

The Chairman's report at Demant A/S' annual general meeting on Thursday 10 March 2022 at 4:00pm

Once again, a warm welcome to all of you.

We can look back on a year where we have in the best possible way fulfilled our main objective – to create life-changing hearing health – which makes so much sense to so many people. Even after a tough year for the company in 2020 due to the world-wide impact of the coronavirus pandemic, having such a solid foundation made us firmly believe that there were people with untreated hearing loss who needed help and that this need had only been postponed for a while. And this assumption certainly proved to be true.

At the beginning of 2021, we had high expectations for the year's market development. Even such high expectations that some people thought were too optimistic. We are proud to say that not only did we meet our expectations, but we also exceeded them, and we revised them upwards no less than three times after that. Of course, this development is also testament to the uncertain situation that the world is in, which naturally impacts our company.

Before I proceed to the business areas, I would like to address the disastrous situation in Ukraine. It is extremely tragic, and our deepest compassion and concerns go to everyone affected by the conflict. We do not have employees in Ukraine, and as a company, Demant is not to a significant extent impacted directly by the crisis. However, we have employees, especially in Poland, who have roots in Ukraine or are otherwise tied to the area, whom we support the best we can. I am therefore pleased that Demant's majority shareholder, William Demant Foundation, has donated a total of 8 million Danish kroner to relief for Ukraine to be shared by different relief organisations, which are working at full throttle to give aid to both Ukraine and the many fugitives. This makes me very proud, so a huge thank you to the Foundation.

All in all, 2021 was a fantastic year for Demant where we delivered high organic growth, and our core segment, Hearing Healthcare, delivered a growth rate above the market growth rate. The Group generated record-high revenue of more than 18 billion Danish kroner and the best operating profit (EBIT) ever of more than 3.4 billion Danish kroner. The good results achieved in 2021 will sow the seeds for further growth after two years where we have been significantly impacted by first the IT incident and then the pandemic. In his address, Søren will in more detail go through the financial results and the individual elements of the financial statements, so I will elaborate on the development in our business areas.

Business segments

Last year, we launched a clearer and more transparent overview of the Group's activities. Our activities are now split into two segments to allow us to follow the value creation in Hearing Healthcare and Communications through separate income statements.

Hearing Healthcare consists of our four well-known business areas: *Hearing Aids*, which covers wholesale of hearing aids; *Hearing Care*, covering retail sale of hearing aids to the users; *Hearing Implants*, which consists of our hearing implants business Oticon Medical; and finally *Diagnostics*, which covers a number of diagnostic products and services. **Communications** consists of EPOS that manufactures and sells headsets and communication tools.

Hearing Healthcare

Let me start with Hearing Healthcare:

In 2021, our Hearing Healthcare business saw strong growth after having been adversely affected by the coronavirus pandemic in 2020. However, we saw substantial differences between the individual regions and between the individual business areas in the segment. At the very end of the year, we saw a slight halt in the demand in some markets due to high infection rates, and we also saw that in some areas, the pandemic made it difficult to fully staff our hearing aid clinics. Now in the third month of the year, it seems, however, that we are starting to leave the worst effects of the pandemic behind us.

We have not seen any changes to the fundamental factors driving the demand for hearing healthcare products and services. That is why we have, as mentioned, from the outset of the pandemic believed that the negative effects would be temporary and result in some pent-up demand, which would then materialise significantly later.

Hearing Care – our global network of clinics, which we in Denmark and in a number of other countries know as Audika, in the UK as Hidden Hearing and in the US and Canada as HearingLife – did very well in 2021, assisted by a new healthcare reform in France. When the coronavirus restrictions were lifted, and as soon as the users were ready to visit our clinics, our clinic staff was ready to provide personal and individual counselling. The good development in our clinics is, in our view, a testament to the strength of our model with personal counselling in combination with products offering state-of-the-art technology. During the year, we have also focused more on digital marketing and on a more online-driven approach to our users. Furthermore, we have expanded our network of clinics by establishing new clinics and by acquiring existing clinics.

The year's good results can also be attributed to the fact that our **innovation power in Hearing Aids** has once again proven to be nothing short of world-class, resulting in us once again delivering ground-breaking hearing aid technology. For the benefit of our customers and users, in 2021 we thus rolled out our premium products, Oticon More, Philips HearLink, Bernafon Alpha and Sonic Radiant – all of which are based on our latest technology platform. Towards the end of the year, we had sold more than one million of these new hearing aids, which have built-in artificial intelligence – a so-called Deep Neural Network – that mimics the way the brain works and thus makes it easier for the user to focus on a single conversation partner, even in very noisy surroundings. This is a very big step forward within hearing aid technology. We now look forward to continuing on this successful path and to propagating this new technology to ensure that it is implemented in most of our products during 2022, which enables us to help even more people hear better and enjoy a rich soundscape.

That we are dedicated to providing quality became apparent when our **Hearing Implants** business was unfortunately compelled to voluntarily recall a number of not yet implanted Neuro Zti hearing implants and temporarily halt the sale of new implants, as there was a quality defect in a very limited number of hearing implants sold. It goes without saying that this is not a desirable position to find oneself in, but we do not want to compromise on the quality of our products. We have now identified the root cause and expect to be able to resume our sales activities in the third quarter. On the other hand, we are pleased to announce that before the recall, we obtained the long-awaited approval by the US Food and Drug Administration (FDA) of our cochlear implant system and that our bone anchored hearing systems are selling well.

We are especially proud of the last business area in the Hearing Healthcare segment, our **Diagnostics** business, which has done extremely well year after year, and 2021 was no exception. Our multi-brand strategy makes it possible for us to focus on separate segments and customers. If I should highlight some areas, I would single out balance equipment, hearing aid fitting equipment and service and calibration where performance clearly shows that Diagnostics is market-leading in its field.

Communications

We have now come to our other segment, Communications, which consists of the company brand EPOS:

When we entered 2021, EPOS had seen very big demand for our virtual collaboration tools due to the increasing working from home trend and the increased interest in gaming that we experienced in the first period after the outbreak of the pandemic. We also had ambitious plans for 2021, but we must admit that we did not quite live up to these plans. In fact, EPOS saw declining sales in 2021, which must be considered disappointing, even though the decline is partly due to very big demand in the comparative period. Towards the end of the year, we did, however, see an increase in the number of orders, and our plan is still to expand the EPOS business in several markets within audio and video solutions and to promote EPOS as a strong premium brand.

Strong outlook for 2022

In the new year, which is now well underway, we still see a robust market – even though the pandemic is not over yet – where the fundamental market drivers remain intact. Both in 2022 and in the years to come, we expect to see growth and to gain further market shares. However, this is only doable through the dedicated efforts of our engaged employees when it comes to ensuring high quality and doing their utmost to provide excellent service to our customers.

The positive development and the further market normalisation that we saw in the hearing aid and diagnostic areas in the second half-year are expected to continue into 2022, and we also expect to experience some tailwind when part of the pent-up demand is released. We thus expect to see strong growth in our core business areas, Hearing Care, Hearing Aids and Diagnostics, which all generated strong results in 2021. In 2022, we will also resume the sale of our cochlear implants, and we expect to see growth in Communications. All in all, we have set ambitious goals for 2022.

I would like to take this opportunity to say a special thank you to our management that work tirelessly for us to be able to deliver on the ambitious goals that we set for ourselves year after year. I am therefore also especially pleased to let you know that we have today announced that effective 1 April 2022, Arne Boye Nielsen, President of our Diagnostics and Communications business areas, and Niels Wagner, President of our Hearing Care business area, will join the Executive Board to ensure that these big and important business areas will also be represented in the Executive Board. Up until today, the Executive Board consisted of our CEO, Søren Nielsen, who also represents the Hearing Aids and Hearing Implants business areas, and our CFO, René Schneider, who is responsible for the large IT, HR, Finance and Corporate Functions organisations that operate across business areas and have an all-important role when it comes to supporting the business areas.

Arne and Niels have both been part of Group management for many years and have solid competencies, knowledge and great experience and have not least contributed considerably to the achievements of the company that year after year realises its growth ambitions. With these appointments, we will have a broader Executive Board and an experienced team that will contribute further to growth in Demant. I ask Arne and Niels to stand up. Let us give them a hand!

Proposal for new auditors

Another thing that I would also like to mention here is the proposal to replace our auditors. We have for many years had a good cooperation with Deloitte. In compliance with legal requirements in respect of rotation of auditor and accounting firm, we propose that Deloitte be replaced by PwC. I would like to say a big thank you to Anders Dons and Kåre Kansonen Valtersdorf, who have over the years provided relevant and competent accounting services.

Sustainability

Another topic that I would like to emphasise is sustainability. Our main obligation to society – and our most important contribution to the UN's Sustainable Development Goals and a sustainable society – is to make life easier for people with hearing loss. Hearing treatment and the improvement of the quality of life that hearing care provides by enabling people to be an active part of society are more important than ever – both for the health of the individual and for society as a whole.

Apart from this core contribution to society, we are very focused on sustainability in the way we operate our business. Sustainability is an integral part of running and developing our company, and we therefore think sustainability into our day-to-day business. Working actively with key figures and setting clear goals for how we take sustainable and social responsibility are preconditions for being transparent.

We have specifically chosen two focus areas in Demant: climate and diversity. We have made progress in both areas in the past year, and we will continue this work. Let me go a bit deeper:

In 2021, we committed to the Science Based Targets initiative to ensure that we set goals that are viable from a climate science point of view. We have taken ambitious steps towards disclosing and publishing CO2 emissions from our entire value chain in order to report ambitious preliminary goals for reducing our CO2 emissions: Before 2030, we will reduce our direct and indirect CO2 emissions by minimum 50% compared to 2019, which is our base year, and we will, no later than in 2050, obtain climate neutrality in the entire value chain. Indeed important goals that require that we are transparent when it comes to data and the fulfilment of these goals. We believe that this is the way forward if we want to create changes in this area.

The other focus area is diversity and inclusion in our company to further support and promote an open culture with fair opportunities for all. The Demant Group employs a diverse group of people from all over the world and with many different backgrounds. We are convinced that our ability to embrace the strengths that such diversity creates is one of the pillars of our success. In 2021, we launched a global programme in the Group called Embrace, the purpose of which is to continue our development within diversity, equity and inclusion. The programme specifies a number of steps to help us improve in these areas, including an inclusion survey, which will form the basis for preparing a policy and setting new goals in 2022.

In Demant, we have already for a number of years focused on diversity, which includes increasing the number of women at different management levels. We are pleased to report that since we started reporting on the share of women in management positions in our Danish companies, the share has gone up from 11% in 2009 to 33% in 2021. If we look at the global organisation, the share of women in management is 43%, which is an improvement compared to the year before, whereas the share is 22% for the group of approx. 110 people that we define as our global top management. To improve in this area is a focus area for us. We have two women in our Board of Directors out of a total of five Board members elected by the general meeting, corresponding to 40%.

Corporate governance

It is important for the Board to have value-creating and effective structures for governance in the company, which balance being a listed company with many shareholders and strong and good ownership by a foundation with a long-term perspective. We consider the work on corporate governance an ongoing process. When reporting on corporate governance, we comply to a high degree with the recommendations issued by the Danish Committee on Corporate Governance, and our report on corporate governance is, as always, available on our website.

Once a year, we evaluate the work of the Board. The evaluation is performed either through individual interviews with the Board members or by means of a questionnaire. In both instances, the findings of the evaluation are subsequently discussed by the entire Board. At least every third year, the evaluation is performed with external assistance. In 2021, the evaluation was performed by means of questionnaires filled in by the Board members, as the evaluation the year before was performed through interviews with external assistance.

Overall, the evaluation confirmed that the Board is satisfied with its governance structures and also confirmed that the interaction between the Board members is well-functioning. The Board of Directors is focused on the long-term strategic development of the company to ensure that the potential of the company is at any time exploited to the fullest. The collaboration between the Board of Directors and the Executive Board works well, and there is an open and trustful working environment.

Remuneration policy

The Board of Directors has also in 2021 reviewed the remuneration structure for the Executive Board. It has always been our goal to have a simple remuneration structure and policy. The purpose of the policy is to reward the members of the Board of Directors and the Executive Board for their commitment to and the results achieved for the company. In addition, the goal is to attract qualified candidates for the Board of Directors and the Executive Board and then to motivate and retain them.

The members of the Executive Board have for a number of years received a fixed salary and in addition an annual retention bonus, which is paid out after three years. During this period, the retention bonus is adjusted according to the development of the share price. Based on comparisons with Demant's peers and to take another step forward in realising Demant's overall strategy and to attract, motivate and retain the members of the Executive Board, the Board of Directors has deemed it necessary to change the remuneration structure for the Executive Board. The Board of Directors has therefore put forward a proposal to change the remuneration policy. The most significant, proposed changes to the remuneration policy is to introduce a cash-based Short-Term Incentive Programme for the Executive Board, under which pay-out is dependent on the fulfilment of performance targets, and to introduce performance targets in the already existing Long-Term Incentive Programme for the Executive Board, under which allocation will be in the form of so-called Restricted Stock Units.

It is the opinion of the Board of Directors that an annual fixed salary in combination with a Short- and Long-Term Incentive Programme for the Executive Board will to a greater extent contribute to ensuring convergence between the interests of the Executive Board and those of the company and shareholders and that it will also contribute to increasing value creation in the company in the long term.

It is the assessment of the Board of Directors that with this change, the remuneration of the Executive Board of Demant is fair and competitive. We are, as usual, completely transparent about the remuneration of the Board of Directors and Executive Board.

Share buy-backs

In 2021, we bought back shares worth approx. 3.2 billion Danish kroner. We intend to use by far most of these shares for a capital reduction, thereby channelling part of our earnings back to you shareholders.

In 2022, we will continue to use our substantial cash flow from operating activities on value-creating investments and acquisitions, while excess liquidity will be used for continuous share buy-backs. Thus, we will again this year have a high level of share buy-backs, and we expect these to total more than 2.5 billion Danish kroner.

Final remarks

With an ambition to become world-leading in hearing healthcare and a purpose to create life-changing hearing health, we will continue to deliver high quality and individualised support to our users to ensure that they benefit as much as possible from our solutions.

Offering many opportunities and exciting challenges – whether in Denmark or abroad – the Demant Group is an attractive place to work. Our employees are our greatest asset, and I would therefore like to say a heartfelt thank you to each and every one of the Group's now more than 18,000 employees, who have all made a tremendous effort in 2021.

Before I give the floor to Søren Nielsen, who will go through the Group's financial statements for 2021, I would like to say a big thank you to our customers and business partners and not least to you shareholders for your continuously big commitment and support to Demant.

Søren, the floor is yours.