changes in share capital, please refer to Parent statement of changes in equity.

Consolidated statement of changes in equity – *continued*

(DKK million)	Share capital	Other reserves			Demant A/S' share-holders' share	Non-controlling interests' share	Equity
		Foreign currency translation reserve	Hedging reserve	Retained earnings			
Equity at 31.12.2017	**52**	**-127**	**52**	**7,450**	**7,427**	**6**	**7,433**
Impact of changes in accounting policies	-	-	-	-407	-407	-	-407
Equity at 1.1.2018	**52**	**-127**	**52**	**7,043**	**7,020**	**6**	**7,026**
Comprehensive income in 2018:							
Profit for the year	-	-	-	1,823	1,823	7	1,830
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	46	-	-	46	-	46
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	-62	-	-62	-	-62
Value adjustment transferred to revenue	-	-	-21	-	-21	-	-21
Actuarial gains/losses on defined benefit plans	-	-	-	-17	-17	-	-17
Tax on other comprehensive income	-	-7	18	1	12	-	12
Other comprehensive income/loss	-	39	-65	-16	-42	-	-42
Comprehensive income/loss, year	**-**	**39**	**-65**	**1,807**	**1,781**	**7**	**1,788**
Share buy-backs	-	-	-	-1,751	-1,751	-	-1,751
Capital reduction through cancellation of treasury shares	-2	-	-	2	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-4	-4
Equity at 31.12.2018	**50**	**-88**	**-13**	**7,101**	**7,050**	**9**	**7,059**

Notes to consolidated financial statements

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Section 1

Operating activities and cash flow

Revenue
14,946
DKK MILLION

Free cash flow
1,338
DKK MILLION

1.1 Revenue from contracts with customers

(DKK million)	2019	2018
Disaggregation of revenue from contracts with customers		
Revenue by geographic region:		
Denmark	233	194
Other Europe	5,877	5,551
North America	6,194	5,766
Pacific	908	911
Asia	1,188	1,059
Other countries	546	456
Revenue from contracts with customers	**14,946**	**13,937**

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

The ten largest single customers together account for less than 13% (13% in 2018) of total consolidated revenue.

	2019	2018
Revenue by business activity:		
Hearing Devices	12,837	12,129
Diagnostics	1,487	1,299
Hearing Implants	622	509
Revenue from contracts with customers	**14,946**	**13,937**

	2019	2018
Value adjustments transferred from equity relating to derivatives made for hedging foreign exchange risk on revenue	-91	21

	2019	2018
Liabilities related to contracts with customers:		
Customer prepayments*	66	40
Future performance obligations*	975	1,046
Expected volume discounts and other customer-related items**	191	195
Expected product returns***	140	135
Contract liabilities with customers	**1,372**	**1,416**

	2019	2018
Changes in contract liabilities with customers:		
Contract liabilities at 1.1.	1,416	1,370
Foreign currency translation adjustment	29	4
Changes to transaction price estimates from prior years	-18	-
Revenue recognized that was included in the contract liability balance at 1.1.	-541	-514
Increases due to cash received, excluding amounts recognized as revenue during the year	495	542
Changes from expected volume discounts and other customer related items	-8	18
Changes from product returns	-1	-9
Business combinations	-	5
Contract liabilities at 31.12.	**1,372**	**1,416**

**Included in deferred income.*

***Included in other cost payables under Other liabilities.*

****Included in product-related liabilities under Other liabilities.*

1.1 Revenue from contracts with customers – *continued*

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

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

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

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

The standard warranty period for hearing aids and diagnostic equipment varies across countries, typically between 12 and 24 months and for certain products up to 36 months. The extended warranty covers periods beyond the standard warranty period or standard warranty terms. Payment terms vary significantly across countries and depend on whether the customer is a private or public customer.

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

Accounting estimates and assumptions
Operating segments
Based on IFRS 8 Operating Segments and the internal reporting model used by Management for the assessment of results and the use of resources, we have identified one operating segment: the development, manufacture and sale of products and equipment designed to facilitate people's hearing and communication. This reflects Management's approach to the organisation and management of activities.

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

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

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

1.2 Employees

(DKK million)	Note	2019	2018
Staff costs:			
Wages and salaries		5,787	5,162
Share-based remuneration		7	5
Defined contribution plans		78	79
Defined benefit plans	7.1	22	13
Social security costs etc.		631	557
Staff costs		**6,525**	**5,816**
Staff costs by function:			
Production costs		873	831
R&D costs		725	652
Distribution costs		4,304	3,674
Administrative expenses		623	659
Staff costs		**6,525**	**5,816**
Average number of full-time employees		15,352	14,250

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

(DKK million)	2019			2018		
	Wages and salaries*	Share-based remuneration**	Total	Wages and salaries*	Share-based remuneration**	Total
Søren Nielsen, President & CEO	12.5	2.2	14.7	11.8	1.6	13.4
René Schneider, CFO	5.5	1.0	6.5	5.3	0.7	6.0
Executive Board	**18.0**	**3.2**	**21.2**	**17.1**	**2.3**	**19.4**
Fee to Board of Directors	**4.2**	**-**	**4.2**	**4.2**	**-**	**4.2**

President & CEO, Søren Nielsen, is entitled to 24 months' notice in the event of dismissal. CFO, René Schneider, is currently entitled to 16 months' notice in the event of dismissal, which increases with seniority.

In 2019, the basic remuneration for a member of the Parent's Board of Directors was DKK 350,000 (DKK 350,000 in 2018). The Chairman of the Board of Directors receives three times the basic remuneration and the Deputy Chairman twice the basic remuneration. The members of the audit committee each receive a basic remuneration of DKK 50,000 (DKK 50,000 in 2018), and the chairman of the audit committee receives three times the basic remuneration.

**No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2018). These expenses are therefore included in wages and salaries.*
***In 2019, DKK 3.6 million (DKK 0 million in 2018) of the share-based remuneration was paid out.*

1.2 Employees *– continued*

Share-based remuneration (retention and shadow share programmes)

(DKK million)	2019		2018	
	Executive Board	Other senior members of Management	Executive Board	Other senior members of Management
Liabilities at 1.1.	5.7	5.5	2.6	2.5
Expensed during the year in wages and salaries	3.1	4.8	2.3	2.6
Fair value adjustments	1.1	1.1	0.8	0.9
Settled during the year	-3.6	-4.1	-	-0.5
Liabilities at 31.12.	**6.3**	**7.3**	**5.7**	**5.5**
Granted during the year	4.5	6.5	2.9	2.3
Unrecognised commitment at 31.12.*	5.0	7.9	3.5	6.3

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

RSU programme
The fair value of RSU granted to 10 employees was DKK 2 million at the time of the grant (10,134 shares), and at 31 December 2019, the Group had costs of DKK 1 million related to the RSU programme. The costs are recognised on a straight-line basis, as the service is rendered, and the total cost of the granted RSU recognised in the income statement is DKK 1 million.

At 31 December 2019, the remaining average contractual life of equity-settled share programmes was 27 months. The employees under the RSU programme are not entitled to dividend during the vesting period.

“Shadow shares” programme
The fair value of “shadow shares” granted to eight employees (eight in 2018) was DKK 9 million (DKK 5 million in 2018), and at 31 December 2019, the Group had liabilities of DKK 12 million (DKK 11 million in 2018) related to the shadow share programme. The liability is recognised on a straight-line basis, as the service is rendered, and the liability is remeasured at each reporting date and at the settlement date based on the fair value of the “shadow shares”. Fair value adjustments are recognised as financial income or financial expenses. If relevant, the liability is adjusted to reflect the expected risk of non-vesting as a result of resignations.

Any changes to the liability are recognised in the income statement. The Group bought back shares to cover the financial risk of share price fluctuations related to the programmes.

At 31 December 2019, the remaining average contractual life of cash-settled remuneration programmes was 16 months (16 months in 2018).

As the financial exposure for the RSU share and shadow share programmes are similar, the table above comprise both types of programmes.

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

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

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

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

1.3 Amortisation, depreciation and impairment losses

(DKK million)	Note	2019	2018
Amortisation of intangible assets	3.1	129	114
Depreciation on property, plant and equipment	3.2	325	296
Reversal of impairment of property, plant and equipment	3.2	-	-1
Depreciation on leased assets	3.3	470	-
Amortisation, depreciation and impairment losses		**924**	**409**
Amortisation, depreciation and impairment losses by function:			
Production costs		86	68
R&D costs		73	61
Distribution costs		651	233
Administrative expenses		114	47
Amortisation, depreciation and impairment losses		**924**	**409**

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

1.4 Earnings per share

	2019	2018
Demant A/S' shareholders' share of profit for the year, DKK million	1,462	1,823
Average number of shares, million	247.47	255.10
Average number of treasury shares, million	-3.92	-5.96
Average number of shares outstanding, million	**243.55**	**249.14**
Earnings per share (EPS), DKK	**6.00**	**7.32**
Diluted earnings per share (DEPS), DKK	**6.00**	**7.32**

1.5 Inventories

(DKK million)	2019	2018
Raw materials and purchased components	732	775
Work in progress	76	64
Finished goods and goods for resale	1,044	802
Inventories	**1,852**	**1,641**
Write-downs, provsions for obsolescence etc. included in the above	136	121
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	42	29
Cost of goods sold for the year	2,733	2,471

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

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

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

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

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

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

1.6 Receivables

(DKK million)	2019	2018
Trade receivables	3,209	2,763
Customer loans	714	656
Other receivables	405	288
Receivables	**4,328**	**3,707**

Credit risk

(DKK million)	Balance not due	0-3 months overdue	3-6 months overdue	6-12 months overdue	More than 12 months overdue
2019					
Expected loss rate	1%	2%	8%	25%	60%
Gross carrying amount – trade receivables	2,042	645	235	249	358
Gross carrying amount – customer loans	728	2	-	1	2
Gross carrying amount – other receivables	405	-	-	-	-
Loss allowance	**28**	**14**	**19**	**63**	**215**

(DKK million)	Balance not due	0-3 months overdue	3-6 months overdue	6-12 months overdue	More than 12 months overdue
2018					
Expected loss rate	2%	2%	7%	19%	54%
Gross carrying amount – trade receivables	1,689	631	189	210	283
Gross carrying amount – customer loans	678	3	1	1	14
Gross carrying amount – other receivables	288	-	-	-	-
Loss allowance	**52**	**13**	**13**	**41**	**161**

(DKK million)	2019	2018
Allowance for impairment:		
Allowance for impairment at 31.12.	-280	-272
Impact of changes in accounting polices	-	-26
Allowance for impairment at 1.1.	**-280**	**-298**
Foreign currency translation adjustments	-4	-6
Applied during the year	69	94
Additions during the year	-129	-80
Reversals during the year	5	10
Allowance for impairment at 31.12.	**-339**	**-280**

Of the total amount of trade receivables, DKK 239 million (DKK 199 million in 2018) is expected to be collected after 12 months. For information on security and collateral, please refer to *Credit risks* in note 4.1.

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

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

Receivables without a definite maturity date are measured at cost. Current receivables arisen as a result of the Group's ordinary activities are measured at nominal value. Impairment is based on expected credit losses, which include the use of the lifetime expected loss provision for trade receivables.

Accounting estimates and assumptions
Allowance for impairment is calculated for both trade receivables and other receivables. For trade receivables, the allowance is calculated for expected credit losses based on an assessment of the debtor's ability to pay. This assessment is made by local management and is made for uniform groups of debtors based on a maturity analysis. When indicated by special circumstances, impairments are made for individual debtors. Other receivables, including customer loans, are assessed on an individual basis based on expected credit loss.

1.7 Specifications of non-cash items etc.

(DKK million)	2019	2018
Amortisation and depreciation etc.	959	446
Share of profit after tax, associates and joint ventures	-118	-134
Gain on sale of intangible assets and property, plant and equipment	-	-1
Other non-cash items	125	59
Non-cash items etc.	**966**	**370**

1.8 Restructuring costs

In the period from 2016 to 2018, the Group carried through several strategic initiatives with the aim to ensure continuous cost efficiency gains and to support its future scalability at a lower cost. The initiatives were completed in 2018, and consequently, no costs were incurred in 2019. In 2018, the cost of these initiatives impacted the income statement and the cash flow statement as indicated below.

(DKK million)	2018
Restructuring costs by function:	
Production costs	41
R&D costs	15
Distribution costs	37
Administrative expenses	27
Restructuring costs	**120**
Effect of restructuring costs on cash flow:	
Operating profit (EBIT)	-120
Non-cash items etc.	22
Change in trade payables and other liabilities etc.	-
Change in provisions	-19
Cash flow from operating profit	**-117**
Income tax recovered	35
Cash flow from operating activities (CFFO)	**-82**

Section 2

Exchange rates and hedging

2.1 Exchange rate risk policy

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

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

2.2 Sensitivity analysis in respect of exchange rates

The below tables show the impact on the year's operating profit (EBIT) and consolidated equity, given a change of 5% in the currencies with the highest exposures. The exchange rate impact on EBIT has been calculated on the basis of the Group's EBIT for each currency and does not take into account a possible exchange rate impact on balance sheet values in those currencies.

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

DKK million	2019	2018
USD	+45	+52
GBP	+22	+21
CAD	+19	+20
AUD	+8	+9
JPY	+4	+5
PLN	-23	-19

Effect on equity, 5% positive change in exchange rates

DKK million	2019	2018
USD	+164	+118
GBP	+18	+15
CAD	+51	+42
AUD	+21	+21
JPY	+4	+3
PLN	+26	+25

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

2.3 Hedging and forward exchange contracts

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

Realised forward exchange contracts are recognised in the income statement together with the items, typically the revenue in foreign currency, that such contracts are designed to hedge. In 2019, our forward exchange contracts realised a loss of DKK 91 million (gain of DKK 21 million in 2018), which increased reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2019, we had entered into forward exchange contracts with a total contractual value of DKK 697 million (DKK 1,411 million in 2018) and a total fair value of DKK -28 million (DKK -19 million in 2018).

Forward exchange contracts

2019

	Expiry	Hedging period*	Average hedging rate	Contractual value (DKK million)	Fair value (DKK million)	Positive fair value at year-end (DKK million)	Negative fair value at year-end (DKK million)
USD	2020	10 months	656	-1,115	-4	5	9
AUD	2020	7 months	457	-84	-2	-	2
GBP	2020	10 months	835	-351	-15	-	15
CAD	2020	10 months	489	-343	-13	-	13
JPY	2020	11 months	6.07	-94	-1	-	1
PLN	2020	11 months	170	391	8	8	-
EUR	2024	60 months	741	899	-1	-	1
				-697	**-28**	**13**	**41**

2018

	Expiry	Hedging period	Average hedging rate	Contractual value (DKK million)	Fair value (DKK million)	Positive fair value at year-end (DKK million)	Negative fair value at year-end (DKK million)
USD	2019	10 months	626	-926	-26	1	27
AUD	2019	5 months	466	-81	1	1	-
GBP	2019	10 months	832	-300	4	4	-
CAD	2019	10 months	477	-320	3	4	1
JPY	2019	9 months	5.82	-108	-2	-	2
PLN	2019	11 months	171	324	1	2	1
				-1,411	**-19**	**12**	**31**

Accounting policies

On initial recognition, derivatives are measured at fair value at the settlement date. After initial recognition, derivatives are measured at fair value at the balance sheet date.

Any positive or negative fair values of derivatives are recognised as separate items in the balance sheet. Forward exchange contracts are measured based on current market data and by use of commonly recognised valuation methods. Please refer to Note 4.5.

**Hedging periods represent the estimated periods for which the exchange rate exposure of a relative share of our revenue in a currency will be covered by forward exchange contracts.*

2.3 Hedging and forward exchange contracts – *continued*

Accounting policies – continued
Any changes in fair values of derivatives classified as hedging instruments and satisfying the criteria for hedging the fair value of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the fair value of the hedged asset or hedged liability.

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

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

2.4 Exchange rates

The Group's presentation currency is Danish kroner. Denmark participates in the European Exchange Rate Mechanism ERM 2 at a central rate of 746.038 kroner per 100 euro. Denmark has concluded an agreement with the European Central Bank (ECB) and the euro area member states on an ERM 2 fluctuation band of +/- 2.25%. This means that the exchange rate of the Danish krone can only fluctuate between 762.824 and 729.252 per 100 euro.

The following table shows the exchange rates for our main trading currencies according to the central bank of Denmark.

Depending on the phasing of revenue, EBIT and payments, the exchange rate effect on the consolidated income statement can vary from the below averages.

Average exchange rate DKK per 100

	2019	2018	Change
EUR	747	745	0.3%
USD	667	632	5.5%
AUD	464	472	-1.7%
GBP	851	842	1.1%
CAD	503	488	3.1%
JPY	6.12	5.72	7.0%
PLN	174	175	-0.6%

Year-end exchange rate DKK per 100

	2019	2018	Change
EUR	747	747	0.0%
USD	668	652	2.5%
AUD	467	461	1.3%
GBP	877	827	6.0%
CAD	511	479	6.7%
JPY	6.11	5.91	3.4%
PLN	175	174	0.6%

2.4 Exchange rates – *continued*

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

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

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

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

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

All foreign currency translation adjustments are recognised in the income statement, with the exception of the following, which are recognised in other comprehensive income:

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

Oticon Remote Care

Section 3

Asset base

Property, plant and equipment
2,061
DKK MILLION

Other non-current assets
4,247
DKK MILLION

Intangible assets
8,576
DKK MILLION

3.1 Intangible assets

(DKK million)	Goodwill	Patents and licences	Other intangible assets	Prepayments and assets under development	Total intangible assets
Cost at 1.1.2019	**7,211**	**132**	**739**	**181**	**8,263**
Foreign currency translation adjustments	124	-1	4	-	127
Additions during the year	-	1	66	128	195
Additions relating to acquisitions	491	-	27	-	518
Disposals during the year	-	-12	-5	-	-17
Transfer to/from other items	-	-	88	-88	-
Cost at 31.12.2019	**7,826**	**120**	**919**	**221**	**9,086**
Amortisation at 1.1.2019	-	**-97**	**-300**	-	**-397**
Foreign currency translation adjustments	-	-	-1	-	-1
Amortisation for the year	-	-14	-115	-	-129
Disposals during the year	-	12	5	-	17
Amortisation at 31.12.2019	-	**-99**	**-411**	-	**-510**
Carrying amount at 31.12.2019	**7,826**	**21**	**508**	**221**	**8,576**
Cost at 1.1.2018	**6,339**	**141**	**605**	**106**	**7,191**
Foreign currency translation adjustments	98	-	4	-1	101
Additions during the year	-	10	47	132	189
Additions relating to acquisitions	774	-	27	-	801
Disposals during the year	-	-19	-	-	-19
Transfer to/from other items	-	-	56	-56	-
Cost at 31.12.2018	**7,211**	**132**	**739**	**181**	**8,263**
Amortisation at 1.1.2018	-	**-101**	**-198**	-	**-299**
Foreign currency translation adjustments	-	-	-3	-	-3
Amortisation for the year	-	-15	-99	-	-114
Disposals during the year	-	19	-	-	19
Amortisation at 31.12.2018	-	**-97**	**-300**	-	**-397**
Carrying amount at 31.12.2018	**7,211**	**35**	**439**	**181**	**7,866**

3.1 intangible assets – *continued*

Accounting policies

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

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

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

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

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

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

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

Accounting estimates and assumptions

Impairment testing is carried out annually on preparation of the annual report or on indication of impairment in which discounted values of future cash flows are compared with carrying amounts. Group enterprises cooperate closely on R&D, purchasing, production, marketing and sale, as the use of resources in the individual markets is coordinated and monitored by Management in Denmark. Group enterprises are thus highly integrated. Consequently, Management considers the overall business as one cash-generating unit. Any business activity that largely acts with autonomy in relation to the Group and whose profitability can be measured independently of the other activities constitutes a separate cash-generating unit. In relation to the existing integration in the Group and the recognised goodwill, neither as of 31 December 2019 nor as of 31 December 2018, had any separate cash-generating units been identified to which goodwill could be allocated. The annual impairment testing was thus based on the Group as a whole. Please refer to Note 3.6.

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

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

3.2 Property, plant and equipment

(DKK million)	Land and buildings	Plant and machinery	Other plant, fixtures and operating equipment	Leasehold improvements	Prepayments and assets under construction	Total property plant and equipment
Cost at 1.1.2019	**1,097**	**703**	**1,269**	**783**	**76**	**3,928**
Foreign currency translation adjustments	9	4	19	15	-	47
Additions during the year	38	31	172	169	126	536
Additions relating to acquisitions	-	1	15	9	-	25
Disposals during the year	-1	-86	-110	-26	-1	-224
Transferred to/from other items	4	59	3	-	-66	-
Cost at 31.12.2019	**1,147**	**712**	**1,368**	**950**	**135**	**4,312**
Depreciation and impairment losses at 1.1.2019	**-238**	**-482**	**-943**	**-442**	**-**	**-2,105**
Foreign currency translation adjustments	-2	-2	-19	-11	-	-34
Depreciation for the year	-21	-72	-138	-94	-	-325
Disposals during the year	1	84	104	24	-	213
Depreciation and impairment losses at 31.12.2019	**-260**	**-472**	**-996**	**-523**	**-**	**-2,251**
Carrying amount at 31.12.2019	**887**	**240**	**372**	**427**	**135**	**2,061**
Cost at 1.1.2018	**1,139**	**915**	**1,298**	**669**	**83**	**4,104**
Foreign currency translation adjustments	5	-5	1	-4	-	-3
Additions during the year	9	39	148	129	69	394
Additions relating to acquisitions	1	-	11	13	-	25
Disposals during the year	-58	-289	-200	-40	-5	-592
Transferred to/from other items	1	43	11	16	-71	-
Cost at 31.12.2018	**1,097**	**703**	**1,269**	**783**	**76**	**3,928**
Depreciation and impairment losses at 1.1.2018	**-268**	**-705**	**-1,009**	**-404**	**-**	**-2,386**
Foreign currency translation adjustments	-	1	-2	4	-	3
Depreciation for the year	-19	-64	-130	-83	-	-296
Disposals during the year	48	286	198	41	-	573
Reversed impairment loss	1	-	-	-	-	1
Depreciation and impairment losses at 31.12.2018	**-238**	**-482**	**-943**	**-442**	**-**	**-2,105**
Carrying amount at 31.12.2018	**859**	**221**	**326**	**341**	**76**	**1,823**

3.2 Property, plant and equipment – *continued*

Accounting policies

Property, plant and equipment are recognised at cost less accumulated depreciation and impairment losses. Cost is defined as the acquisition price and costs directly relating to the acquisition until such time as the particular asset is ready for use. For assets produced by the Group, cost includes all costs directly attributable to the production of such assets, including materials, components, sub-supplies and payroll.

If the acquisition or the use of an asset requires the Group to defray costs for the demolition or restoration of such asset, the calculated costs hereof are recognised as a provision and as part of the cost of the particular asset, respectively.

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

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

Accounting estimates and assumptions

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

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

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

3.3 Leases

(DKK million)	2019
Lease assets at 1.1.	**2,029**
Foreign currency translation adjustments	35
Additions during the year	372
Additions relating to acquisitions	35
Disposals during the year	-64
Depreciations during the year	-470
Lease assets at 31.12.	**1,937**
Lease liabilities at 1.1.	**2,038**
Foreign currency translation adjustments	36
Additions during the year	372
Additions relating to acquisitions	35
Disposals during the year	-71
Payments	-446
Lease liabilities at 31.12.	**1,964**
Current lease liabilities	418
Non-current lease liabilities	1,546
Amounts recognised in the income statement:	
Short-term lease expenses	20
Low-value assets	14
Variable lease payments	3

The Group's leases primarily comprise agreements regarding properties. The lease terms are of various length and may contain extention and termination options. Management exercises significant judgement in determining whether it is reasonably certain that these extension and termination options will be exercised.

Accounting policies

Lease assets

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

Lease liabilities

Lease liabilities are measued at the present value of future payments, using the interest rate implicit in the lease agreement. Lease payments are discounted using the Group's incremental borrowing rate at 1 January 2019 adjusted for the functional currencies and lenght of the lease term, if the interest rate implicit in the lease agreement cannot be determined.

Lease payments contain fixed payments less any lease incentives receivable, variable lease payment that depend on an index or a rate as well as payments of penalties for terminating the lease, if the terms of the lease warrants that the Group exercises that option.

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

Additional information

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

Accounting estimates and assumptions

Expired leases

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

Extension and termination options

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

3.4 Other non-current assets

(DKK million)	Investments in associates and joint ventures	Receivables from associates and joint ventures	Other receivables: Customer loans	Other receivables: Other
Cost at 1.1.2019	**895**	**167**	**522**	**86**
Foreign currency translation adjustments	8	6	21	-1
Additions during the year	84	55	247	17
Additions relating to acquisitions	46	-	-	2
Disposals related to step-up acquisitions of associates	-87	-	-	-
Disposals, repayments etc. during the year	-	-44	-82	-6
Movement to current	-	-2	-177	-4
Cost at 31.12.2019	**946**	**182**	**531**	**94**
Value adjustments at 1.1.2019	**88**	**-**	**-26**	**-18**
Foreign currency translation adjustments	-	-	-1	-2
Share of profit after tax	111	-	-	-
Dividends received	-183	-	-	-
Disposals relating to step-up acquisitions of associates	1	-	-	-
Other adjustments	-	-	-7	1
Disposals during the year	-	-	26	-
Value adjustments at 31.12.2019	**17**	**-**	**-8**	**-19**
Carrying amount at 31.12.2019	**963**	**182**	**523**	**75**
Cost at 1.1.2018	**955**	**500**	**456**	**90**
Foreign currency translation adjustments	22	7	7	-
Additions during the year	123	64	348	5
Additions relating to acquisitions	-	-	-	1
Disposals related to step-up acquisitions of associates	-205	-	-	-
Disposals, repayments etc. during the year	-	-300	-289	-10
Movement to current	-	-104	-	-
Cost at 31.12.2018	**895**	**167**	**522**	**86**
Value adjustments at 1.1.2018	**-22**	**-**	**-72**	**-18**
Foreign currency translation adjustments	1	-	-4	-
Share of profit after tax	131	-	-	-
Dividends received	-87	-	-	-
Disposals relating to step-up acquisitions of associates	65	-	-	-
Disposals during the year	-	-	50	-
Value adjustments at 31.12.2018	**88**	**-**	**-26**	**-18**
Carrying amount at 31.12.2018	**983**	**167**	**496**	**68**

Please refer to *Subsidiaries, associates and joint ventures* on page 129 for a list of associates and joint ventures.

Transactions with associates and joint ventures
In 2019, the Group recognised revenue from associates and joint ventures of DKK 457 million (DKK 396 million in 2018), received royalties from and paid licence fees to associates and joint ventures, amounting to net income of DKK 1 million (net income of DKK 1 million in 2018) and received dividends from associates and joint ventures in the amount of DKK 183 million (DKK 87 million in 2018). In 2019, the Group received interest income from associates and joint ventures in the amount of DKK 3 million (DKK 6 million in 2018).

(DKK million)	Associates 2019	Associates 2018	Joint ventures 2019	Joint ventures 2018
Financial information (Group share):				
Revenue	699	588	563	542
Net profit for the year	52	30	66	104
Comprehensive income	52	30	66	104

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

3.4 Other non-current assets *– continued*

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

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

3.5 Non-current assets by geographic region

(DKK million)	2019	2018
Denmark	1,880	1,482
Other Europe	5,588	4,403
North America	6,308	5,249
Pacific	813	616
Asia	252	125
Other countries	43	55
Non-current assets	**14,884**	**11,930**

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

3.6 Impairment testing

Impairment testing is carried out for the Group´s one cash-generating unit. Based on the impairment test, a material excess value was identified compared to the carrying amount for which reason no impairment of goodwill was made as of 31 December 2019 and 31 December 2018. Future cash flows are based on the budget for 2020, on strategy plans and on projections hereof. Projections extending beyond 2020 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2020 is determined on the assumption of 2% growth (2% in 2018). The pre-tax discount rate is 7% (7% in 2018). Sensitivity calculations show that even a significant increase in the discount rate or a significant reduction of the growth assumptions will not change the outcome of the impairment test. Apart from goodwill and certain other rights, all intangible assets have limited useful lives.

The market capitalisation of the company on Nasdaq Copenhagen by far exceeds the equity value of the company, lending further support to the conclusion that there was no need for impairment in 2019 and 2018.

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

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

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

Oticon Genie 2
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Section 4

Capital structure and financial management

Net interest-bearing debt including lease liabilities

8,185

DKK MILLION

Net financial items

-240

DKK MILLION

4.1 Financial risk management and capital structure

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

Interest rate risks
In previous years, we only hedged interest rate risks on Group loans to a limited extent, as the Group only had limited debt compared to its volume of activities. Because of the Group's high level of cash generation and relatively low financial gearing, the majority of our loans are raised on floating terms and predominantly as short-term commitments, resulting in a low level of interest expenses. In order to secure relatively low interest rates for the Group on the long term and as a consequence of our attractive funding possibilities in the financial market, the Group now partly funds its debt through medium-term committed facilities with fixed rates and through financial instruments, which limits the interest rate risk.
The Group's net interest-bearing debt amounted to DKK 6,221 million as at 31 December 2019, corresponding to a gearing multiple of 2.4 (NIBD/EBITDA) excluding the effect of IFRS 16. As of 31 December 2019, the interest-bearing debt including lease liabilities was DKK 8,185 million and the gearing multiple including lease liabilities was 2.6 (NIBD including lease liabilities/EBITDA).

Credit risks
The Group's credit risks relate primarily to trade receivables and loans to customers or business partners. Our customer base is fragmented, so credit risks in general only involve minor losses on individual customers. Together, our ten largest customers account for around 13% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparts provide security in their business. Overall, we therefore estimate that we have no major credit exposure on Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. The Group has no major deposits with financial institutions for which reason the credit risk of such deposits is considered to be low.

Liquidity risks
The Group aims to have sufficient cash resources to be able to take appropriate steps in case of unforeseen fluctuations in cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating to secure the current inflow of working capital and funds for potential acquisitions. Neither in previous years nor in the financial year 2019 has the Group defaulted on any loan agreements.

4.2 Net financial items

(DKK million)	2019	2018
Interest on cash and bank deposits	3	4
Interest on receivables, customer loans etc.	36	33
Other financial income	1	2
Financial income from financial assets not measured at fair value in the income statement	**40**	**39**
Foreign exchange gains, net	1	-
Financial income	**41**	**39**
Interest on bank debt, mortgages etc.	-117	-98
Interest expense on lease liabilities	-46	-
Financial expenses on financial liabilities not measured at fair value in the income statement	**-163**	**-98**
Foreign exchange losses, net	-	-3
Transaction costs	-118	-102
Financial expenses	**-281**	**-203**
Net financial items	**-240**	**-164**

In addition to the foreign exchange items above, the consolidated income statement is also affected by foreign exchange hedging instruments as described in Note 2.3 as well as by foreign exchange effects of balance sheet items, affecting production costs by a loss of DKK 5 million in 2019 (a loss of DKK 13 million in 2018).

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

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

4.3 Categories of financial instruments

(DKK million)	2019	2018
Unrealised gains on financial contracts	13	12
Financial assets used as hedging instruments	**13**	**12**
Receivables from associates and joint ventures	361	337
Customer loans	714	657
Other receivables	405	287
Trade receivables	3,209	2,763
Cash	792	630
Financial assets at amortised cost	**5,481**	**4,674**
Other investments	16	14
Financial assets at fair value through profit/loss	**16**	**14**
Unrealised losses on financial contracts	-43	-32
Financial liabilities used as hedging instruments	**-43**	**-32**
Debt to credit institutions etc.	-4,687	-3,113
Short-term bank facilities etc.	-3,338	-3,633
Lease liabilities	-1,964	-
Overdraft	-	-382
Trade payables	-652	-499
Other liabilities	-1,379	-1,278
Financial liabilities measured at amortised cost	**-12,020**	**-8,905**

As was the case in 2018, most financial liabilities fall due within one year. As regards financial assets and liabilities, their carrying amounts approximate their fair values. The following non-financial item is included in the balance sheet and represents the difference between the table above and the balance sheet: other liabilities DKK 345 million (DKK 311 million in 2018).

Accounting policies
Debt to credit institutions is recognised at the date of borrowing at the proceeds received less transaction costs. For subsequent periods, financial liabilities are measured at amortised cost in order for the difference between proceeds and the nominal value to be recognised as a financial expense over the term of the loan.

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

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

(DKK million)	Contractual cash flows				Carrying amount	Weighted average effective interest rate
	Less than 1 year	1-5 years	More than 5 years	Total		
2019						
Interest-bearing receivables	318	477	248	1,043	1,012	
Cash	792	-	-	792	792	
Interest-bearing assets	**1,110**	**477**	**248**	**1,835**	**1,804**	**1.9%**
Debt to credit institutions etc.	-2,070	-2,371	-165	-4,606	-4,687	
Short-term bank facilities etc.	-3,489	-	-	-3,489	-3,338	
Borrowings	**-5,559**	**-2,371**	**-165**	**-8,095**	**-8,025**	**1.0%**
Net interest-bearing debt	**-4,449**	**-1,894**	**83**	**-6,260**	**-6,221**	**0.8%**
Lease liabilities	-464	-1,251	-454	-2,169	-1,964	
Net interest-bearing debt including lease liabilities	**-4,913**	**-3,145**	**-371**	**-8,429**	**-8,185**	
2018						
Interest-bearing receivables	253	309	166	728	663	
Cash	630	-	-	630	630	
Interest-bearing assets	**883**	**309**	**166**	**1,358**	**1,293**	**2.1%**
Debt to credit institutions etc.	-961	-2,121	-74	-3,156	-3,113	
Short-term bank facilities etc.	-3,675	-	-	-3,675	-3,633	
Overdraft	-382	-	-	-382	-382	
Borrowings	**-5,018**	**-2,121**	**-74**	**-7,213**	**-7,128**	**1.7%**
Net interest-bearing debt	**-4,135**	**-1,812**	**92**	**-5,855**	**-5,835**	**1.6%**

Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 203 million (DKK 194 million in 2018), which have a contractual maturity of 1-10 years. The contractual cash flows approximate their carrying amounts.

Borrowings broken down by currency: 23% in US dollars (37% in 2018), 51% in Danish kroner (49% in 2018), 24% in euros (12% in 2018), 1% in Canadian dollars (1% in 2018) and 1% in other currencies (1% in 2018).

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

4.4 Net interest-bearing debt, liquidity and interest rate risks – *continued*

(DKK million)	2018	Cash flow from financing activities	Net cash flow from overdraft	Non-cash changes: IFRS 16 transition	Acqui-sitions	Foreign exchange movement	Other additions	Disposals	2019
Lease liabilities	-	446	-	-2,039	-35	-35	-372	71	-1,964
Debt to credit institutions etc.	-3,113	-1,557	-	-	-16	-1	-	-	-4,687
Short-term bank facilities	-3,633	734	-382	-	-	-57	-	-	-3,338
Liabilities from financing activities	**-6,746**	**-377**	**-382**	**-2,039**	**-51**	**-93**	**-372**	**71**	**-9,989**
Overdraft	-382	-	382	-	-	-	-	-	-
Interest-bearing liabilities	**-7,128**	**-377**	**-**	**-2,039**	**-51**	**-93**	**-372**	**71**	**-9,989**

(DKK million)	2017	Cash flow from financing activities	Net cash flow from overdraft	Non-cash changes: IFRS 16 transition	Acqui-sitions	Foreign exchange movement	Other additions	Disposals	2018
Debt to credit institutions etc.	-3,228	131	-	-	-3	-13	-	-	-3,113
Short-term bank facilities	-2,291	-1,258	-	-	-	-84	-	-	-3,633
Liabilities from financing activities	**-5,519**	**-1,127**	**-**	**-**	**-3**	**-97**	**-**	**-**	**-6,746**
Overdraft	-46	-	-320	-	-	-16	-	-	-382
Interest-bearing liabilities	**-5,565**	**-1,127**	**-320**	**-**	**-3**	**-113**	**-**	**-**	**-7,128**

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

Interest cap
(DKK million)

	2019 Expiry	2019 Interest rate/strike	2019 Contractual amount at year-end	2019 Positive fair value at year-end	2019 Negative fair value at year-end	2018 Expiry	2018 Interest rate/strike	2018 Contractual amount at year end	2018 Positive fair value at year-end	2018 Negative fair value at year-end
DKK/DKK	2022	0%	650	-	2	2021	0%	650	-	1
			650	**-**	**2**			**650**	**-**	**1**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -2 million (DKK -1 million in 2018), and the contractual value of interest cap is DKK 650 million (DKK 650 million in 2018). The cap will run until 2022.

Sensitivity analysis in respect of interest rates
Based on consolidated net debt at the end of the 2019 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in consolidated annual interest expenses before tax of approximately DKK 17 million (DKK 29 million in 2018). About 56% (42% in 2018) of consolidated interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options), and partly due to loans being raised at fixed interest rates.

4.5 Fair value hierarchy

Methods and assumptions for calculation of fair values
Other investments
Other investments are assessed on the basis of their equity value.

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

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

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

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

Fair value hierarchy for assets and liabilities measured at fair value in the balance sheet
Financial instruments measured at fair value are broken down according to the fair value hierarchy:

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

4.5 Fair value hiearchy – *continued*

(DKK million)	2019				2018			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	-	13	-	**13**	-	12	-	**12**
Other investments	-	-	16	**16**	-	-	14	**14**
Financial liabilities used as hedging instruments	-	-43	-	**-43**	-	-32	-	**-32**
Contingent considerations	-	-	-128	**-128**	-	-	-170	**-170**

There have been no transfers between level 1 and 2 in the 2019 and 2018 financial years.

Financial instruments measured at fair value in the balance sheet based on valuation methods, with any significant inputs not being based on observable market data (level 3):

Level 3 Assets and liabilities

	Financial assets		Contingent considerations	
(DKK million)	**2019**	**2018**	**2019**	**2018**
Carrying amount at 1.1.	14	11	-170	-365
Foreign currency translation adjustment	1	-	-2	-18
Acquisitions	-	3	-36	-46
Investments in associates	-	-	-	-6
Disposals, repayments, settlements etc.	-	-	70	261
Other adjustments	1	-	10	4
Carrying amount at 31.12.	**16**	**14**	**-128**	**-170**

Accounting policies
On initial recognition, other investments are classified as assets available for sale, recognised at fair value and subsequently measured at fair value through profit and loss. Unrealised value adjustments are recognised in other comprehensive income. On realisation, value adjustments are transferred to net financial items in the income statement. The determination of fair values is based on equity values.

Contingent considerations arising from the acquisition of enterprises and activities are recognised at fair value at the time of acquisition. The obligations are re-evaluated on a recurring basis at fair value.

Maico

Section 5

Tax

Corporate tax paid in Denmark

177

DKK MILLION

Effective tax rate

23.2%

5.1 Tax on profit

(DKK million)	2019	2018
Current tax on profit for the year	-405	-459
Adjustment of current tax, prior years	21	-4
Change in deferred tax	-42	-76
Adjustment of deferred tax, prior years	-14	1
Impact of changes in corporate tax rates	-4	-
Tax on profit for the year	**-444**	**-538**
Reconciliation of tax rates:		
Danish corporate tax rate	22.0%	22.0%
Differences between tax rates of non-Danish enterprises and Danish corporate tax rate	1.5%	1.4%
Impact of changes in corporate tax rates	0.2%	0.0%
Impact of unrecognised tax assets, net	0.2%	0.0%
Permanent differences	-0.4%	-0.8%
Other items including prior-year adjustments	-0.3%	0.1%
Effective tax rate	**23.2%**	**22.7%**

Accounting policies

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

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

5.2 Deferred tax

(DKK million)	2019	2018
Deferred tax recognised in the balance sheet:		
Deferred tax assets	551	513
Deferred tax liabilities	-314	-232
Deferred tax, net at 31.12.	**237**	**281**

The tax value of deferred tax assets not recognised is DKK 130 million (DKK 128 million in 2018) and relates mainly to tax losses and tax credits for which there is considerable uncertainty about their future utilisation. The tax losses carried forward will not expire in the near future.

(DKK million)	Temporary differences at 1.1.2019	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2019
Breakdown of the Group's temporary differences and changes:						
Intangible assets	-230	-4	-3	-128	-	-365
Property, plant and equipment	-26	-	-	-3	-	-29
Leased assets	-	-	-	6	-	6
Inventories	209	-	-	32	-	241
Receivables	38	-	-	20	-	58
Provisions	83	2	-	-6	-	79
Deferred income	137	2	-	44	-	183
Tax losses	84	2	-	-23	-	63
Other	-14	-	-	-2	17	1
Total	**281**	**2**	**-3**	**-60**	**17**	**237**

(DKK million)	Temporary differences at 31.12.2017	Impact of changes in accounting policy	Temporary differences at 1.1.2018	Foreign currency translation adjustments	Acquisitions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2018
Breakdown of the Group's temporary differences and changes:								
Intangible assets	-132	-	-132	-5	-3	-90	-	-230
Property, plant and equipment	-28	-	-28	-1	-	3	-	-26
Inventories	186	-	186	-	-	23	-	209
Receivables	11	5	16	-1	-	23	-	38
Provisions	73	-	73	1	-	9	-	83
Deferred income	-	137	137	-4	-	4	-	137
Tax losses	92	-	92	5	-	-13	-	84
Other	11	-	11	-3	-	-34	12	-14
Total	**213**	**142**	**355**	**-8**	**-3**	**-75**	**12**	**281**

5.2 Deferred tax *– continued*

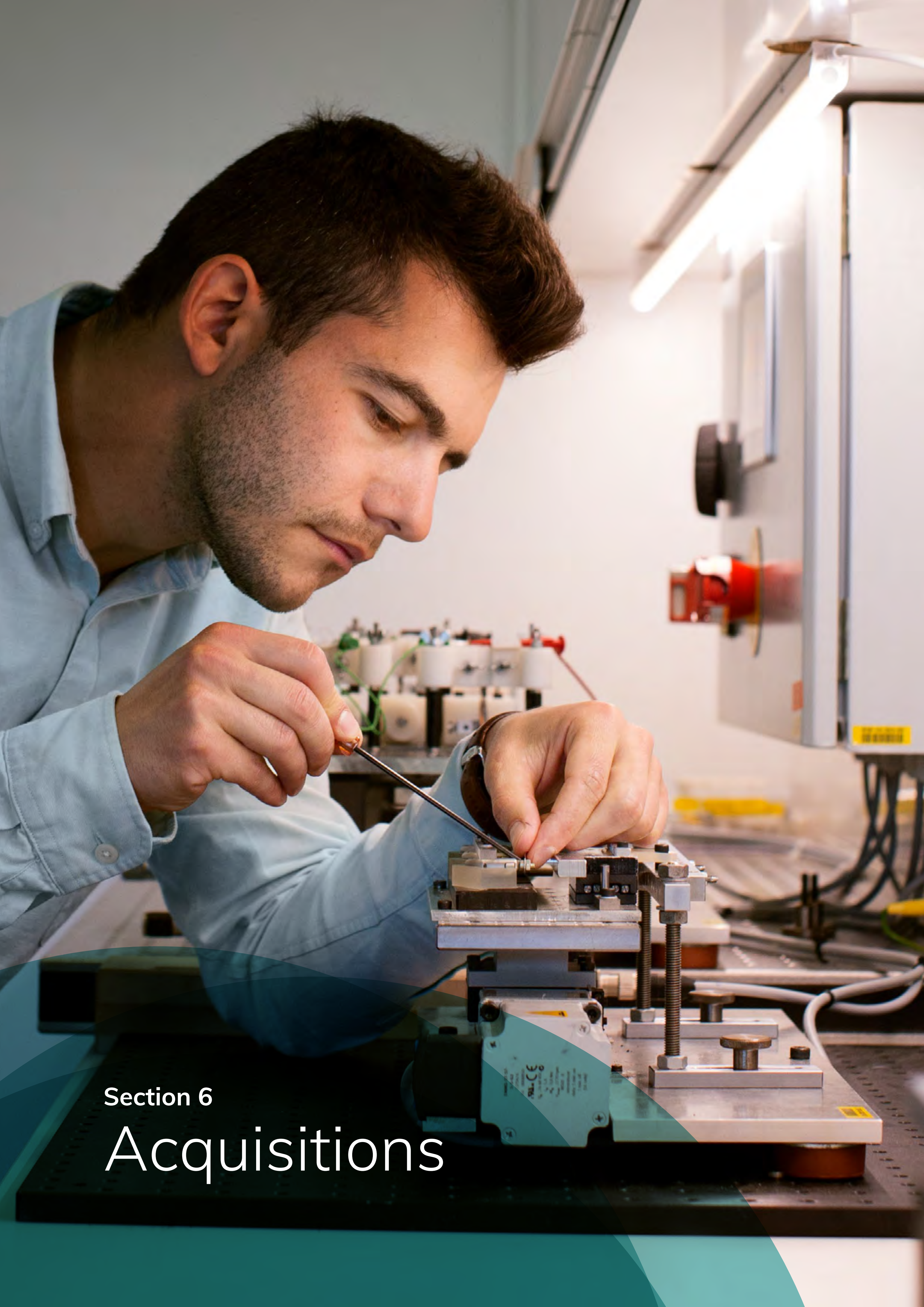
Accounting policies

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

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

Accounting estimates and assumptions

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



Section 6

Acquisitions

6.1 Acquisition of enterprises and activities

(DKK million)	North America	Europe	Asia/Pacific	Total
	Fair value on acquisition			
2019				
Intangible assets	10	17	-	27
Property, plant and equipment	5	10	10	25
Other non-current assets	55	28	2	85
Inventories	7	-	14	21
Current receivables	20	15	16	51
Cash and bank debt	25	25	5	55
Non-current liabilities	-8	-24	-3	-35
Current liabilities	-22	-32	-27	-81
Acquired net assets	**92**	**39**	**17**	**148**
Goodwill	286	127	78	491
Acquisition cost	**378**	**166**	**95**	**639**
Carrying amount of non-controlling interests on obtaining control	-55	-	-31	-86
Fair value adjustment of non-controlling interests on obtaining control	-	-8	-5	-13
Contingent considerations and deferred payments	-28	-7	-1	-36
Acquired cash and bank debt	-25	-25	-5	-55
Cash acquisition cost	**270**	**126**	**53**	**449**

(DKK million)	North America	Europe	Asia/Pacific	Total
	Fair value on acquisition			
2018				
Intangible assets	15	11	1	27
Property, plant and equipment	19	5	1	25
Other non-current assets	-	1	-	1
Inventories	5	2	1	8
Current receivables	21	7	-	28
Cash and bank debt	7	7	-	14
Non-current liabilities	-3	-1	-	-4
Current liabilities	-94	-15	-1	-110
Acquired net assets	**-30**	**17**	**2**	**-11**
Goodwill	638	110	26	774
Acquisition cost	**608**	**127**	**28**	**763**
Carrying amount of non-controlling interests on obtaining control	-139	-1	-	-140
Fair value adjustment of non-controlling interests on obtaining control	-	-2	-	-2
Contingent considerations and deferred payments	-26	-14	-6	-46
Acquired cash and bank debt	-7	-7	-	-14
Cash acquisition cost	**436**	**103**	**22**	**561**

6.1 Acquisition of enterprises and activities *– continued*

The Group´s acquisitions in 2019 consist of a number of acquisitions, mainly in North America and Europe. In respect of these acquisitions, we paid acquisition costs exceeding the fair values of the acquired assets, liabilities and contingent liabilities. Such positive balances in value can be attributed to expected synergies between the activities of the acquired entities and our existing activities, to the future growth opportunities and to the value of staff competencies in the acquired entities. These synergies are not recognised separately from goodwill, as they are not separately identifiable.

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

In 2019, a few adjustments were made to the preliminary recognition of acquisitions made in 2018. These adjustments were made in respect of payments made, contingent considerations provided and net assets and goodwill acquired. The impact of these adjustments on goodwill was DKK 2 million (DKK 1 million in 2018), the impact on contingent considerations was DKK 3 million (DKK 0 million in 2018). In relation to acquisitions with final recognition in 2015-2018, adjustments were made in 2019 in respect of estimated contingent considerations. Such adjustments are recognized in the income statement.

The total impact on the income statement of fair value adjustments of non-controlling interests in step acquisitions amounted to DKK 13 million (DKK 3 million in 2018), and adjustment of contingent considerations of DKK 9 million were made via the income statement in 2019 (DKK 4 million in 2018).

Of the total acquisition entries in 2019, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 36 million (DKK 46 million in 2018). Such payments depend on the results of the acquired entities for a period of 1-5 years after takeover and can total a maximum of DKK 39 million (DKK 47 million in 2018) for acquisitions.

The acquired assets include contractual receivables amounting to DKK 38 million (DKK 38 million in 2018) of which DKK 1 million (DKK 9 million in 2018) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 491 million (DKK 774 million in 2018), DKK 198 million (DKK 694 million in 2018) can be amortized for tax purposes.

Transaction cost in connection with acquisitions made in 2019 amounted to DKK 2 million (DKK 1 million in 2018), which has been recognized under Distribution costs.

Revenue and profit generated by the acquired enterprises since our acquisition in 2019 amount to DKK 125 million (DKK 207 million in 2018) and DKK 6 million (DKK 8 million in 2018), respectively. Had such revenue and profit been consolidated on 1 January 2019, we estimate that consolidated pro forma revenue and profit would have been DKK 15,060 million (DKK 14,085 million in 2018) and DKK 1,472 million (DKK 1,836 million in 2018), respectively. Without taking synergies from our core business into account, we believe that these pro forma figures reflect the level of consolidated earnings after our acquisition of the enterprises.

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

From the balance sheet date and until the date of financial reporting in 2020, we have acquired additional distribution enterprises as well as evolving in a new setup for Sennheiser Communications A/S resulting in a business combination. We are in the process of assessing their fair value. The acquisition cost is expected to relate primarily to goodwill. For further details on Sennheiser Communications, please refer to Note 8.4.

6.1 Acquisition of enterprises and activities *– continued*

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

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

If, on the acquisition date, there are any uncertainties with respect to identifying or measuring acquired assets, liabilities or contingent liabilities or uncertainty with respect to determining their cost, initial recognition is made on the basis of provisionally calculated values. Such provisionally calculated values may be adjusted, or additional assets or liabilities may be recognised up to 12 months after the acquisition date, if new information becomes available about conditions prevailing on the acquisition date, which would have affected the calculation of values on that day, had such information been known.

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

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

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

Section 7

Provisions, other liabilities etc.

Provisions

321

DKK MILLION

Other liabilities

1,724

DKK MILLION

7.1 Provisions

(DKK million)	2019	2018
Provisions for restructuring costs	-	10
Staff-related provisions	46	56
Miscellaneous provisions	47	31
Other provisions	**93**	**97**
Defined benefit plan liabilities, net	228	156
Provisions at 31.12.	**321**	**253**
Breakdown of provisions:		
Non-current provisions	283	231
Current provisions	38	22
Provisions at 31.12.	**321**	**253**

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

(DKK million)	Restructuring costs	Staff-related	Miscellaneous	Total
Other provisions at 1.1.2019	**10**	**56**	**31**	**97**
Foreign currency translation adjustments	-	1	-	1
Additions relating to acquisitions	-	1	-	1
Provisions during the year	-	-	32	32
Applied during the year	-9	-	-3	-12
Reversals during the year	-1	-12	-13	-26
Other provisions at 31.12.2019	**-**	**46**	**47**	**93**
Breakdown of provisions:				
Non-current provisions	-	46	9	55
Current provisions	-	-	38	38
Other provisions at 31.12.2019	**-**	**46**	**47**	**93**
Other provisions at 1.1.2018	**29**	**57**	**21**	**107**
Additions relating to acquisitions	-	-	4	4
Provisions during the year	2	-1	20	21
Applied during the year	-21	-	-7	-28
Reversals during the year	-	-	-7	-7
Other provisions at 31.12.2018	**10**	**56**	**31**	**97**
Breakdown of provisions:				
Non-current provisions	-	56	12	68
Current provisions	10	-	19	29
Provisions at 31.12.2018	**10**	**56**	**31**	**97**

7.1 Provisions – *continued*

(DKK million)	2019	2018
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1	413	361
Foreign currency translation adjustments	13	13
Additions relating to acquisitions	1	-
Current service cost	21	12
Calculated interest on defined benefit obligations	4	2
Actuarial gains/losses	55	33
Net benefits paid	3	-16
Contributions from plan participants	9	8
Defined benefit obligations at 31.12.	**519**	**413**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	257	228
Foreign currency translation adjustments	7	11
Expected return on defined benefit assets	3	1
Actuarial gains/losses	-	16
Contributions	21	17
Net benefits paid	3	-16
Defined benefit assets 31.12.	**291**	**257**
Defined benefit obligations recognised in the balance sheet, net	**228**	**156**
Return on defined benefit assets:		
Actual return on defined benefit assets	3	17
Expected return on defined benefit assets	3	1
Actuarial gains/losses on defined benefit assets	**-**	**16**
Assumptions:		
Discount rate	0.2%	1.0%
Expected return on defined benefit assets	0.2%	1.0%
Future salary increase rate	1.3%	1.5%

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

Defined benefit plan costs recognised in the income statement amount to DKK 22 million (DKK 13 million in 2018). Accumulated actuarial loss recognised in the statement of comprehensive income amount to DKK 128 million (DKK 70 million in 2018).

The Group expects to pay approx. DKK 25 million in 2020 (DKK 15 million in 2019) into defined benefit plans.

Defined benefit obligations in the amount of DKK 107 million (DKK 93 million in 2018) will mature within 1-5 years and obligations in the amount of DKK 412 million (DKK 320 million in 2018) after five years.

If the discount rate is 0.5 percentage point higher (lower), the defined benefit obligation will decrease by 8% (increase by 9%). If the expected salary growth rate is 0.5 percentage point higher (lower), the defined benefit obligation will increase by 1% (decrease by 1%).

7.1 Provisions – *continued*

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

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

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

Defined benefit costs are categorised as follows:

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

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

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

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

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

7.2 Other liabilities

(DKK million)	2019	2018
Product-related liabilities	343	311
Staff-related liabilities	567	477
Other debt, public authorities	239	244
Contingent considerations	128	170
Other costs payable	447	387
Other liabilities	**1,724**	**1,589**
Due within 1 year	1,521	1,395
Due within 1-5 years	203	194

Product-related liabilities include standard warranties and returned products etc. Staff-related liabilities include holiday pay and payroll costs due.

The carrying amount of other liabilities approximate the fair value of such liabilities

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

On the sale of products with a right of return, a liability is recognised in respect of the profit on products expected to be returned and of any costs incurred with the return of such products. Warranty commitments include an obligation to remedy faulty or defective products during the warranty period.

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

7.3 Deferred income

(DKK million)	2019	2018
Prepayments from customers	66	40
Future performance obligations:		
Deferred warranty-related revenue	593	647
Deferred free products revenue	195	190
Deferred service revenue	187	209
Total	**1,041**	**1,086**

Expected recognition of revenue

	Less than 1 year	1-2 years	2-4 years	More than 4 years	Total
2019					
Prepayments from customers	61	2	2	1	66
Deferred warranty-related revenue	300	206	82	5	593
Deferred free products revenue	132	60	3	-	195
Deferred service revenue	97	69	20	1	187
Total	**590**	**337**	**107**	**7**	**1,041**

	Less than 1 year	1-2 years	2-4 years	More than 4 years	Total
2018					
Prepayments from customers	37	1	1	1	40
Deferred warranty-related revenue	247	242	153	5	647
Deferred free products revenue	130	55	4	1	190
Deferred service revenue	103	92	14	-	209
Total	**517**	**390**	**172**	**7**	**1,086**

Free products, service and some warranty-related services mentioned above are provided free of charge to the customer. Certain other warranty-related services are paid by the customer in connection with delivery of the related goods, but delivery of the service takes place 1-4 years after delivery of the goods. Please refer to Note 1.1 for a description of the nature of the deferred income.

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

7.4 Contingent liabilities

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

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

For the purposes of section 357 of the Republic of Ireland Companies Act 2014, Demant A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities for the financial year ending on 31 December 2019 or any amended financial period incorporating the said financial year. The company does not expect any material loss to arise from this guarantee.

Section 8

Other disclosure requirements

8.1 Related parties

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

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

Subsidiaries, associates and joint ventures as well as the Demant Group's ownership interests in these companies appear from the *Subsidiaries, associates and joint ventures* list on page 129 and financial information on and transactions associates and joint ventures can be found in Note 3.4.

In 2019, William Demant Foundation paid administration fees to the Group of DKK 1 million (DKK 1 million in 2018). The Group paid administration fees to William Demant Invest A/S of DKK 2 million (DKK 2 million in 2018).

In 2019, the Group paid service fees to Össur hf., a subsidiary of William Demant Invest A/S, of DKK 57 million (DKK 38 million in 2018) and received service fees of DKK 15 million (DKK 14 million in 2018) from Össur hf.

In 2019, the Group provided assistance to Vision RT, a subsidiary of William Demant Invest A/S, in the amount of DKK 0.5 million (DKK 0 million in 2018).

In 2019, William Demant Foundation donated DKK 1 million (DKK 1 million in 2018) to Interacoustics Research Unit at the Technical University of Denmark. Further, William Demant Foundation acquired diagnostic equipment worth DKK 2 million (DKK 0.5 million in 2018) from the Group.

Since 2016, the Group has settled Danish tax on account and residual tax with William Demant Invest A/S, which is the administration company for the joint taxation.

There have been no transactions with the Executive Board and the Board of Directors apart from normal remuneration. Please refer to Note 1.2.

8.2 Fees to Parent's auditors appointed at the annual general meeting

(DKK million)	**2019**	**2018**
Statutory audit	14	12
Tax and VAT advisory services	2	3
Other services	3	-
Total	**19**	**15**

A few Group enterprises are not audited by the Parent's appointed auditors (Deloitte) or the auditors' foreign affiliates. The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Group amounts to DKK 4 million (DKK 1 million in 2018) and consists of VAT and tax service, tax advisory services related to transfer pricing, issuance of various assurance reports, accounting advisory and consulting services.

8.3 Government grants

In 2019, the Demant Group received government grants in the amount of DKK 17 million (DKK 15 million in 2018). Grants are offset against research and development costs.

Accounting policies

Government grants are recognised when there is reasonable certainty that the conditions for such grants are satisfied and that they will be awarded. Grants received as compensation for costs incurred are recognised proportionately in the income statement over the periods in which the related costs are recognised in the income statement and are offset against costs incurred. Government grants relating to the acquisition of non-current assets are deducted from the cost of such assets.

8.4 Events after the balance sheet date

In 2003, Sennheiser Communications A/S was established as a joint venture between William Demant Holding A/S, now Demant A/S ("Demant"), and German Sennheiser electronic GmbH & Co. KG ("Sennheiser"). Sennheiser Communications currently comprises three business segments within the headset industry, i.e. Gaming, Enterprise Solutions and Mobile.

As announced on 11 September 2018, the joint venture between Demant and Sennheiser, Sennheiser Communications, will evolve into a new set-up with financial effect from 1 January 2020. As of 1 January 2020, Demant will obtain control of the Gaming and Enterprise Solutions segments and Sennheiser will obtain control of the Mobile segment. As Demant will obtain control of Gaming and Enterprise Solutions, these two segments will as of 1 January 2020 be consolidated line-by-line as a joint operation until the demerger is completed in 2020. Further, as Sennheiser will obtain control of the Mobile segment, this segment will no longer be consolidated into the Demant Group's financial statements.

As such the initial accounting is not yet completed, why disclosures of the fair value of assets acquired and other disclosures required by IFRS 3 Business Combinations cannot be provided.

The above change in consolidation implies a business combination, and we are currently in the process of determining the purchase price allocation.

Section 9

Basis for preparation

9.1 Group accounting policies

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

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

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

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

The financial statements for the Parent as well as the Parent's accounting policies are presented separately from the consolidated financial statements and are shown on the last pages of this Annual Report 2019.

Except for the implementation of new and amended standards as described below as well as insignificant reclassifications of the comparative figures for 2018, the accounting policies remain the same as in 2018.

Effect of new accounting standards
The Group has adopted all new, amended and revised accounting standards and interpretations as published by the IASB and adopted by the EU effective for the accounting period beginning 1 January 2019. Except for IFRS 16, which is described below, none of these new, updated and amended standards and interpretations resulted in any changes to the accounting policies for the Group or had any significant impact on the consolidated financial statements for 2019.

Issued in January 2016, IFRS 16 Leases requires lessees to recognise nearly all leases in the balance sheet. Management has assessed the impact of the standard and concluded that it has a material impact on the recognition of non-current assets and financial debt in the balance sheet. The standard also impacts the classification of expenses in the income statement, the classification of cash flows in the cash flow statement as well as the related key figures.

The Group has applied the modified retrospective method without restating comparative figures, which are presented in accordance with requirements in IAS 17 and IFRIC 4, by measuring the asset as an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

Furthermore, the Group has decided to use the following practical expedients permitted by the standard:

- A single discount rate is applied to portfolios of leases with reasonable similar characteristics
- Reassessment of whether a contract is or contains a lease at the date of initial application is not made
- Hindsight is applied in determining the lease term if the contract contains options to extend or terminate the lease
- Leases with a remaining lease term of less than 12 months are treated as short-term leases

Lease liabilities are measured at the present value of future payments, using the interest rate implicit in the lease agreement. Lease payments are discounted using the Group's incremental borrowing rate at 1 January 2019 adjusted for the functional currency and length of the lease term. If the interest rate implicit in the lease agreement cannot be determined.

The Group has various offices, retail stores, cars and equipment. Lease terms are negotiated on an individual basis and contain a wide range of terms and conditions.

As stated in the Annual Report 2018, Management has analysed the impact of IFRS 16 and concluded that the new standard will impact the balance sheet. The transition has impacted the balance sheet by DKK 2,029 million as of the effective date of the standard.

9.1 Group accounting policies *– continued*

(DKK million)	31 December 2018	IFRS 16 impact	1 January 2019
Leased assets	-	2,029	2,029
Other non-current assets	2,241	2,029	4,270
Non-current assets	**11,930**	**2,029**	**13,959**
Current assets	**6,005**	**-**	**6,005**
Assets	**17,935**	**2,029**	**19,964**
Equity	**7,059**	**-**	**7,059**
Lease liabilities	-	1,600	1,600
Non-current liabilities	**3,390**	**1,600**	**4,990**
Lease liabilities	-	438	438
Other liabilities	1,395	-9	1,392
Current liabilities	**7,486**	**429**	**7,921**
Liabilities	**10,876**	**2,029**	**12,905**
Equity and liabilities	**17,935**	**2,029**	**19,964**

(DKK million)	2019 (reported)	IFRS 16 impact	2019 (prior rules)
Cash flow			
Cash flow from operating profit	2,775	492	2,283
Financial expenses	-280	-46	-234
Cash flow from operating activities (CFFO)	**2,149**	**446**	**1,703**
Cash flow from investing activites (CFFI)	**-1,414**	**-**	**-1,414**
Repayments on lease liabilities	-446	-446	-
Cash flow from financing activities (CFFF)	**-192**	**-446**	**254**
Cash flow for the year	**543**	**-**	**543**
Free cash flow	**1,338**	**446**	**892**

The tables above show changes in the balance sheet and cash flow due to the implementation of IFRS 16. In 2019, the impact on EBITDA was DKK 492 million, the impact on EBIT was DKK 22 million and the impact on financial items was DKK -46 million.

In the reporting period, earnings per share decreased by DKK 0.08 as a result of the adoption of IFRS 16.

(DKK million)	2019
Operating lease commitments as disclosed at 31.12.2018	**1,460**
Discounted lease commitments at 31.12.2018	1,377
Short-term leases recognised as expenses	-3
Adjustments relating to different treatment of extension and termination options	664
Lease liabilities recognised at 1.1.2019	**2,038**

9.1 Group accounting policies – *continued*

Effect of new accounting standards not yet in force
Changes to the accounting standards IFRS 3 Business Combinations and IAS 1 and IAS 8 Definition of Material are endorsed by the EU and effective from 1 January 2020. The changes to these standards are not expected to have any significant impact on the Group.

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

Consolidation principles
The consolidated financial statements are prepared based on the financial statements of the Parent and its subsidiaries by aggregating uniform items. Enterprises that, by agreement, are managed jointly with one or more other enterprises are recognised using the equity method. The consolidated financial statements are prepared in accordance with the Group's accounting policies. Intra-group income, expenses, shareholdings, balances and dividends as well as unrealised intra-group profits on inventories are eliminated.

The accounting items of subsidiaries are recognised 100% in the consolidated financial statements. On initial recognition, non-controlling interests are measured either at fair value or at their proportionate share of the fair value of the identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. The method is chosen for each individual transaction. Non-controlling interests are subsequently adjusted according to their proportionate share of changes in equity of the subsidiary. Comprehensive income is allocated to non-controlling interests whether or not, as a result hereof, the value of such interests is negative. The purchase or sale of non-controlling interests in a subsidiary, which does not result in obtaining or discontinuing control of such subsidiary, is treated as an equity transaction in the consolidated financial statements, and any difference between the consideration and the carrying amount is allocated to the Parent's share of the equity.

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

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

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

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

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

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

Other operating income
Other operating income includes income from all activities not related to the core business activities of the Group, such as income from insurance etc.

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

9.1 Group accounting policies – *continued*

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

Cash flow statement
The cash flow statement is prepared according to the indirect method and reflects the consolidated net cash flow broken down into operating, investing and financing activities. Cash flow from operating activities includes inflows from the year's operations adjusted for non-cash operating items, changes in working capital, financial income received, financial expenses paid, realised foreign currency translation gains and losses, income tax paid, short-term lease payments, payments for leases of low-value assets and variable lease payments. Cash flow from investing activities includes payments in respect of the acquisition or divestment of enterprises and financial assets as well as the purchase, development, improvement or sale of intangible assets and property, plant and equipment. Cash flow from financing activities includes payments to and from shareholders and the raising and repayment of non-current and current debt and lease liabilities.

Cash flow in currencies other than the functional currency is recognised at average exchange rates for the months of the year, unless they deviate significantly from actual exchange rates on the transaction dates.

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

9.2 Accounting estimates and assumptions

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

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

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

Parent financial statements

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Parent income statement

(DKK million)	Note	2019	2018
Administrative expenses	10.1 / 10.2	-95	-88
Other operating income and expenses		135	35
Operating profit/(loss) (EBIT)		**40**	**-53**
Share of profit after tax, subsidiaries	10.8	909	1,408
Share of profit after tax, associates and joint ventures	10.8	80	99
Financial income	10.3	16	15
Financial expenses	10.3	-77	-71
Profit before tax		**968**	**1,398**
Tax on profit for the year	10.4	3	23
Profit for the year	10.5	**971**	**1,421**

Parent balance sheet 31 december

(DKK million)	Note	2019	2018
Assets			
Goodwill		33	36
Rights		1	2
Intangible assets	10.6	**34**	**38**
Land and buildings		25	25
Property, plant and equipment	10.7	**25**	**25**
Leases		1	-
Investments in subsidiaries	10.8	10,449	9,634
Loans to subsidiaries	10.8	751	869
Investments in associates and joint ventures	10.8	272	215
Loans to associates and joint ventures	10.8	2	9
Other investments		1	1
Other receivables		12	14
Other non-current assets		**11,488**	**10,742**
Non-current assets		**11,547**	**10,805**
Receivables from subsidiaries		669	-
Loans to associates and joint ventures		95	-
Income tax		3	21
Other receivables		11	17
Prepaid expenses		6	4
Receivables		**784**	**42**
Current assets		**784**	**42**
Assets		**12,331**	**10,847**

Parent balance sheet 31 december

(DKK million)	Note	2019	2018
Equity and liabilities			
Share capital		49	50
Other reserves		2,038	2,210
Retained earnings		3,482	3,172
Total equity		**5,569**	**5,432**
Deferred tax liabilities	10.4	11	12
Provisions		**11**	**12**
Interest-bearing debt		2,509	2,162
Other debt		20	21
Non-current liabilities	10.9	**2,529**	**2,183**
Interest-bearing debt	10.9	4,191	2,636
Debt to subsidiaries		-	572
Other debt	10.9	31	12
Current liabilities		**4,222**	**3,220**
Liabilities		**6,751**	**5,403**
Equity and liabilities		**12,331**	**10,847**
Contingent liabilities	10.10		
Related parties	10.11		
Events after the balance sheet date	10.12		
Parent accounting policies	10.13		

Parent statement of changes in equity

(DKK million)	Share capital	Other reserves: Foreign currency translation reserve	Other reserves: Hedging reserve	Other reserves: Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2018	**52**	**-80**	**-**	**2,241**	**3,963**	**6,176**
Profit for the year	-	-	-	462	959	1,421
Foreign currency translation adjustment of investments in subsidiaries etc.	-	2	-	36	-	38
Other changes in equity in subsidiaries	-	-	-	-451	-	-451
Value adjustment for the year	-	-	-1	-	-	-1
Share buy-backs	-	-	-	-	-1,751	-1,751
Capital reduction through cancellation of treasury shares	-2	-	-	-	2	-
Equity at 31.12.2018	**50**	**-78**	**-1**	**2,288**	**3,173**	**5,432**
Profit for the year	-	-	-	-283	1,254	971
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-	-	117	-	117
Other changes in equity in subsidiaries	-	-	-	-3	-	-3
Value adjustment for the year	-	-	-2	-	-	-2
Share buy-backs	-	-	-	-	-946	-946
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	-
Equity at 31.12.2019	**49**	**-78**	**-3**	**2,119**	**3,482**	**5,569**

(DKK 1,000)	2019	2018	2017	2016	2015
Specification of movements in share capital:					
Share capital at 1.1.	50,474	51,793	53,216	54,425	56,662
Capital reduction	-1,416	-1,319	-1,423	-1,209	-2,237
Share capital at 31.12.	**49,057**	**50,474**	**51,793**	**53,216**	**54,425**

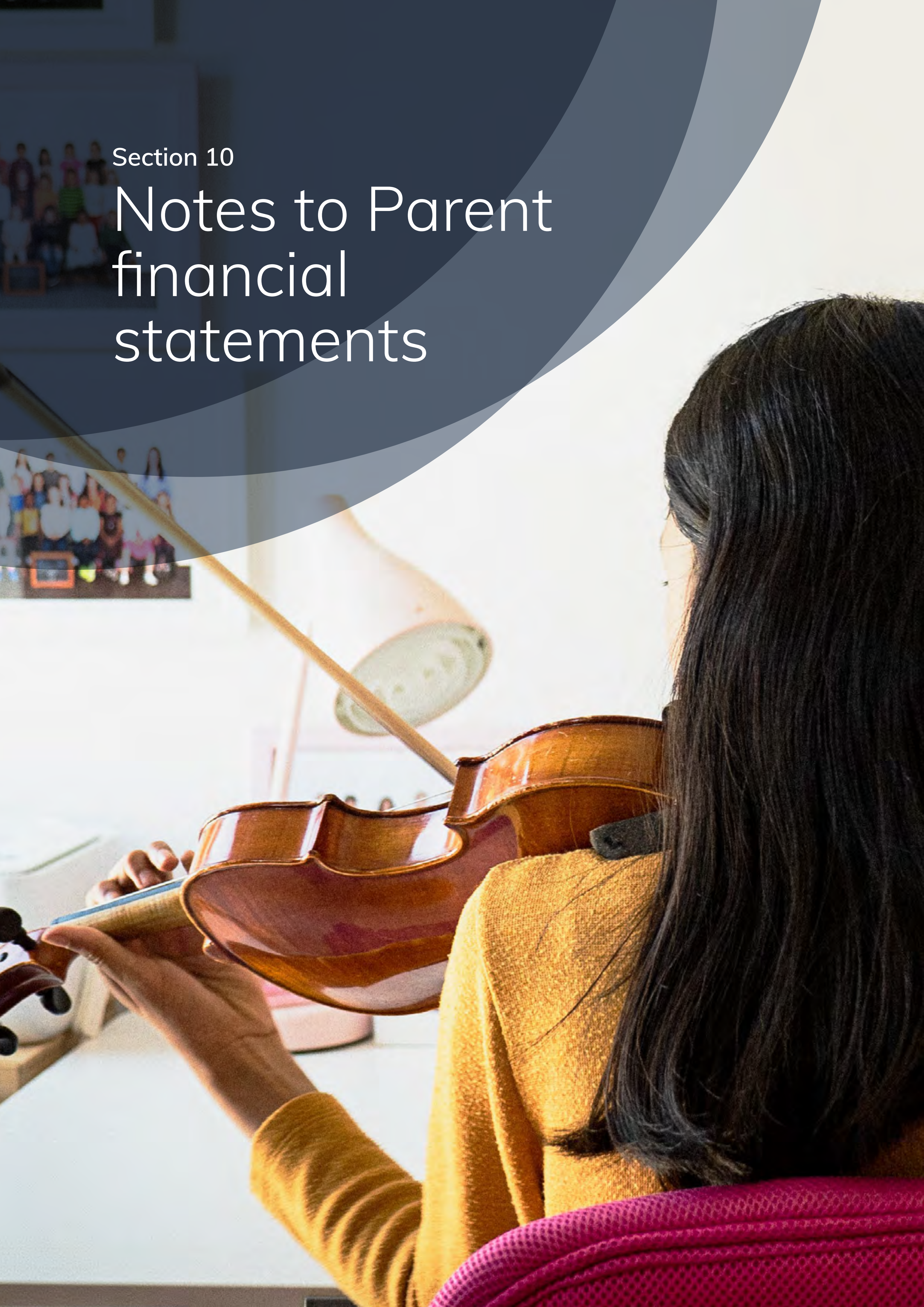
At year-end 2019, the share capital was nominally DKK 49 million (DKK 50 million in 2018) divided into the corresponding number of shares of DKK 0.20. There are no restrictions on the negotiability or voting rights of the shares. At year-end 2019, the number of outstanding shares was 240,561,173 (245,219,832 in 2018).

	2019		2018	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Treasury shares at 1.1.	7,148,143	2.8%	6,145,131	2.4%
Cancellation of treasury shares	-7,080,940	-2.8%	-6,598,300	-2.5%
Share buy-backs	4,658,659	1.9%	7,601,312	3.0%
Treasury shares at 31.12.	**4,725,862**	**1.9%**	**7,148,143**	**2.8%**

As part of the company's share buy-back programme, the company acquired 4,658,659 treasury shares in 2019 (7,601,312 shares in 2018) worth a total of DKK 946 million (DKK 1,751 million in 2018).

Section 10

Notes to Parent financial statements



10.1 Employees

(DKK million)	2019	2018
Wages and salaries	52	49
Share-based remuneration	5	4
Staff costs	**57**	**53**
Average number of full-time employees	27	24

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

	2019			2018		
	Wages and salaries*	Share-based remuneration**	Total	Wages and salaries*	Share-based remuneration**	Total
Søren Nielsen, President & CEO	12.5	2.2	14.7	11.8	1.6	13.4
René Schneider, CFO	5.5	1.0	6.5	5.3	0.7	6.0
Executive Board	**18.0**	**3.2**	**21.2**	**17.1**	**2.3**	**19.4**
Fees to Board of Directors	**4.2**	**-**	**4.2**	**4.2**	**-**	**4.2**

For further details on remuneration to the Executive Board and the Board of Directors and the share-based remuneration programme, please refer to Note 1.2 in the consolidated financial statements.

10.2 Fees to Parent's auditors appointed by the annual general meeting

(DKK million)	2019	2018
Statutory audit	2	2
Other services	3	-
Total	**5**	**2**

The fee for non-audit services delivered by Deloitte Statsautoriseret Revisionspartnerselskab to the Parent amounts to DKK 3 million (DKK 0 million in 2018) and consists of issuance of various assurance reports, accounting advisory and consulting services.

*No member of the Executive Board has remuneration in the form of pension or other benefits of more than DKK 0.5 million (DKK 0.5 million in 2018). These expenses are therefore included in wages and salaries.
**In 2019, DKK 3.6 million (DKK 0 million in 2018) of the share-based remuneration was paid out.

10.3 Net financial items

(DKK million)	2019	2018
Interest from subsidiaries	13	13
Interest income	3	2
Financial income	**16**	**15**
Interest to subsidiaries	-	-3
Interest expenses	-58	-40
Transaction costs	-2	-1
Foreign exchange losses, net	-17	-27
Financial expenses	**-77**	**-71**
Net financial items	**-61**	**-56**

10.4 Tax on profit for the year and deferred tax

(DKK million)	2019	2018
Current tax on profit for the year	3	22
Adjustment of current tax, prior years	-1	-
Change in deferred tax	1	1
Tax on profit for the year	**3**	**23**
Deferred tax recognised in the balance sheet:		
Deferred tax, net at 1.1.	-12	-13
Changes in deferred tax	1	1
Deferred tax, net at 31.12.	**-11**	**-12**

10.5 Proposed distribution of net profit

(DKK million)	2019	2018
Transferred to reserves for net revaluation according to the equity method	-283	462
Retained earnings	1,254	959
Total	**971**	**1,421**

10.6 Intangible assets

(DKK million)	Goodwill	Rights and other intangible assets	Total intangible assets
Cost at 1.1.2019	**65**	**11**	**76**
Cost at 31.12.2019	**65**	**11**	**76**
Amortisation at 1.1.2019	**-29**	**-9**	**-38**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2019	**-32**	**-10**	**-42**
Carrying amount at 31.12.2019	**33**	**1**	**34**
Cost at 1.1.2018	**65**	**11**	**76**
Cost at 31.12.2018	**65**	**11**	**76**
Amortisation at 1.1.2018	**-26**	**-8**	**-34**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2018	**-29**	**-9**	**-38**
Carrying amount at 31.12.2018	**36**	**2**	**38**

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

10.7 Tangible assets

(DKK million)	Land and buildings
Cost at 1.1.2019	**31**
Cost at 31.12.2019	**31**
Depreciation and impairment losses at 1.1.2019	**-6**
Depreciation and impairment losses at 31.12.2019	**-6**
Carrying amount at 31.12.2019	**25**
Cost at 1.1.2018	**30**
Additions during the year	1
Cost at 31.12.2018	**31**
Depreciation and impairment losses at 1.1.2018	**-6**
Depreciation and impairment losses at 31.12.2018	**-6**
Carrying amount at 31.12.2018	**25**

10.8 Financial assets

(DKK million)	Investments in subsidiaries	Loans to subsidiaries	Investments in associates and joint ventures	Loans to associates and joint ventures
Cost at 1.1.2019	**7,386**	**869**	**198**	**9**
Foreign currency translation adjustments	-19	-	-	-
Additions during the year	908	151	164	118
Disposals during the year	-	-269	-32	-30
Cost at 31.12.2019	**8,275**	**751**	**330**	**97**
Value adjustments at 1.1.2019	**2,248**	**-**	**17**	**-**
Foreign currency translation adjustments	136	-	-	-
Share of profit after tax	909	-	75	-
Dividends received	-1,116	-	-151	-
Other adjustments	-3	-	1	-
Value adjustments at 31.12.2019	**2,174**	**-**	**-58**	**-**
Carrying amount at 31.12.2019	**10,449**	**751**	**272**	**97**
Non-current	10,449	751	272	2
Current	-	-	-	95
Cost at 1.1.2018	**6,938**	**915**	**171**	**2**
Foreign currency translation adjustments	26	1	-	-
Additions during the year	422	89	27	9
Disposals during the year	-	-136	-	-2
Cost at 31.12.2018	**7,386**	**869**	**198**	**9**
Value adjustments at 1.1.2018	**2,258**	**-**	**-15**	**-**
Foreign currency translation adjustments	10	-	-	-
Share of profit after tax	1,408	-	99	-
Dividends received	-977	-	-68	-
Other adjustments	-451	-	1	-
Value adjustments at 31.12.2018	**2,248**	**-**	**17**	**-**
Carrying amount at 31.12.2018	**9,634**	**869**	**215**	**9**
Non-current	9,634	869	215	9

The carrying amounts of investments in subsidiaries include capitalised goodwill in the net amount of DKK 6,137 million (DKK 6,010 million in 2018). Amortisation of consolidated capitalised goodwill for the year is DKK 412 million (DKK 381 million in 2018).

Loans to subsidiaries of DKK 751 million (DKK 869 million in 2018) are considered additions to the total investments in the particular enterprises and are therefore considered non-current.

Please refer to the Subsidiaries and associates list on page 129 for further information on subsidiaries, joint ventures and associates.

Note 10.9 Interest-bearing debt

	Contractual cash flows				Carrying amount	Weighted average effective interest rate
	Less than 1 year	1-5 years	More than 5 years	Total		
2019						
Debt to credit institutions etc.	2,176	2,371	165	4,712	4,666	
Short-term bank facilities etc.	2,043	-	-	2,043	2,033	
Lease liabilities	-	1	-	1	1	
Interest-bearing liabilities	**4,219**	**2,372**	**165**	**6,756**	**6,700**	**0.8%**
2018						
Debt to credit institutions etc.	1,760	2,121	74	3,955	3,904	
Short-term bank facilities etc.	900	-	-	900	894	
Interest-bearing liabilities	**2,660**	**2,121**	**74**	**4,855**	**4,798**	**1.1%**

A part of other debt of DKK 31 million (DKK 12 million in 2018) has a contractual maturity of less than one year, and a part of other debt of DKK 20 million (DKK 21 million in 2018) has a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 60% in Danish kroner (65% in 2018), 28% in euros (18% in 2018) and 12% in US dollars (17% in 2018).

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

Interest cap

(DKK million)	2019					2018					
	Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end		Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end
DKK/DKK	2022	0%	650	-	2	DKK/DKK	2021	0%	650	-	1
			650	**-**	**2**				**650**	**-**	**1**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -2 million (DKK -1 million in 2018), and the contractual value of the interest cap is DKK 650 million (DKK 650 million in 2018). The cap will run until 2022.

Sensitivity analysis in respect of interest rates
Based on the bank debt facilities at the end of the 2019 financial year, a rise of 1 percentage point in the general interest rate level will cause an increase in the Parent's annual interest expenses before tax of approx. DKK 11 million (DKK 18 million in 2018). About 72% of the interest-bearing debt is subject to fixed or limited interest rates, partly due to a bought cap (a strip of call options), and partly due to loans being raised at fixed interest rates.

10.10 Contingent liabilities

Demant A/S has provided security in respect of credit facilities established by Danish subsidiaries. These credit facilities totalled DKK 2,290 million in 2019 (DKK 2,280 million in 2018) of which DKK 309 were drawn (DKK 725 million in 2018).

Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2018), which is being drawn upon on a current basis.

Demant A/S has provided security in respect of rent as well as guarantees concerning the continuous operation and payment of liabilities in 2019 for some of our subsidiaries.

The Parent is jointly taxed with William Demant Invest A/S, which is the administration company. Under the Danish Corporation Tax Act, the parent is liable for any obligation to withhold tax at source in respect of interest, royalties and dividends in relation to the jointly taxed enterprises.

For the purposes of section 357 of the Republic of Ireland Companies Act 2014, Demant A/S has undertaken to indemnify the creditors of its subsidiaries incorporated in the Republic of Ireland in respect of all losses and liabilities for the financial year ending on 31 December 2019 or any amended financial period incorporating the said financial year. The company does not expect any material loss to arise from this guarantee.

10.11 Related parties

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

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

10.12 Events after the balance sheet date

Please refer to Note 8.4 in the consolidated financial statements.

10.13 Parent accounting policies

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

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

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

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

Income statement

Tax

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

Balance sheet

Goodwill

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

Rights

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

Investments in subsidiaries and associates

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

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

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

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

Other investments

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

Provisions

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

Statement of changes in equity

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

Cash flow statement

In compliance with section 84(4) of the Danish Financial Statements Act, a cash flow statement is not drawn up for the Parent, such statement being included in the consolidated cash flow statement.

Subidiaries, associates and joint ventures

Company	Interest
Demant A/S	Parent
Oticon A/S, Denmark*	100%
Oticon AS, Norway*	100%
Oticon AB, Sweden*	100%
Oticon Denmark A/S, Denmark*	100%
Oticon GmbH, Germany	100%
Demant Schweiz AG, Switzerland*	100%
Demant Italia S.r.l., Italy*	100%
Oticon España S.A., Spain	100%
Oticon Polska Sp. z o.o., Poland*	100%
Oticon Portugal, Unipessoal LDA, Portugal*	100%
Oticon Limited, United Kingdom*	100%
Oticon Inc., USA	100%
Oticon Australia Pty. Ltd., Australia*	100%
Oticon Singapore Pte Ltd., Singapore*	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon International Trading Shanghai Co. Ltd., China*	100%
Oticon South Africa (Pty) Ltd., South Africa*	100%
Demant Korea Co. Ltd., Korea*	100%
Oticon Malaysia Sdn, Malaysia*	100%
Oticon Medical A/S, Denmark*	100%
Oticon Medical AB, Sweden	100%
Oticon Medical LLC, USA	100%
Oticon Medical Maroc, Morocco*	100%
AccuQuest Hearing Center LLC, USA	100%
Audika ApS, Denmark*	100%
Audicare SPRL , Belgium*	100%
Audiology Services Company LLC, USA	100%
Audmet OY, Finland*	100%
Audmet Australia Pty. Ltd., Australia*	100%
Audmet B.V., the Netherlands*	100%
Audmet Canada LTD., Canada	100%
Audmet K.K., Japan*	100%
Audmet New Zealand Limited, New Zealand*	100%
Audmet S.r.l., Italy*	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon LLC, USA	100%
Bernafon AB, Sweden*	100%
Bernafon A/S, Denmark*	100%
Bernafon Ibérica S.L.U., Spain*	100%
DGS Diagnostics Sp. z o.o., Poland	100%
DGS Poland Sp. z o.o., Poland	100%
DGS Business Services Sp. Z o.o.*	100%
Demant Technology Centre Sp. z o. o., Poland*	100%
ACS Sluchmed Sp. z o.o., Poland	100%
Acustica Sp. z o.o., Poland*	100%
Acoustic Metrology Limited, United Kingdom	100%
Akoustica Medica M EPE, Greece*	100%
Amplivox Ltd., United Kingdom	100%
Audika AB, Sweden*	100%

Company	Interest
Audika AG, Switzerland*	100%
Audika Groupe S.A.S., France*	100%
Audika New Zealand Limited, New Zealand*	100%
Audio Seleccion S.L., Spain*	100%
BC Implants AB, Sweden*	100%
Centro Auditivo Telex Ltda., Brazil	100%
Danacom Høreapparater A/S, Denmark*	100%
EPOS Group A/S, Denmark*	100%
Diagnostic Group LLC, USA	100%
Diatec AG, Switzerland*	100%
Diatec Diagnostics GmbH, Germany*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostics Inc., USA	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centers LLC, USA	100%
HearingLife Canada Ltd., Canada*	100%
NexGen Healthcare Management Inc., Canada	100%
Hearing Holding Belgium NV, Belgium*	100%
Hearing Screening Associates LLC, USA	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	100%
Hidden Hearing Limited, United Kingdom	100%
Hidden Hearing Limited, Ireland*	100%
IDEA Isitme Sistemleri Sanayi ve Ticaret A.S., Turkey*	100%
Interacoustics A/S, Denmark*	100%
Interacoustics Pty. Ltd., Australia*	100%
Kuulopiiri Oy, Finland*	100%
LeDiSo Italia S.r.l., Italy*	100%
Maico Diagnostic GmbH, Germany*	100%
Maico S.r.l., Italy*	100%
MedRx Inc., USA	100%
Micromedical Technologies Inc., USA	100%
Neurelec S.A.S., France*	100%
Prodition S.A.S., France*	100%
Sensory Devices Inc., USA	100%
SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey*	100%
Sonic Innovations Inc., USA	100%
Sonic Innovations Pty Ltd., Australia	100%
Udicare S.r.l., Italy*	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
Your Hearing Network LLC, USA	100%
Diatec A/S, Denmark*	100%
Etymonic Design Inc., Canada*	100%
Medton Ltd., Israel*	100%
The Q Group, LLC, USA	100%
Workplace Integra Inc., USA	100%
FrontRow Calypso LLC, USA	75%
Sennheiser Communications A/S, Denmark*	50%
Dencker A/S, Denmark*	40%
HIMSA A/S, Denmark	25%
Audilab S.A.S., France*	22%
Solaborate Inc., USA	20%

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

Life-changing hearing health

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