2020
Annual Report

Demant

Front page photo from Oticon More campaign

In 2020, Oticon launched the new flagship product Oticon More, which processes and balances the full sound scene to give people with a hearing loss access to all relevant sounds.

Changes to reporting structure

In this Annual Report 2020, we have made several changes to our reporting structure to further enhance transparency in the value created by each of our different business areas.

- The changes include disclosing separate income statements to the EBIT level for two business segments:

  Hearing Healthcare comprises four business areas: Hearing Aids, Hearing Care, Hearing Implants and Diagnostics.

  Communications comprises only our headset business, which operates under the EPOS brand. This business was fully consolidated in the Group's financial statements with financial effect from 1 January 2020 as a result of the demerger of Sennheiser Communications, our 50/50 joint venture with Sennheiser electronic GmbH & Co. KG. Due to the previous set-up as a joint venture, there are no comparative figures to report for 2019.

- We have changed the descriptive name of our hearing aid wholesale business to Hearing Aids. At the same time, the name of our hearing aid retail business has been changed to Hearing Care.

- We now report revenue separately for each of our Hearing Aids and Hearing Care business areas (as well as separate growth rates, as we have also done historically).

- We no longer report growth rates separately for our cochlear implants and bone anchored hearing systems businesses but only a growth rate for Hearing Implants as a whole.

Life-changing hearing health

Contents

Key figures and financial ratios – year

(DKK million)	2020	2019	2018	2017	2016
Hearing Healthcare					
Revenue	13,163	14,946	13,937	13,189	12,002
Organic growth	-13%	4%	7%	9%	6%
Gross margin	73.6%	75.8%	77.4%	76.0%	75.2%
Operating profit (EBIT)	1,211	2,085	2,428	2,295	1,891
EBIT margin	9.2%	14.0%	17.4%	17.4%	15.8%
Communications					
Revenue	1,306	-	-	-	-
Organic growth	-	-	-	-	-
Gross margin	50.3%	-	-	-	-
Operating profit (EBIT)*	102	66	104	43	51
EBIT margin	7.8%	-	-	-	-
Group					
Income statement					
Revenue	14,469	14,946	13,937	13,189	12,002
Adjusted gross margin**	71.5%	75.8%	77.7%	76.3%	75.8%
Gross margin	70.4%	75.8%	77.4%	76.0%	75.2%
EBITDA	2,578	3,110	2,978	2,742	2,346
EBITDA margin	17.8%	20.8%	21.4%	20.8%	19.5%
Adjusted EBIT**	1,313	2,151	2,652	2,504	2,130
Adjusted EBIT margin**	9.1%	14.4%	19.0%	19.0%	17.7%
Operating profit (EBIT)	1,530	2,151	2,532	2,338	1,942
EBIT margin	10.6%	14.4%	18.2%	17.7%	16.2%
Net financial items	-194	-240	-164	-111	-101
Profit for the year	1,134	1,467	1,830	1,759	1,464
Balance sheet					
Total assets	21,927	21,798	17,935	16,222	15,548
Net interest-bearing debt (NIBD)	7,135	8,185	5,835	4,030	4,036
Equity	8,279	7,645	7,059	7,433	6,966
Cash flow statement					
Adjusted cash flow from operating activities (CFFO)**	2,710	2,149	1,765	2,023	1,756
Cash flow from operating activities (CFFO)	2,621	2,149	1,683	1,872	1,679
Investment in property, plant and equipment, net	493	561	409	292	299
Free cash flow	2,023	1,338	1,185	1,387	1,223
Share buy-backs	197	946	1,751	1,031	1,050
Other key figures					
Return on equity	14.3%	19.5%	25.7%	24.0%	21.5%
Equity ratio	37.8%	35.1%	39.4%	45.8%	44.8%
Gearing multiple (NIBD/EBITDA)	2.8	2.6	2.0	1.5	1.7
Earnings per share (EPS)***	4.68	6.00	7.32	6.84	5.53
Free cash flow per share (FCFPS)***	8.44	5.49	4.76	5.41	4.64
Price/earnings (P/E) ratio	51.4	35.0	25.3	25.4	22.2
Share price, end of period***	240.60	209.80	184.90	173.50	122.80
Average number of shares outstanding	239.78	243.55	249.14	256.56	263.75
Market capitalisation	57,718	50,470	45,308	43,864	31,829
Average number of employees	16,155	15,352	14,250	13,280	12,339

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.

**EBIT for Communications in 2016-2019 relates to the Group's share of profit after tax from our former joint venture Sennheiser Communications.*

***Adjusted for costs related to the 2016-2018 restructuring programme and for EPOS one-offs in 2020.*

****Per share of nominally DKK 0.20.*

Key figures and financial ratios – half-year

(DKK million)	H2 2020	H1 2020	H2 2019	H1 2019	H2 2018	H1 2018
Hearing Healthcare						
Revenue	7,631	5,532	7,596	7,350	7,160	6,777
Organic growth	2%	-27%	3%	5%	6%	7%
Gross margin	74.5%	72.3%	74.0%	77.6%	78.0%	76.7%
Operating profit (EBIT)	1,425	-214	1,000	1,085	1,247	1,181
EBIT margin	18.7%	-3.9%	13.2%	14.8%	17.4%	17.4%
Communications						
Revenue	760	546	-	-	-	-
Organic growth	-	-	-	-	-	-
Gross margin	52.9%	46.7%	-	-	-	-
Operating profit (EBIT)*	81	21	38	28	59	45
EBIT margin	10.7%	3.8%	-	-	-	-
Group						
Income statement						
Revenue	8,391	6,078	7,596	7,350	7,160	6,777
Adjusted gross margin**	72.5%	70.0%	74.0%	77.6%	78.4%	76.9%
Gross margin	72.1%	68.2%	74.0%	77.6%	78.0%	76.7%
EBITDA	1,949	629	1,528	1,582	1,537	1,441
EBITDA margin	23.2%	10.3%	20.1%	21.5%	21.5%	21.3%
Adjusted EBIT**	1,506	-193	1,038	1,113	1,380	1,272
Adjusted EBIT margin**	17.9%	-3.2%	13.7%	15.1%	19.3%	18.8%
Operating profit (EBIT)	1,416	114	1,038	1,113	1,306	1,226
EBIT margin	16.9%	1.9%	13.7%	15.1%	18.2%	18.1%
Net financial items	-106	-88	-121	-119	-92	-72
Profit for the year	1,013	121	700	767	936	894
Balance sheet						
Total assets	21,927	22,067	21,798	20,759	17,935	17,224
Net interest-bearing debt (NIBD)	7,135	8,388	8,185	7,613	5,835	5,061
Equity	8,279	7,449	7,645	7,596	7,059	6,943
Cash flow statement						
Adjusted cash flow from operating activities (CFFO)**	1,944	766	1,102	1,047	714	1,051
Cash flow from operating activities (CFFO)	1,892	729	1,102	1,047	687	996
Investment in property, plant and equipment, net	251	242	310	251	211	198
Free cash flow	1,534	489	636	702	239	946
Share buy-backs	-	197	682	264	849	902
Other key figures						
Return on equity	25.7%	3.2%	18.0%	21.0%	27.0%	24.4%
Equity ratio	37.8%	33.8%	35.1%	36.6%	39.4%	40.3%
Gearing multiple (NIBD/EBITDA)	2.8	3.9	2.6	2.3	2.0	1.7
Earnings per share (EPS)***	4.18	0.50	2.87	3.12	3.74	3.55
Free cash flow per share (FCFPS)***	6.40	2.04	2.62	2.87	0.97	3.77
Price/earnings (P/E) ratio	57.6	349.8	73.1	65.4	49.4	72.3
Share price, end of period***	240.60	174.90	209.80	204.10	184.90	256.80
Average number of shares outstanding	239.78	239.90	243.55	244.40	249.14	251.15
Market capitalisation	57,718	41,917	50,470	49,783	45,308	63,887
Average number of employees	16,203	16,107	15,660	15,044	14,565	13,934

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CEO letter

In the light of the coronavirus challenges that the hearing healthcare market faced in 2020, I am very satisfied with our performance, particularly with the strong second half-year and generally with the accomplishments of our new Communications brand, EPOS. In a tough year, our ability to steer the company in the right direction by balancing cost savings and investments and by supplying products and services to our highly valued customers has been crucial. This only goes to show the innovative capabilities and can-do attitude of every employee of this Group: We take initiative, we find solutions and we act.

The Demant Group entered 2020 at a high pace, which we kept in the first months of the year. Then, in the unprecedented period from mid-March and a couple of months onwards, the coronavirus pandemic caused almost a complete halt to activities in the hearing healthcare market. Restrictions all over the world forced especially the elderly population to stay at home, and consequently hearing aid clinics had to close. Conversely, EPOS experienced tailwind and benefitted from the surge in demand for virtual collaboration tools and entered the market under the best conditions for a company that is active in audio solutions.

Approaching the second half-year, we saw positive recovery in almost all our markets, and the trend continued until almost the end of the year, resulting in strong revenue growth in local currencies of 14% in the second half-year compared to -18% in the first half. Faced with a second wave of coronavirus, we closed 2020 with uncertainties about the hearing healthcare market but also with confidence that vaccines will pave the way for the release of pent-up demand for hearing care solutions from both current and first-time users, who were put on hold in 2020.

The essential link confirmed

Our experience from the impact of coronavirus in 2020 is, however, not entirely discouraging. The crisis proved that hearing care and a person's ability to be an active part of society matter more than ever. Remote service surely picked up during the most extensive restrictions, but as soon as hearing aid clinics started to reopen, we saw the need for access to both person-centred care and the latest technology, with users literally queuing up outside our clinics. This emphasises that what we do is essential not only for the individual user but indeed for society as a whole.

The need for personal hearing care also underlines Demant's all-important engagement in hearing aid retail, and in 2021, we are happy to increase the transparency of reporting in this business area, renamed Hearing Care. Hearing care professionals are indeed frontline staff, and their ability and willingness to show flexibility in difficult times have been very important, most notably the impressive speed at which they managed to reopen clinics and offer their services while never compromising on safety and health.

Access to all sounds

The ability to hear is one of the finest senses we have, and audio stimulation is fundamental for all people. From our research in hearing and the brain, we have found that the brain needs access to all sounds in the environment to function optimally. By applying this knowledge to hearing technology, we enable the hearing aid users to enjoy more complete sound landscapes with less effort and simply get more out of life when they use our products. The new platforms recently launched in all our hearing aid brands are further testament to these claims, and with Oticon More, we took a giant leap forward by being the first manufacturer to apply new innovative technology to a hearing aid in the form of an on-board deep neural network. With these groundbreaking new products, we are in excellent shape to deliver on our ambition to becoming the biggest provider of hearing aids in a market with tough competition.

> As soon as clinics started to reopen, we saw the need for access to both person-centred care and the latest technology, with users literally queuing up outside our clinics

Shared opportunities

In Demant, we take advantage of our shared opportunities in the Group. Evidently, our market presence and shared functions can be leveraged across the Group, but equally important is it to harvest synergies across our core R&D activities. The BrainHearing paradigm used for the development of hearing aids is also used for sound processing in hearing implants. Keeping a high pace in our R&D activities and successfully introducing new products and services in Oticon Medical are key for us to be able to help more people with severe or profound hearing loss. So, in a difficult year, I am very pleased with Oticon Medical's ability to take market shares in bone anchored hearing systems and also with the ability of Oticon Medical's cochlear implants business to keep pace with the market. Furthermore, we have succeeded in submitting the final application to the FDA for approval of the Neuro system in the US, and we expect to get the approval in the second half of 2021.

A long tradition for creating business

The year turned out to be much more positive for our Diagnostics business area than we had dared to hope when the market was hit the hardest. The fact that we continue to take market shares and sustain almost neutral growth levels in a very difficult market proves the importance of diagnostics in hearing healthcare. From a modest market position in the mid-90s, Demant's Diagnostics business has for more than a decade been global market leader thanks to the development of existing and addition of new business activities.

This ability to create business and expand the Group continues with EPOS. For transparency purposes, we have split our business into two financial segments, Hearing Healthcare and Communications. EPOS addresses a different market, but there is major technological overlap to hearing healthcare, and even though EPOS fundamentally provides very different products and solutions, the results we aim to achieve are similar: To enable people to connect through solutions that are free of noise or poor sound quality, which challenges dialogue.

I am extremely pleased that our audio solution activities have now been fully integrated into the Group and also with EPOS's ability to meet the unforeseen surge in demand for headsets caused by coronavirus. Also in this business area, we have seen how a crisis can confirm that what we offer is essential, namely high-quality virtual meeting and collaboration tools, which – together with digital platforms – make up for the physical meetings we could not have, a trend that we believe will extend into the future.

Sustainable behaviour

I would like to extend my thanks to all Demant's stakeholders: Users who show trust and loyalty, customers, suppliers and employees who are dedicated to making things work in difficult times as well as investors, banks, local authorities, politicians and society at large that have all supported hard hit businesses like ours, removed uncertainties and given us the confidence to maintain our investments in the future. To me, this is sustainability and brings me to our own responsibility, our own sustainable behaviour.

I am happy that we have launched a new strategic direction for our work with sustainability, and we have indeed made progress this year, especially in the area of business ethics with the launch of a new Code of Conduct and Whistleblower scheme. The core of our sustainability efforts is life-changing hearing health and the quality of life that we bring to our users. In addition to focusing on our core contribution to society, we will also strengthen sustainability in our operational practices, and we have two main priorities in this regard: Diversity and inclusion, with focus on fostering an unbiased and inclusive culture with equal opportunities, and our climate footprint, with focus on reducing our packaging and waste, on sourcing green energy and on ambitious CO2 reductions.

I take an optimistic view of 2021. Due to coronavirus, many people did unfortunately not have access to the high-quality hearing care they should have received in 2020, so we at Demant are ready to support them with our broad and unmatched portfolio of products and services.

Søren Nielsen

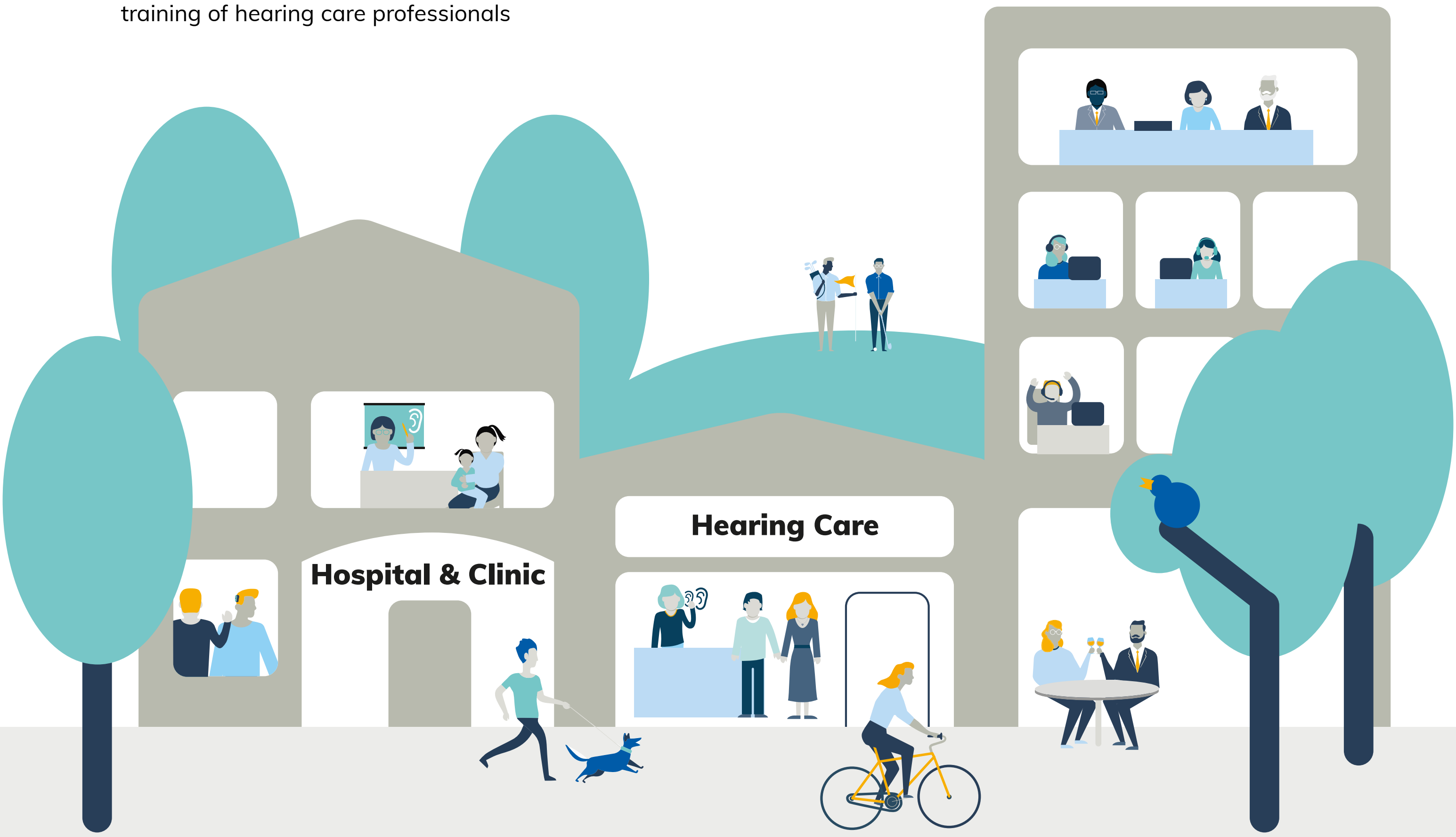
This is Demant

Hearing Aids

- Covering all ranges of hearing loss from mild to severe-to-profound
- Boasting the industry's most advanced centre of excellence for research in audiology and hearing loss and the development of hearing aids
- Manufacturing and distributing hearing aids to hearing clinics, benefitting people in more than 100 countries
- Providing local service, support and training of hearing care professionals

Communications

- Developing and marketing premium audio solutions designed for enterprise and gaming applications under the EPOS brand
- Products include headsets, speaker-phones, software and accessories
- EPOS is established with own sales companies in 16 countries and addresses markets in more than 50 countries



Hearing Implants

- Providing implantable hearing solutions to patients facing the hardest hearing challenges
- Cochlear implants and bone anchored hearing systems can bypass the challenged parts of the inner, outer or middle ear, thereby helping patients hear better
- Performing the surgical procedures at hospitals or in an out-patient setting

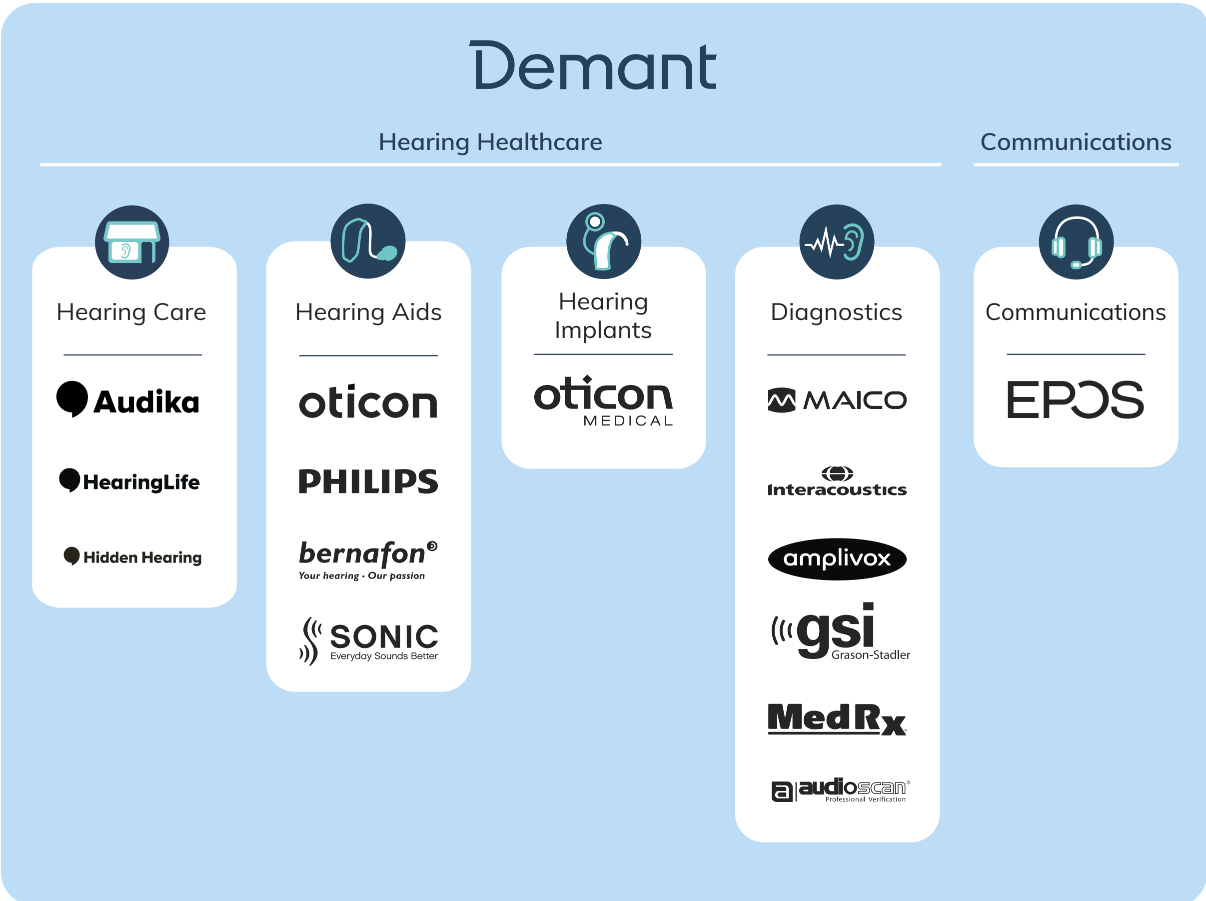
Hearing Care

- Global network of approx. 2,500 clinics, providing hearing care to people with hearing loss in 18 countries
- Performing hearing tests and fitting hearing aids to help users get the right hearing aid for their specific hearing loss
- Providing service, individualised care and aftercare to ensure that every hearing aid is active and used correctly

Diagnostics

- Developing, manufacturing and marketing a wide range of solutions for hearing and balance assessment, including instruments, consumables, services and installation
- Products include audiometers, ABR equipment for hearing screening of newborns, tympanometers, hearing aid fitting solutions, balance equipment, otoacoustic emission instruments as well as other solutions used by audiologists and ear, nose and throat specialists

In every aspect, at every touchpoint, Demant is active and engaged: From hearing aids and hearing care to hearing implants, diagnostic equipment and services to premium audio and video solutions.

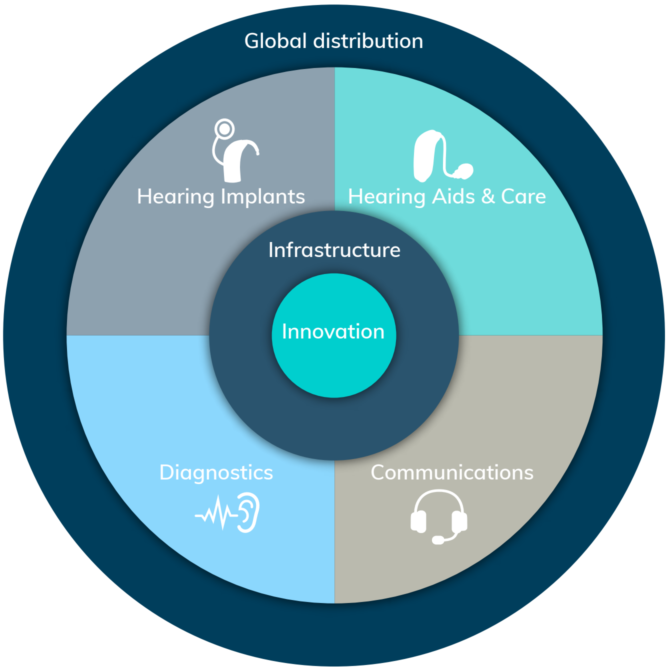


Strategy and purpose

To create life-changing differences through hearing health

Demant is a purpose-driven company. For more than 115 years, our company has provided hearing health, and from this platform, we have taken new steps into broader areas of audio. Our roots are in hearing health, and in the Demant Group, we share a common purpose of creating life-changing differences through hearing health. Equally important, with our new company EPOS in the Communications business area, we strive to perfect audio and video experiences to optimise communication and collaboration between people.

Operating model: Becoming the world's leading hearing healthcare company



Favourable demographic trends – particularly the growing ageing population – as well as general consumer trends continue to drive growth in the hearing healthcare market. Similarly, we see an attractive and fast-growing market for intelligent audio and video solutions, which represents a great opportunity to further expand our Communications business.

To achieve our purpose, the strategic ambition is to further expand our position as the leading global hearing healthcare company with the broadest, deepest and most innovative product offering. Hence, we invest heavily in R&D, including new areas, such as artificial intelligence as well as cloud and connectivity solutions. In all our business areas – where each of the activities are run separately – we are focused on delivering the best services and products to our customers.

Apart from excelling in different business areas, we focus on harvesting synergies across our business areas and thus enabling our customers and users to benefit from our multi-business 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. In all our businesses, capacity and scale are becoming increasingly important, and as a Group, we have the necessary scale to compete effectively. There is a clear technology overlap between hearing aids and hearing implants and also between hearing aids and headsets, and we exploit the synergies, but essentially Hearing Healthcare and Communications address different markets in different ways and are run as two individual segments.

To deliver on our ambition, we strongly rely on our thoroughly tested and well-functioning operating model and an organisation that is agile and shaped to deal with the opportunities of the future. Our strongest asset to ensure our success is a diverse group of competent people who make sure that the plans and strategies are realised.

In the Demant Group, we want to contribute to life-changing hearing health, and we are committed to caring for and acting responsibly towards our employees, users, customers, partners, investors and the surrounding society. This is our way of ensuring a positive impact on our surroundings, and at Demant, we work every day to ensure financially viable, socially balanced and environmentally sustainable business results.

Our sustainability strategy at a glance

Established in 1904 out of a desire to help people with hearing loss, Demant's positive contribution to a healthy society has always driven our business, and every day, our employees strive to make life-changing differences for millions of people.

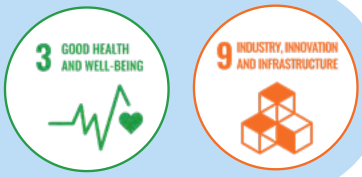
Therefore, the core of our sustainability efforts are the life-changing hearing health and the quality of life that we bring to our users.

Alongside this commitment, we work to strengthen sustainability in our operational practices with special focus on our climate footprint and on diversity and inclusion.

The Demant Group contributes directly or indirectly to a large number of the UN's Sustainable Development Goals. We have chosen to focus our efforts on the goals where we have the biggest and most direct impact. Read more about our approach to sustainability on page 54 and in our separate Sustainability Report.

Purpose and core contribution

Life-changing differences through hearing health



Main priorities

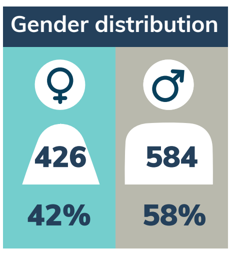
Strategic sustainability projects

Continuous improvement

Other areas of special attention

Highlights 2020

Due predominantly to corona-virus restrictions, the Group's greenhouse gas (GHG) emissions per employee decreased by 20%.



1 percentage point increase in female managers since 2019.

New Group Code of Conduct and Whistleblower scheme.

2020 in brief

Group revenue

H1 DKK 6,078 MILLION (-17%)	**H2** DKK 8,391 MILLION (11%)
FY 2020 DKK 14,469 MILLION (-3%)	

A very strong start to the year was disrupted in mid-March by the coronavirus pandemic. Consequently, revenue in H1 was significantly below expectations. However, we saw strong recovery in the hearing healthcare market towards the end of H1 and throughout most of H2. Growth in Hearing Healthcare in H2 was also positively impacted by low comparative figures due to the IT Incident in H2 2019. Communications contributed with significant growth from mid-March, which accelerated further in H2.

Revenue by business area

Hearing Healthcare – **FY 2020** DKK 13,163 MILLION (-12%)

Communications

Hearing Aids	Hearing Care	Hearing Implants	Diagnostics	Communications
39%	38%	4%	10%	9%
DKK 5,701 MILLION	DKK 5,464 MILLION	DKK 523 MILLION	DKK 1,475 MILLION	DKK 1,306 MILLION

Gross margin

71.5%

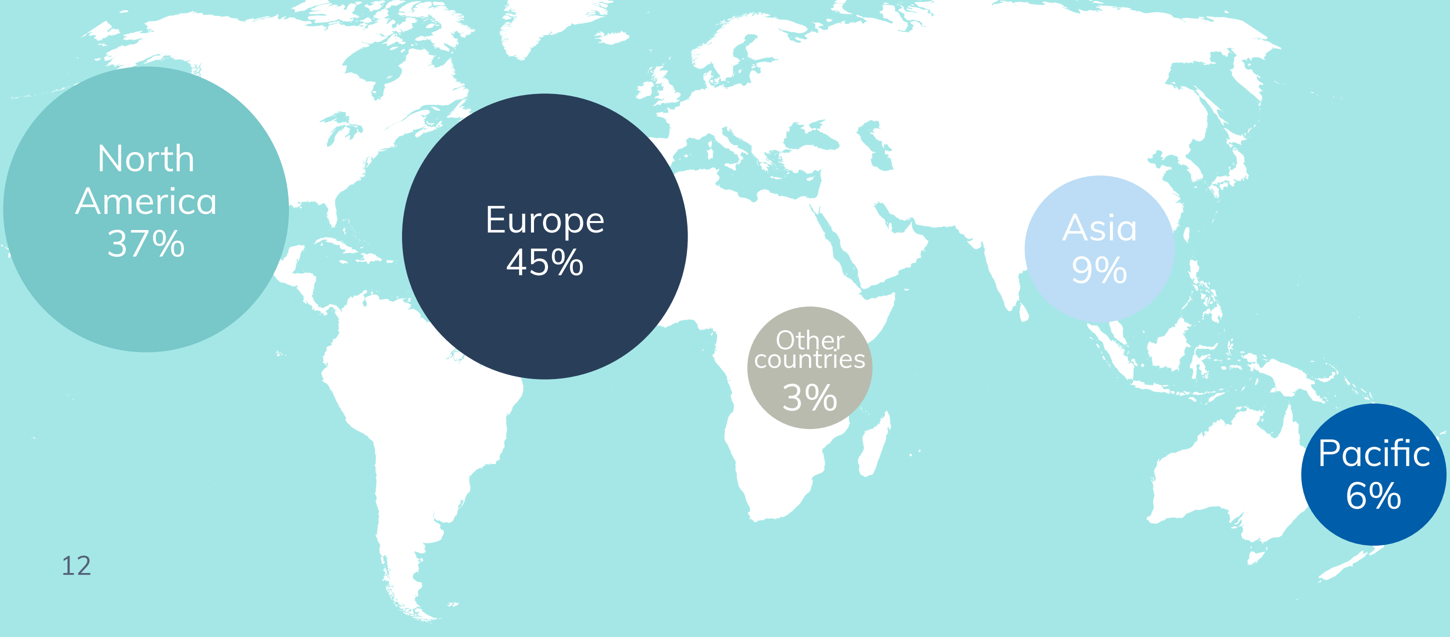
Adjusted for EPOS one-offs

EBIT
1,313
DKK MILLION

EBIT MARGIN
9.1%

Before positive EPOS one-offs of DKK 217 million

Revenue by geographic region FY 2020



Hearing Healthcare

GROWTH
-11%
IN LOCAL CURRENCIES

EBIT
1.2
DKK BILLION

- Revenue of DKK 13,163 million for FY 2020
- Revenue growth in H1 of -25% and in H2 of 4% in local currencies (LCY)
- Gross margin of 73.6% for FY 2020
- EBIT margin of 9.2% for FY 2020

Communications

REVENUE
1.3
DKK BILLION

EBIT
102
DKK MILLION

- Revenue of DKK 546 million in H1 and DKK 760 million in H2
- Gross margin of 50.3% for FY 2020
- Growth contribution of 9 percentage points to the Group's total growth for FY 2020
- EBIT margin of 7.8% for FY 2020

Group cash flow from operating activities (CFFO)

2.6
DKK BILLION

Group free cash flow before acquisitions

2.0
DKK BILLION

1.3
DKK BILLION

R&D

Demant plays 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 2020, we invested DKK 1,261 million in R&D across all our business areas, which corresponds to 8.7% of revenue (7.5% in 2019).

16,591
EMPLOYEES

Outlook for 2021

EBIT RANGE 2021
2,850-3,150
DKK MILLION

- Group organic revenue growth: 23-27%
- Group acquisitive revenue growth: 1%
- Group exchange rate growth: -2%
- Share buy-backs of more than DKK 2 billion

Highlights in 2020

Selection of important events in 2020. To learn more about each story, please follow this link:

www.demant.com/investor-relations/annual-report-2020

Successful launch of new premium audio brand EPOS

Oticon Ruby – new mid-priced hearing aids providing high sound quality and effective feedback management

Neuro 2 updates provide cochlear implant users with swim kit and connectivity

Oticon launches new brand platform and new logo – with 'life-changing technology' as core promise

Literature review confirms the advantages of Oticon Medical's Ponto system

January to March

Oticon's remote care solution offers a new tool to hearing care professionals

EPOS launches "Understanding Sound Experiences" report and highly successful "Bad Audio is Bad Business" campaign

A letter from a relative shows the importance of hearing health

Oticon awarded best employer for engineers

Safe and successful reopening of our hearing care clinics

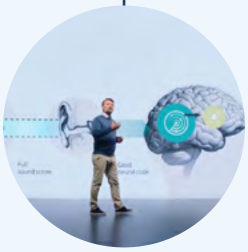
April to June

www.demant.com/investor-relations/annual-report-2020

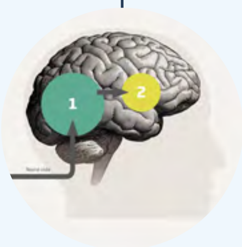
EPOS launches global gaming campaign delivering "Out of this world gaming audio"

GSI AMTAS frees up time for audiologists to attend to more patients

Scientific paper suggests cochlear implants as minimum standard of care for adults with severe to profound hearing loss



New brain research results emphasise the importance of Oticon's BrainHearing approach



New scientific report shows that active hearing aid use may protect against dementia

July to September

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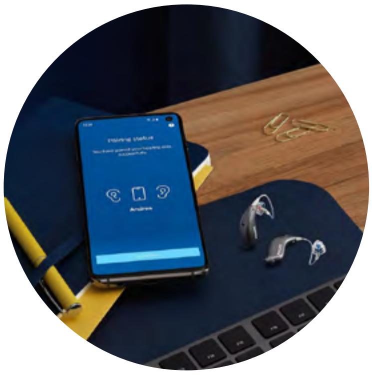
2020

Demant's Hearing Aids business launches greener hearing aid packaging

Interacoustics launches new solution for diagnosing dizzy patients

MedRx implements walk-in hearing screening in the US, Europe and Australia

Demant's Hearing Aids business launches new flagship hearing aids across all brands



Philips Hearing Solutions available in 25 countries around the globe

Audika Group:
One brand
One culture
One operating model

October to December

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Group financial review

H1

(DKK million)	Hearing Healthcare 2020	Communi-cations 2020	Group adjusted 2020	Group 2019	Group growth	Group one-offs 2020	Group reported 2020	Group growth
Revenue	5,532	546	6,078	7,350	-17%	-	6,078	-17%
Production costs	-1,532	-291	-1,823	-1,649	11%	-109	-1,932	17%
Gross profit	**4,000**	**255**	**4,255**	**5,701**	**-25%**	**-109**	**4,146**	**-27%**
Gross margin	72.3%	46.7%	70.0%	77.6%		-	68.2%	
R&D costs	-540	-78	-618	-552	12%	-	-618	12%
Distribution costs	-3,311	-144	-3,455	-3,661	-6%	-37	-3,492	-5%
Administrative expenses	-376	-12	-388	-415	-7%	-	-388	-7%
Share of profit after tax, associates and joint ventures	13	-	13	40	-68%	453	466	1,065%
Other operating income	-	-	-	-	-	-	-	-
Operating profit (EBIT)	**-214**	**21**	**-193**	**1,113**	**-117%**	**307**	**114**	**-90%**
EBIT margin	-3.9%	3.8%	-3.2%	15.1%		-	1.9%	

H2

(DKK million)	Hearing Healthcare 2020	Communi-cations 2020	Group adjusted 2020	Group 2019	Group growth	Group one-offs 2020	Group reported 2020	Group growth
Revenue	7,631	760	8,391	7,596	10%	-	8,391	10%
Production costs	-1,948	-358	-2,306	-1,972	17%	-38	-2,344	19%
Gross profit	**5,683**	**402**	**6,085**	**5,624**	**8%**	**-38**	**6,047**	**8%**
Gross margin	74.5%	52.9%	72.5%	74.0%		-	72.1%	
R&D costs	-552	-91	-643	-568	13%	-	-643	13%
Distribution costs	-3,310	-213	-3,523	-3,760	-6%	-52	-3,575	-5%
Administrative expenses	-435	-17	-452	-436	4%	-	-452	4%
Share of profit after tax, associates and joint ventures	39	-	39	78	-50%	-	39	-50%
Other operating income	-	-	-	100	-	-	-	-100%
Operating profit (EBIT)	**1,425**	**81**	**1,506**	**1,038**	**45%**	**-90**	**1,416**	**36%**
EBIT margin	18.7%	10.7%	17.9%	13.7%		-	16.9%	

FY

(DKK million)	Hearing Healthcare 2020	Communi-cations 2020	Group adjusted 2020	Group 2019	Group growth	Group one-offs 2020	Group reported 2020	Group growth
Revenue	13,163	1,306	14,469	14,946	-3%	-	14,469	-3%
Production costs	-3,480	-649	-4,129	-3,621	14%	-147	-4,276	18%
Gross profit	**9,683**	**657**	**10,340**	**11,325**	**-9%**	**-147**	**10,193**	**-10%**
Gross margin	73.6%	50.3%	71.5%	75.8%		-	70.4%	
R&D Costs	-1,092	-169	-1,261	-1,120	13%	-	-1,261	13%
Distribution costs	-6,621	-357	-6,978	-7,421	-6%	-89	-7,067	-5%
Administrative expenses	-811	-29	-840	-851	-1%	-	-840	-1%
Share of profit after tax, associates and joint ventures	52	-	52	118	-56%	453	505	328%
Other operating income	-	-	-	100	-	-	-	-100%
Operating profit (EBIT)	**1,211**	**102**	**1,313**	**2,151**	**-39%**	**217**	**1,530**	**-29%**
EBIT margin	9.2%	7.8%	9.1%	14.4%		-	10.6%	

HEARING HEALTHCARE
13,163
DKK MILLION (-12%)

COMMUNICATIONS
1,306
DKK MILLION

GROUP REVENUE
14,469
DKK MILLION (-3%)

Introduction

Unless otherwise indicated, the commentary below on our financial results is based on adjusted figures, i.e. 2020 figures are shown before one-offs related to the formation of EPOS with financial effect from 1 January 2020 following the demerger of Sennheiser Communications. For detailed financial reviews of our Hearing Healthcare and Communications segments, please refer to page 27 and 40, respectively. For further clarification of our updated reporting structure, please refer to page 2.

Revenue

After a severely negative impact of coronavirus in H1, revenue for the Group improved significantly in H2, although it remained below the normal level. Revenue for H2 amounted to DKK 8,391 million, corresponding to a growth rate of 14% in local currencies, which is in line with the latest guidance of 12-14%. Organic growth was 2%, and growth from acquisitions was 12%, including 10 percentage points from the consolidation of EPOS. Exchange rates (FX) had an impact of -3%, including exchange rate hedging, and total reported growth for H2 was 11%.

For the full year, revenue for the Group amounted to DKK 14,469 million, corresponding to a growth rate of -2% in local currencies. Organic growth was -13%, and acquisitive growth was 11%. The latter included 9 percentage points from the consolidation of EPOS. Exchange rates had an impact on revenue of -1%, and total reported growth for the period was -3%.

Growth rates by business segment

		H1 20	H2 20	FY 20
Hearing Healthcare	Organic	-27%	2%	-13%
	Acquisitions	2%	2%	2%
	LCY	**-25%**	**4%**	**-11%**
	FX	0%	-3%	-1%
	Total	**-25%**	**0%**	**-12%**
Communications	Organic	-	-	-
	Acquisitions	-	-	-
	LCY	**-**	**-**	**-**
	FX	-	-	-
	Total	**-**	**-**	**-**
Group	Organic	-27%	2%	-13%
	Acquisitions	9%	12%	11%
	LCY	**-18%**	**14%**	**-2%**
	FX	0%	-3%	-1%
	Total	**-17%**	**11%**	**-3%**

**Growth rates for Communications are not available as there is no directly comparable base (EPOS was not consolidated in 2019).*

The Group's revenue in H2 2019 was negatively impacted by an estimated DKK 575 million due to the IT incident that occurred on 3 September 2019. The low comparative figures represent a positive impact on the Group's organic growth of 7 percentage points in H2 2020 and of 3 percentage points for the full year. Please refer to page 27 for an overview of underlying organic growth rates in our Hearing Healthcare segment (not relevant for Communications).

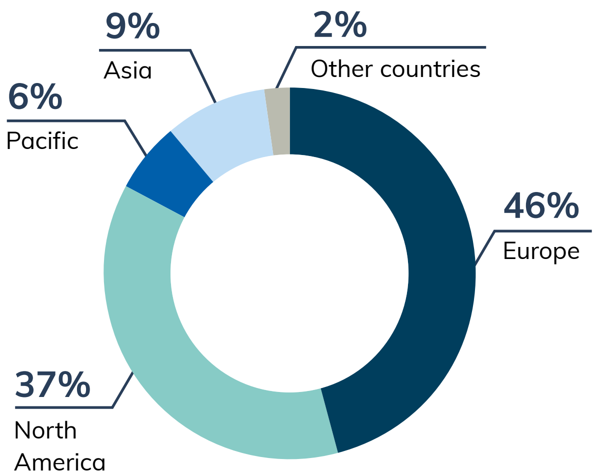
In terms of geography, revenue in Europe recovered well in H2 relative to the low point in Q2, and organic growth was positive, although it was mainly driven by low comparative figures due to the IT incident in 2019. We also saw a large acquisitive impact in the region due to the fact that our Communications business, which is reported as acquisitive growth, generates a large share of its revenue in Europe.

In North America, we also saw some recovery in revenue growth, but the pace was slower than in other developed markets. We saw the strongest recovery in Asia but also strong growth in Pacific aided by weak comparative figures, as the IT incident in 2019 had a large relative impact on that region. Both regions delivered double-digit organic growth rates, whereas our Other countries region, which includes a number of emerging markets, continued to be severely impacted by coronavirus throughout H2.

Revenue by geographic region

			Change		
(DKK million)	H2 20	H2 19	DKK	LCY	Org.
Europe	3,850	3,114	24%	25%	7%
North America	3,082	3,131	-2%	3%	-5%
Pacific	526	449	17%	19%	10%
Asia	738	614	20%	25%	13%
Other countries	195	288	-32%	-21%	-22%
Total	**8,391**	**7,596**	**11%**	**14%**	**2%**

Revenue by geographic region H2 2020



Gross profit

The Group's gross profit increased by 8% to DKK 6,085 million in H2, corresponding to a gross margin of 72.5%. This is a decrease of 1.5 percentage points compared to H2 2019 due to the consolidation of EPOS, which had a dilutive effect of 2.0 percentage points on the gross margin. Hearing Healthcare improved its gross margin slightly in H2 supported by weak comparative figures due to the IT incident. For the full year, the Group's gross profit amounted to DKK 10,340 million, corresponding to a gross margin of 71.5%, or a decrease of 4.3 percentage points of which 2.1 percentage points relate to the dilution attributable to the consolidation of EPOS, and the rest primarily relates to the severe impact of coronavirus on revenue in H1.

Operating expenses (OPEX)

Thanks to tight cost control, the Group saw material savings in OPEX throughout 2020, and in H2, OPEX growth was flat in local currencies, which is in line with the latest guidance. In organic terms, OPEX decreased by 9% in H2 driven by strong savings in distribution costs, whereas R&D costs only decreased slightly, as we were focused on maintaining high momentum in our innovation efforts. Administrative expenses, which generally vary less with the activity level in the business, saw slight organic growth.

Acquisitions added more than 9 percentage points to the Group's OPEX in H2 of which the consolidation of EPOS accounted for around 7 percentage points.

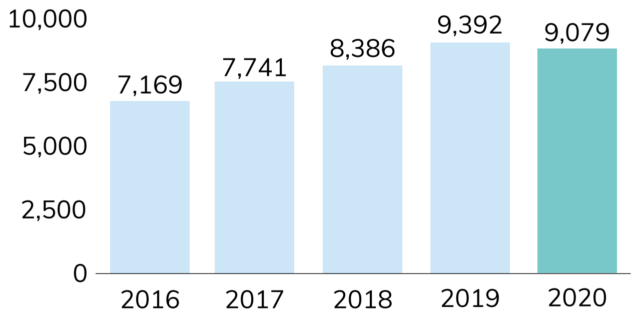
OPEX by function

			Change		
(DKK million)	H2 20	H2 19	DKK	LCY	Org.
R&D costs	643	568	13%	14%	-3%
Distribution costs	3,523	3,760	-6%	-3%	-12%
Admin. expenses	452	436	4%	7%	3%
Total	**4,618**	**4,764**	**-3%**	**0%**	**-9%**

Our Hearing Healthcare segment accounts for all the savings realised in H2, which were both of a temporary and a structural nature. The structural savings amount to around DKK 250 million on an annual basis and had full effect in H2 2020. Please refer to the financial review of Hearing Healthcare on page 27 for more details on both temporary and structural cost savings.

For the full year, OPEX decreased by 2% in local currencies of which -10 percentage points were organic growth and 8 percentage points relate to acquisitions, the latter including around 6 percentage points from the consolidation of EPOS.

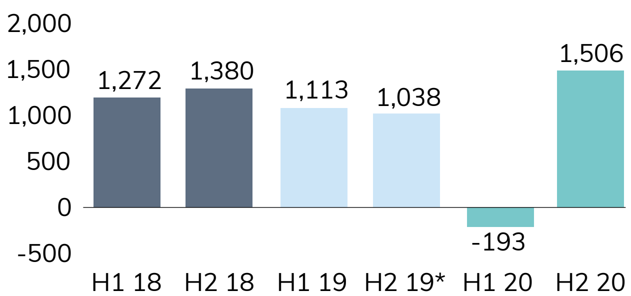
Five-year OPEX (DKK million)



Operating profit (EBIT)

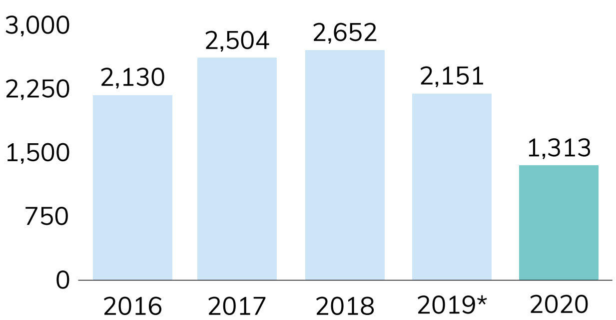
Consolidated operating profit (EBIT) for H2 amounted to DKK 1,506 million before EPOS one-offs and thus reached the upper end of our latest guidance range of DKK 1,400-1,550 million. Hearing Healthcare contributed DKK 1,425 million and Communications DKK 81 million. Compared to H2 2019, which was negatively impacted by an estimated DKK 550 million related to the IT incident, growth in EBIT was 45%. The resulting EBIT margin for H2 was 17.9%, which is an increase of 4.2 percentage points. The strong EBIT margin was driven, in particular, by the cost savings described in *Operating expenses (OPEX)*.

Adjusted EBIT per half-year (DKK million)



**EBIT for H2 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.*

Adjusted EBIT per full-year (DKK million)



**EBIT for 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.*

Including the negative results in H1, EBIT for the full year amounted to DKK 1,313 million, corresponding to an EBIT margin of 9.1%.

Due to the consolidation of EPOS with financial effect from the beginning of the year, we realised one-offs of DKK -90 million in H2, which are shown in the income statement on page 18. The one-offs comprise the following elements:

- A negative adjustment of inventory purchased as part of the demerger of DKK -38 million (DKK -109 million in H1) with no effect on cash flows. The adjustment is recognised in production costs.
- Costs related to extraordinary spending on the branding of EPOS of DKK 52 million (DKK 37 million in H1) with direct effect on cash flows. The costs are recognised in distribution costs.

For the full year, one-offs were positive by net DKK 217 million, which also includes a positive fair value adjustment of DKK 453 million recognised in H1. The fair value adjustment is recognised in share of profit after tax, associates and joint ventures and has no effect on cash flows.

Consequently, the Group's reported EBIT after EPOS one-offs amounted to DKK 1,416 million in H2 and to DKK 1,530 million for the full year.

Financial items

Reported net financial items for H2 amounted to DKK 106 million, or a decrease of DKK 15 million on the same period in 2019. This is mainly due to lower interest expenses, resulting from both a lower average interest rate and a decrease in the net interest-bearing debt in the period. For the full year, net financial items amounted to DKK 194 million, or a decrease of DKK 46 million on 2019.

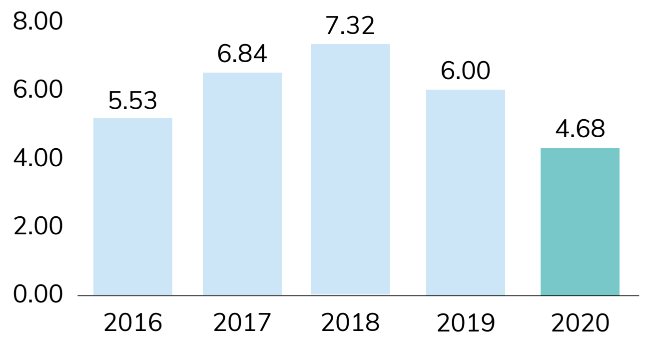
Profit for the year

The Group's reported profit before tax for H2 amounted to DKK 1,310 million, or an increase of 43% compared to the same period in 2019. Tax amounted to DKK 297 million, resulting in an effective tax rate of 22.7%, which is a decrease of 1.0 percentage point compared to 2019.

For the full year, profit before tax amounted to DKK 1,336 million, or a decrease of 30% on 2019, while tax amounted to DKK 202 million. The resulting effective tax rate of only 15.1% reflects a net tax gain of DKK 95 million in H1 due to the fact that the Group is exempt from paying tax on the positive one-off fair value adjustment realised as part of the consolidation of EPOS. Adjusted for this, the effective tax rate was 22.9%, or a decrease of 0.3 percentage point on 2019.

Reported net profit for H2 was DKK 1,013 million, or an increase of 45%, resulting in earnings per share (EPS) of DKK 4.18, which is an increase of 46% from DKK 2.87 in H2 2019. For the full year, net profit was DKK 1,134 million, or a decrease of 23%, resulting in EPS of DKK 4.68, which is a decrease of 22% from DKK 6.00 in 2019. As outlined earlier, growth in net profit and EPS was partly driven by the adverse impact of the IT incident on profits in H2 2019.

Earnings per share (EPS) (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.

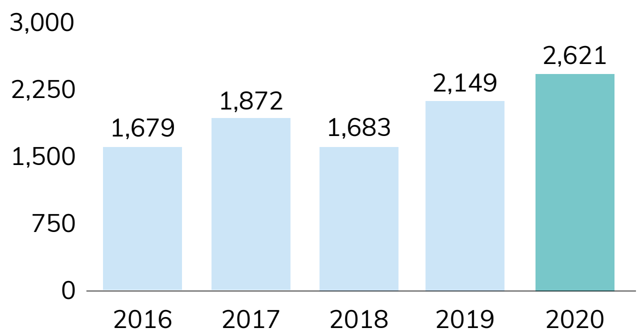
Cash flow statement

In H2 2020, the Group's cash flow from operating activities (CFFO) grew by 72% to DKK 1,892 million after EPOS one-offs. Besides the improvement in EBIT compared to 2019, the very strong growth was driven by tight working capital management. Despite the significantly lower EBIT, CFFO for the full year amounted to DKK 2,621 million, corresponding to an increase of 22% compared to 2019.

Cash flow by main items

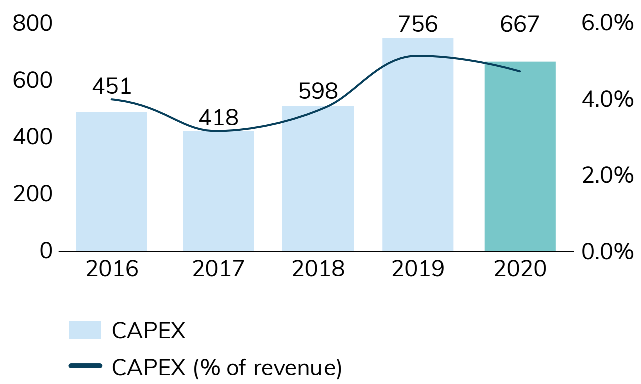
(DKK million)	H2 20	H2 19	Change
CFFO before one-offs	**1,944**	**1,102**	**76%**
Cash flow from one-offs	-52	-	-
CFFO	**1,892**	**1,102**	**72%**
Net investments	-358	-466	-23%
Free cash flow	**1,534**	**636**	**141%**
Acquisitions etc.	-101	-285	-65%
Share buy-backs	-	-682	-100%
Other financing activities	-1,381	500	-376%
Cash flow for the period	**52**	**169**	**-69%**

CFFO (DKK million)



Our net investments in tangible and intangible assets (CAPEX) in H2 amounted to DKK 340 million, which is a decrease of 19% on H2 2019. The decrease reflects the temporary suspension of non-essential investments from mid-March and into H2. For 2020 as a whole, CAPEX decreased by 12% to DKK 667 million.

CAPEX (DKK million)



Net investments in other non-current assets amounted to DKK 18 million, a minor decrease of DKK 27 million. For the full year, cash flow from other non-current assets was positive by DKK 69 million driven by the settlement of a loan in connection with an acquisition in France at the beginning of the year.

Free cash flow before acquisitions and divestments increased significantly by 141% to DKK 1,534 million in H2 and by 51% to DKK 2,023 million for the year as a whole.

Cash flow relating to acquisitions decreased by 65% to DKK 101 million in H2, as we saw a temporary pause in transactions at the beginning of the period. However, the M&A activity level increased towards the end of the year.

For the full year, cash flow relating to acquisitions was down by 35% and amounted to DKK 394 million.

Share buy-backs have been suspended between 15 March 2020 and today. Prior to the suspension, the Group had bought back shares worth DKK 197 million.

After other financing activities of DKK -1,381 million, mostly related to changes in short-term bank facilities, the net cash flow in H2 was DKK 52 million. For the full year, the net cash flow was DKK 194 million.

Balance sheet

As of 31 December 2020, the Group's total assets amounted to DKK 21,927 million, which is a marginal decrease of 1% compared to 30 June 2020. The decrease primarily related to a decrease in other non-current assets, including goodwill and deferred tax assets, whereas we saw an increase in trade receivables related to the increase in revenue in H2 compared to H1. Relative to the end of 2019, total assets increased by 1% driven entirely by acquisitive growth of 6%, primarily in the form of goodwill. This includes growth related to the consolidation of EPOS. Organic growth in total assets was -1%, driven to a large extent by a reduction in our net working capital, and exchange rate effects were -5%.

Balance sheet by main items

(DKK million)	FY 19	H1 20	FY 20	Change H2 20	Change FY 20
Lease assets	1,937	1,785	1,847	3%	-5%
Other non-current assets	12,947	13,871	13,393	-3%	3%
Inventories	1,852	1,936	1,968	2%	6%
Trade receivables	3,209	2,518	2,808	12%	-12%
Cash	792	919	952	4%	20%
Other current assets	1,061	1,038	959	-8%	-10%
Total assets	**21,798**	**22,067**	**21,927**	**-1%**	**1%**
Equity	7,645	7,449	8,279	11%	8%
Lease liabilities	1,964	1,831	1,893	3%	-4%
Other non-current liabilities	3,763	3,697	4,837	31%	29%
Trade payables	652	643	802	25%	23%
Other current liabilities	7,774	8,447	6,116	-28%	-21%
Total equity and liabilities	**21,798**	**22,067**	**21,927**	-1%	1%

Reflecting our tight working capital management, the Group's net working capital was DKK 2,452 million at the end of 2020, a slight decrease of 2% since 30 June 2020 despite the increased activity level in H2. Relative to the end of 2019, our net working capital was down by 24%.

Thanks to the strong cash flow generation in 2020, particularly in H2, our net interest-bearing debt (NIBD) decreased by 15% in H2 and by 13% for the full year and amounted to DKK 7,135 million at 31 December 2020. The decrease relates to a decrease in the short-term part of our interest-bearing debt, which more than outweighed an increase in the non-current part of our interest-bearing debt. The resulting gearing multiple (NIBD/EBITDA) was 2.8, which is slightly above our medium- to long-term target of 2.0-2.5 (target is unchanged and corresponds to 1.7-2.2, excluding the impact of leasing). The above-normal gearing is a natural consequence of the depressed EBITDA in 2020, particularly in H1.

Total equity increased by 11% in H2 to DKK 8,279 million of which DKK 29 million is attributable to non-controlling interests and DKK 8,250 million to the shareholders of Demant A/S. The increase was a result of the strong profitability realised in H2 combined with the suspension of share buy-backs in the reporting period. For the full year, equity increased by 8% driven by the realised profit after tax but was partly offset by share buy-backs of DKK 147 million made in H1 and by customary currency translation adjustments of subsidiaries reported as other comprehensive income.

Share buy-backs recognised in the Group's balance sheet totalled 667,702 shares bought at an average price of DKK 220.31, totalling DKK 147 million. The difference between this amount and the DKK 197 million stated in the Group's cash flow statement relates to shares bought back as part of a voluntary salary-for-shares conversion scheme offered to most Danish employees, which are expensed as OPEX in the income statement.

Employees

As of 31 December 2020, the Group had 16,591 employees (2,016 in Denmark) compared to 15,678 (1,991 in Denmark) as of 30 June 2020, an increase of 6% of which most was relates to an increase in staffing at our production sites and to acquisitions. The number of employees increased by 5% for the full year relative to the 15,837 employees (1,689 in Denmark) at the end of 2019. The increase relates solely to the consolidation of EPOS and other acquisitive impacts, and organic growth was flat, as growth in certain business areas and geographies was offset by structural reductions in others.

Events after the balance sheet date

There have been no events that materially change the assessment of this Annual Report 2020 from the balance sheet date and up to today.

Outlook

2021 outlook

Recent developments

After a very challenging 2020 where the hearing health-care market was severely impacted by coronavirus, we expect to see very strong growth in 2021, as the market gradually recovers and also as a result of low comparative figures from around mid-March. However, due to increasing infection rates and the tightening of restrictions in most markets at the end of 2020, the hearing healthcare market continues to be negatively impacted by coronavirus at the beginning of 2021 where the Group's revenue remains below the normal level. This is especially the case in the UK, in several emerging markets and to a lesser extent in the important US market. Of all our business areas, Hearing Implants is still the business area that is impacted the most.

Conversely, the market for enterprise and gaming headsets has entered 2021, experiencing continued strong demand driven by the increased use of virtual collaboration tools, and we have so far seen high double-digit growth rates supported partly by relatively soft comparative figures from the beginning of 2020.

Assumptions

Given these recent developments, our outlook for 2021 is clearly subject to greater uncertainty than usual. Below, we highlight the key assumptions on which our outlook is based:

- The global hearing healthcare market will gradually normalise during H1 supported by the global roll-out of coronavirus vaccines, which will make it possible to lift coronavirus-related restrictions in developed markets.
- We expect a slower pace of normalisation in certain government channels and in emerging markets, and for the latter, the normalisation process may even go beyond 2021.
- We expect to see the release of some pent-up demand, predominantly in H2, but we also expect that some of this pent-up demand will not be released until 2022 or beyond.
- Despite strong comparative figures for 2020, we expect that the demand for headsets will continue to grow roughly in line with our medium- to long-term market growth estimates of 8-10%.

Metrics	Outlook for 2021
Group organic growth	23-27%, with Hearing Healthcare realising a higher organic growth rate than Communications.
Group acquisitive growth	1% based on revenue from acquisitions completed as of 8 February 2021.
Group exchange rate growth	-2% based on exchange rates as of 8 February 2021 and including the impact of exchange rate hedging.
EBIT	DKK 2,850-3,150 million, with EBIT skewing towards H2.
Effective tax rate	Around 23%.
Gearing	Gearing multiple at the end of 2021 in line with our medium- to long-term target of 2.0-2.5 measured as NIBD relative to EBITDA.*
Share buy-backs	More than DKK 2 billion.

**Our gearing target no longer excludes the impact of leasing. The target remains unchanged if adjusted for the estimated impact of leasing on our gearing of 0.3.*

Medium- to long-term outlook

At Demant, a key objective is to continue our long-standing track record of growing our business. To achieve this, our strategic ambition is to further expand our position as a leading global hearing healthcare Group by offering the broadest, deepest and most innovative portfolios of products and services across all distinct business areas. At the same time, we want to succeed in the highly attractive and fast-growing market for premium audio and video solutions.

In this section, we share our view of how our respective markets will grow in the medium to long term, and to ensure transparency for external stakeholders, we provide an overview of a number of other medium- to long-term targets.

Our markets

At their core, the two markets we address today, i.e. the hearing healthcare market and the market for audio solutions for enterprise and gaming applications, both benefit from strong structural drivers of demand:

For our **Hearing Healthcare** segment, the market is first and foremost driven by favourable demographic trends. Hearing loss strongly correlates with ageing, and as the size of the ageing population and the average life expectancy are increasing globally, the growth trajectory is – except during the global pandemic – both stable and predictable. At the same time, penetration rates are increasing in several emerging markets, as awareness grows, hearing healthcare infrastructures improve, and the purchasing power increases – all supporting growth.

For our **Communications** segment, the market for headsets is driven by the secular trend of increasing virtual collaboration and digital communication. The trend is not least supported by the widespread focus by enterprises on reducing the costs and environmental footprint of business travelling and meetings and on increasing flexibility for employees. The coronavirus pandemic has significantly accelerated the adoption of virtual collaboration tools, and we expect continued growth due to this "new normal". As far as gaming headsets are concerned, the key driver is increasing focus on home entertainment, including gaming, and the increasing extent to which gaming involves live communication between players.

Our estimates of medium- to long-term value growth rates for each of our addressable markets are shown below.

Estimated value growth rates and market size by business area

Hearing Aids	Hearing Care	Hearing Implants	Diagnostics	
2-4%	2-4%	10-15%	3-5%	
USD 6 billion	USD 14 billion	USD 1.8 billion	USD 0.5 billion	
Hearing Healthcare				**Communications**
~4%				8-10%
USD 23 billion				USD 6 billion

Metrics	Medium- to long-term outlook
Organic growth	For the Group, we aim to generate an organic growth rate above the market growth rate, which we estimate at around 4% per year in Hearing Healthcare and 8-10% per year in Communications. We thus aim to increase our market share in both segments.
EBIT margin	We aim to increase the EBIT margin in each of our business areas over time. For the Group as a whole, the EBIT margin is subject to changes in business mix as well as to acquisitions and exchange rate effects.
Capex	On an annual basis, we expect to invest around 4% of the Group's revenue in tangible and intangible assets (i.e. excluding customer loans and acquisitions).
Gearing	We target a gearing multiple of 2.0-2.5 measured as net interest-bearing debt relative to EBITDA (NIBD/EBITDA).*
Capital allocation	Subject to our gearing target, we will return any excess free cash flow after acquisitions to shareholders in the form of share buy-backs.

**Our gearing target no longer excludes the impact of leasing. The target remains unchanged if adjusted for the estimated impact of leasing on our gearing of 0.3.*

Our business

Hearing Healthcare

Hearing Aids | Hearing Care | Hearing Implants | Diagnostics

Communications

Communications - EPOS

REVENUE

13,163

DKK MILLION

GROWTH

-11%

IN LOCAL CURRENCIES

Hearing Healthcare

Income statement

(DKK million)	H1			H2			FY		
	2020	2019	Growth	2020	2019	Growth	2020	2019	Growth
Revenue	5,532	7,350	-25%	7,631	7,596	0%	13,163	14,946	-12%
Production costs	-1,532	-1,649	-7%	-1,948	-1,972	-1%	-3,480	-3,621	-4%
Gross profit	**4,000**	**5,701**	**-30%**	**5,683**	**5,624**	**1%**	**9,683**	**11,325**	**-14%**
Gross margin	72.3%	77.6%		74.5%	74.0%		73.6%	75.8%	
R&D costs	-540	-552	-2%	-552	-568	-3%	-1,092	-1,120	-3%
Distribution costs	-3,311	-3,661	-10%	-3,310	-3,760	-12%	-6,621	-7,421	-11%
Administrative expenses	-376	-415	-9%	-435	-436	0%	-811	-851	-5%
Share of profit after tax, associates and joint ventures	13	12	8%	39	40	0%	52	52	2%
Other operating income	-	-	-	-	100	-100%	-	100	-100%
Operating profit (EBIT)	**-214**	**1,085**	**-120%**	**1,425**	**1,000**	**43%**	**1,211**	**2,085**	**-42%**
EBIT margin	-3.9%	14.8%		18.7%	13.2%		9.2%	14.0%	

Revenue by business area

	H1			H2			FY		
(DKK million)	2020	2019	Growth	2020	2019	Growth	2020	2019	Growth
Hearing Aids	2,937	3,852	-24%	3,886	3,927	-1%	6,823	7,779	-12%
Hereof sales to Hearing Care	-465	-607	-23%	-657	-613	7%	-1,122	-1,220	-8%
Hearing Care	2,154	3,128	-31%	3,310	3,150	5%	5,464	6,278	-13%
Hearing Implants	246	304	-19%	277	318	-13%	523	622	-16%
Diagnostics	660	673	-2%	815	814	0%	1475	1487	-1%
Hearing Healthcare	**5,532**	**7,350**	**-25%**	**7,631**	**7,596**	**0%**	**13,163**	**14,946**	**-12%**

Revenue

For H2 2020, revenue in our Hearing Healthcare segment amounted to DKK 7,631 million, corresponding to a growth rate of 4% in local currencies with organic growth of 2% and acqusitive growth of less than 2%. Exchange rates had an impact on revenue of -3%, and total reported growth for the period was around 0%. For the full year, growth in local currencies in Hearing Healthcare was -11% with organic growth of -13% and acquisitive growth of 2%. As such, reported growth in Hearing Healthcare was -12% in 2020.

After the severe impact of coronavirus in H1, we saw significant recovery in H2 in Hearing Healthcare, particularly in the first months of the period. Growth in local currencies in Hearing Aids amounted to 1% with good performance in sales to independent hearing care professionals and chains, particularly in Europe, while sales in the US were hampered by a relatively slower recovery. Moreover, low sales to government systems, including the NHS and VA, and to export markets continued to be a drag on revenue. In Hearing Care, we saw strong performance in a number of European markets, whereas the US market saw relatively slower recovery. Revenue grew by 9% in local currencies supported by acquisitive growth of 4%. While revenue in Hearing Implants recovered partly from H1 to H2, growth in local currencies remained negative by 9% in H2, as elective procedures, such as cochlear implant surgeries, were postponed in many markets. Diagnostics showed strong resilience to difficult market conditions and returned to growth in H2 and delivered 6% growth in local currencies, not least driven by the service business.

Growth rates by business area

		H1 20	H2 20	FY 20
Hearing Aids	Organic	-25%	1%	-12%
	Acquisitions	1%	0%	1%
	LCY	**-25%**	**1%**	**-12%**
	FX	1%	-2%	-0%
	Total	**-24%**	**-1%**	**-12%**
Hearing Care	Organic	-35%	4%	-16%
	Acquisitions	4%	4%	4%
	LCY	**-31%**	**9%**	**-12%**
	FX	0%	-4%	-2%
	Total	**-31%**	**5%**	**-13%**
Hearing Implants	Organic	-18%	-9%	-13%
	Acquisitions	0%	0%	0%
	LCY	**-18%**	**-9%**	**-13%**
	FX	-1%	-4%	-3%
	Total	**-19%**	**-13%**	**-16%**
Diagnostics	Organic	-3%	4%	1%
	Acquisitions	1%	1%	1%
	LCY	**-3%**	**6%**	**2%**
	FX	1%	-5%	-3%
	Total	**-2%**	**0%**	**-1%**
Hearing Healthcare	Organic	-27%	2%	-13%
	Acquisitions	2%	2%	2%
	LCY	**-25%**	**4%**	**-11%**
	FX	0%	-3%	-1%
	Total	**-25%**	**0%**	**-12%**

Due to the IT incident in September 2019, revenue in the comparative period was negatively impacted by an estimated DKK 575 million, of which roughly DKK 300 million relates to Hearing Aids and DKK 275 million to Hearing Care. The table below shows underlying organic growth rates by business area adjusted for the estimated negative impact of the IT incident.

Organic growth by business area

				Underlying*	
	H1 20	H2 20	FY 20	H2 20	FY 20
Hearing Aids	-25%	1%	-13%	-8%	-16%
Hearing Care	-35%	4%	-16%	-4%	-19%
Hearing Implants	-18%	-9%	-13%	-9%	-13%
Diagnostics	-3%	4%	1%	4%	1%
Hearing Healthcare	**-27%**	**2%**	**-13%**	**-5%**	**-16%**

**Growth rates are adjusted for the estimated negative impact of the IT incident in 2019.*

Gross profit

Gross profit increased by 1% to DKK 5,683 million in H2, resulting in a gross margin of 74.5%, or an increase of 0.5 percentage point compared to H2 19. The gross margin expansion was primarily driven by an increased share of revenue generated by our Hearing Care business, which has a higher structural gross margin than our other Hearing Healthcare businesses. We only saw modest changes in gross margins within each of the business areas.

Operating expenses (OPEX)

OPEX amounted to DKK 4,297 million in H2, corresponding to a decline in local currencies of 7%, reflecting the realisation of material savings throughout the year. The savings realised in H2 were both of a temporary and of a structural nature. The most important temporary savings included savings in sales and marketing costs and in travelling expenses. However, we also benefitted from global support from government compensation schemes of around DKK 100 million (around DKK 350 million in H1) and from the reversal of part of a provision for bad debt recognised in H1 of DKK 50 million.

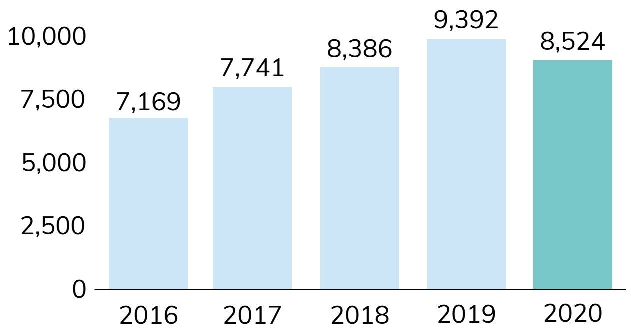
OPEX by function

			Change		
DKK million	H2 20	H2 19	DKK	LCY	Org.
R&D costs	552	568	-3%	-2%	-3%
Distribution costs	3,309	3,760	-12%	-9%	-12%
Adm. expenses	436	436	0%	3%	3%
Total	**4,297**	**4,764**	**-10%**	**-7%**	**-9%**

We also implemented structural savings of around DKK 250 million on an annual basis, which had full effect in H2. These include savings related to the headcount reductions made in H1, which primarily relate to the elimination of double functions after the full integration of a large retail network acquired in the US in 2018. Also, we have aligned our marketing model in our US retail network, which has improved efficiency in our sales and marketing activities. Our store network remains largely unchanged. Lastly, we expect to continue to achieve savings in travelling and conference expenses, as we will continue to meet and collaborate virtually to a larger extent than before the pandemic. By far, the major part of the structural savings impact distribution costs, whereas R&D costs and administrative expenses are only impacted to a minor degree.

For the full year, OPEX decreased by 8% in local currencies. Apart from the material savings mentioned above, the full-year decrease includes a net effect of DKK 100 million in extra costs from the provision for bad debt as well as support of approx. DKK 450 million from government compensation schemes.

Five-year OPEX (DKK million)



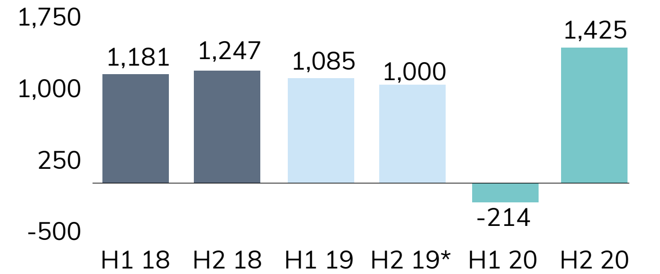
Operating profit (EBIT)

EBIT in H2 amounted to DKK 1,425 million, corresponding to a growth rate of 43% compared to the same period in 2019. The resulting EBIT margin was 18.7%, or an increase of 5.0 percentage points from the reported margin in H2 2019. Despite subdued revenue in the reporting period, we managed to lift profitability materially, first and foremost due to tight cost control but also due to support from government compensation schemes and the partial reversal of the provision for bad debt made in H1 as mentioned above. Furthermore, EBIT in the comparative period was negatively impacted by an estimated DKK 550 million as a result of the IT incident.

Profitability was especially strong in Hearing Care, which benefitted from some pent-up demand in Europe that resulted in a higher-than-normal return on sales and marketing activities, but we also saw improved profitability in Hearing Aids and Hearing Implants driven by material cost savings, while profitability was flattish in Diagnostics.

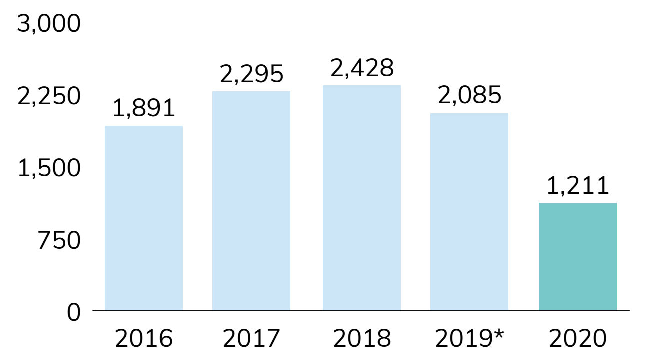
For the full year, EBIT amounted to DKK 1,211 million with a corresponding margin of 9.2%.

EBIT per half-year (DKK million)



**Reported EBIT for H2 2019 was negatively impacted by an estimated DKK 550 million as a result of the IT incident.*

EBIT per full-year (DKK million)



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

REVENUE
6,823
DKK MILLION

GROWTH
-12%
IN LOCAL CURRENCIES

Hearing Aids

Market developments

Based on available market statistics, covering around two thirds of the market, and on our own internal assumptions, we estimate that the global hearing aid market saw unit growth of around -15% in 2020 after having been significantly impacted by coronavirus and the resulting lockdowns, particularly in Q2.

Estimated market unit growth in 2020 by region

	Q1	Q2	Q3	Q4	Total
Europe	-10%	-50%	1%	0%	**-15%**
North America	0%	-59%	-4%	-7%	**-18%**
US (commercial)	1%	-52%	0%	-6%	**-14%**
US (VA)	0%	-83%	-34%	-15%	**-34%**
Rest of world	-5%	-35%	-5%	-5%	**-11%**
Global	**-6%**	**-48%**	**-3%**	**-4%**	**-15%**

We saw significant recovery in the global hearing aid market in Q3 and at the beginning of Q4, but the spike in new coronavirus infections that swept across most major markets from around the end of October caused the recovery to pause at the end of the year. At the very end of the year, growth even decelerated in some markets, including the UK and to a lesser extent the US. For Q4, we estimate that global unit growth was around -4%.

Despite the negative market growth in 2020, we see no changes in the fundamental drivers of demand for hearing aids: The size of the ageing population continues to increase globally, we live longer, and infrastructure and purchasing power are improving in a number of emerging markets. Consequently, we believe that the underlying need for hearing aids is largely unaffected by coronavirus and that the market will return to the structural level of 4-6% unit growth per year. In fact, we believe that the hearing aid market will see some tailwinds over the coming years when at least part of the pent-up demand from 2020 is released. We estimate that total sales in the global hearing aid market dropped by more than 3 million units compared to what we would have seen if coronavirus had not occurred. This clearly indicates that many users – existing as well as new ones – are likely to seek assistance over the coming years, but both the magnitude and the timing of the release of such pent-up demand remain uncertain.

North America was severely impacted by coronavirus with estimated unit growth of -18% in 2020. In the US, the impact on the large public channel, Veterans Affairs (VA), was particularly severe in Q2 and subsequently, VA saw slower recovery than the commercial market. Growth in Canada was slightly less negative than in the US.

In Europe, we estimate that unit growth was around -15% in 2020. All markets were severely impacted by coronavirus, but the commercial markets in Europe recovered at a faster pace than the US market and also showed better resilience when the second wave of coronavirus hit in Q4. However, unit growth in the large public channel in the UK, the NHS, lagged considerably behind unit growth in the commercial market and thus had a negative impact on the total growth rate in Europe.

Looking beyond the US and Europe, we estimate that unit growth in Japan was less negative than in Europe and that unit growth in Australia was flattish.

There are no reliable industry statistics available on the development of prices in the global hearing aid market, and given the dynamic market environment in 2020, we are unable to accurately estimate the development in ASPs on the hearing aid market.

With regard to the new over-the-counter (OTC) category of hearing aids, the US Food and Drug Administration (FDA) has yet to issue a draft ruling in order to establish the new category, and the timing remains uncertain. Such draft ruling will go out for consultation before a final ruling is issued. We maintain our view that any impact of the OTC category will be limited.

Business update

In 2020, total revenue in Hearing Aids saw growth of -12% in local currencies. Organic growth was -12%, and growth from acquisitions was less than 1%.

Internal revenue from sales to our Hearing Care business area accounted for 16% of total revenue and external sales for 84%. Our commentary below focuses on total revenue, including revenue from sales through our own retail clinics, and thus encompasses our total wholesale activities. However, internal revenue is eliminated from the reported revenue for our Hearing Healthcare segment and for the Group.

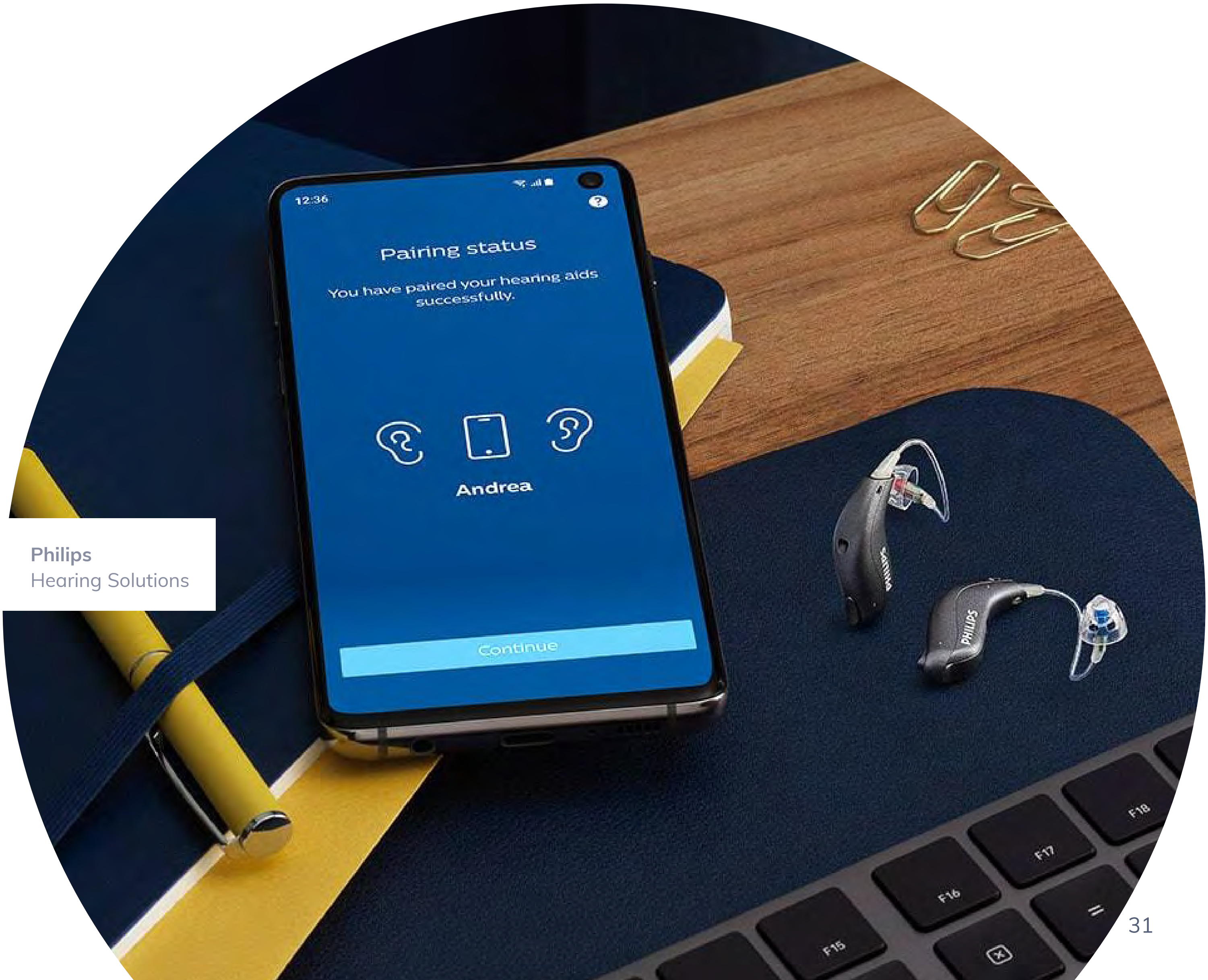
Revenue

(DKK million)	H1 20	H2 20	FY 20
	2,937	3,886	6,823
Growth			
Organic	-25%	1%	-12%
Acquisitions	1%	0%	1%
Local currencies	**-25%**	**1%**	**-12%**
FX	1%	-2%	0%
Total	**-24%**	**-1%**	**-12%**

Revenue and growth

(DKK million)	Revenue						Growth (local currencies)		
	H1 20	H2 20	FY 20	H1 19	H2 19	FY 19	H1 20	H2 20	FY 20
Hearing Aids	2,937	3,886	6,823	3,852	3,927	7,779	-25%	1%	-12%
Hereof sales to Hearing Care*	465	657	1,122	607	613	1,220	-24%	12%	-6%
Hereof sales to external customers	2,472	3,229	5,701	3,245	3,314	6,559	-25%	-1%	-13%

**Revenue from internal sales to Hearing Care is eliminated from the reported revenue for Hearing Healthcare and for the Group, i.e. we only include revenue from external customers. The pricing used in internal transactions is determined on an arm's length basis and thus reflects normal commercial terms.*



Philips
Hearing Solutions

Hearing Healthcare > **Hearing Aids**

The negative impact of coronavirus was most pronounced in H1 where a strong start to the year was disrupted by strict lockdowns in virtually all major markets from around mid-March. Supported by pent-up demand in Europe, we saw better-than-expected recovery in most markets and channels from the beginning of H2. Growth in H2 was 1% in local currencies, which includes around 8 percentage points from the negative impact of the IT incident last year on the comparative figures. Growth was supported by sales to Hearing Care, which grew by 12% thanks to the strong recovery of that particular business area in the period combined with a slight increase in the share of wallet.

The ASP grew by 6% in H2, as differences in the pace of recovery between channels and markets led to positive mix changes. Unit growth was -5%.

Unit and ASP growth (local currencies)

	H1 20	H2 20	FY 20
Units	-31%	-5%	-18%
ASP	9%	6%	8%
Total	**-25%**	**1%**	**-12%**

On 30 November 2020, we announced the launch of new flagship hearing aids in all our four hearing aid brands: Oticon, Philips Hearing Solutions, Bernafon and Sonic. These include Oticon More™, which is the world's first hearing aid with an on-board deep neural network that provides superior sound processing (please refer to the text box on page 33 for more details). In addition to market- leading audiological concepts, the new products feature both iOS and Android connectivity and are prepared for Bluetooth LE Audio. The products have now been rolled out in most major markets in the powerful miniRITE rechargeable style and at three upper price points, and we have received excellent feedback from customers and users. Due to the timing of the launch, the new range of products had no material financial impact in 2020, but we are now very well positioned to address the needs of customers and users in 2021 and beyond.

In terms of geographies, Europe saw relatively fast-paced recovery in Q3 after a challenging H1, and the second wave of coronavirus, which started in autumn, and the ensuing lockdowns only had limited effect on our revenue. Overall, our growth in 2020 was most persistent – and positive – in the Scandinavian countries, but several of our other major markets also performed well under the circumstances, including Germany, France and Spain. Despite the improvements we saw towards the end of the year, the UK was a drag on growth, which is mostly due to the slow recovery in sales to the NHS.

Our growth in North America was more heavily impacted by coronavirus than growth in Europe. In the US, the low point in terms of growth came slightly later than in Europe, but the recovery was also significantly slower and ultimately stalled in the last months of the year, as infections resurged and new restrictions were imposed in most states. Especially the recovery in VA was very slow. In Canada, the impact of coronavirus was less severe. For North America as a whole, pent-up demand did not materialise in 2020, which represents a potential upside for the coming years.

In Asia, we saw solid organic growth despite the pandemic. This was primarily driven by the success in China following the introduction of Philips Hearing Solutions at the beginning of 2020. At the same time, we saw solid growth in South Korea and only slightly negative organic growth in Japan. The Pacific region delivered slightly negative organic growth, whereas the Other countries region – which comprises a number of emerging markets – was severely impacted by coronavirus.

Oticon More™
and charger

The revolutionary Oticon More™ is the world's first hearing aid with an on-board deep neural network, which mimics the way the brain functions to allow users to hear all relevant sounds. Trained with 12 million sound scenes from real life, Oticon More makes sounds more distinct and delivers 30% more information to the brain than Oticon Opn S, while reducing the listening effort of the user and improving speech understanding by 15%. These improvements are made possible by an entirely new chipset, Polaris™, which boasts an eightfold increase in memory and has twice the processing power of the previous generation, Velox S™. In addition to superior audiological performance, Oticon More features state-of-the-art direct streaming from both iOS and compatible Android devices, using the ASHA (Audio Streaming for Hearing Aids) protocol, and it is prepared for the next generation of connectivity based on the upcoming Bluetooth LE Audio standard.

A resilient business model in Hearing Care
In 2020, our global Hearing Care business area was challenged by several rounds of lockdowns in most of our markets, but our business model proved very resilient thanks to new and innovative approaches and the flexibility and dedication of our employees. During the first lockdowns in March and April, almost all our clinics all over the world were closed. However, following the general reopenings in May, we found new ways of operating our business and servicing our customers, while ensuring their safety as well as the safety of our employees. This included combining remote services via app and telephone with safe physical visits to our clinics where we use both gloves and face masks. Consequently, we have since May managed to keep most of our clinics open, even in times when other retail shops have been closed and general instructions have been to stay at home. Hearing healthcare is considered essential healthcare by public authorities, and in these extraordinary circumstances, we have thus been able to service both existing and new customers at a level that comes very close to our normal level.

Audika
Coronavirus precautions

REVENUE
5,464
DKK MILLION

GROWTH
-12%
IN LOCAL CURRENCIES

Hearing Care

Market developments

Please refer to *Market developments* in the *Hearing Aids* section above for details on developments in the hearing aid market in 2020. Under normal circumstances, growth rates in the hearing aid retail and wholesale markets are relatively similar, but we have seen notable differences in 2020 as a result of coronavirus, especially in the hearing aid wholesale market, which includes government channels, such as VA in the US and the NHS in the UK, which have both been hit relatively harder by coronavirus than the commercial market. Consequently, we estimate that unit growth in the hearing aid retail market was slightly better than in the hearing aid wholesale market.

Business update

In 2020, our Hearing Care business, covering our hearing aid retailing activities, saw growth of -12% in local currencies with organic growth of -16% and acquisitive growth of 4%, primarily in France. Exchange rate effects were -2%, resulting in growth of -13% in reported terms.

Revenue

(DKK million)	H1 20	H2 20	FY 20
	2,154	3,310	5,464
Growth			
Organic	-35%	4%	-16%
Acquisitions	4%	4%	4%
Local currencies	**-31%**	**9%**	**-12%**
FX	0%	-4%	-2%
Total	**-31%**	**5%**	**-13%**

Naturally, coronavirus had a very significant negative impact on growth in 2020. The peak impact was seen in spring where revenue dropped by almost 80%. Subsequently, we saw healthy recovery in H2, not least in Europe, despite new lockdowns in most markets from around the end of October in response to the rising number of infections. In H2, growth was to 9% in local currencies, which includes around 9 percentage points from the negative impact of the IT incident last year on the comparative figures.

When lockdowns were re-enforced in H2, hearing aid clinics were generally classified as essential healthcare, and they were thus allowed to remain open. Many people had then learned to cope with some level of restrictions being part of their everyday life, and hearing aid users were generally comfortable visiting our clinics thanks to our efforts to maintain very high standards for cleaning and hygiene. When lockdowns were originally enforced in spring, we saw a temporary increase in the demand for remote care solutions and telephone consultations, but we have largely seen this demand return to the normal level, and we believe that this clearly confirms the need for in-person counselling and for hearing care professionals playing an active part throughout the user journey.

In Europe, our revenue saw strong recovery in H2 and almost reached the normal level. Our key growth drivers in 2020 were France and Ireland, whereas the UK and Italy were most severely impacted by coronavirus. The UK was relatively slow to recover but saw significant improvement during most of H2, until the situation started to deteriorate again at the very end of the year.

The recovery in North America was slower than in Europe, and in both the US and Canada, it stalled towards the end of the year. In the US, the impact of coronavirus has differed significantly from state to state, but the halt in the recovery towards the end of the year was relatively broad-based. In Canada, acquisitions contributed slightly to growth.

In Australia, the impact of coronavirus in H1 was slightly less severe than in Europe. In H2, however, revenue remained below the normal level due to regional lockdowns, although we saw positive reported growth driven by low comparative figures due to the IT incident.

REVENUE
523
DKK MILLION

GROWTH
-13%
IN LOCAL CURRENCIES

Hearing Implants

Market developments
With less than 5% of the people that could benefit from an implantable solution actually being treated, the cochlear implant (CI) market remains heavily underpenetrated and the unfulfilled need remains significant. While CI solutions have become the standard of care for children born with a profound hearing loss in developed markets, increased awareness and clinical research continue to fuel the adoption of CI solutions among adults and seniors. In addition, improved hearing healthcare infrastructure, public funding and higher purchasing power are some of the drivers of the increase in the adoption of CI solutions among children in developing markets. Aside from the significant improvement of the patient's quality of life, the benefits of CI solutions are from a societal standpoint gaining more and more ground. The aggregated societal lifetime cost of profound hearing loss and deafness greatly outweighs the cost of cochlear implant surgery, and the economic rationale behind cochlear implants is one of the growth drivers in the industry.

The market for bone anchored hearing solutions (BAHS) is considered one of the fastest growing segments in hearing healthcare with annual growth rates in value of 10-15%, although annual growth rates are subject to significant fluctuations year-over-year, depending on the timing of product launches. The penetration of BAHS solutions is still very low – even in developed markets – and the fundamental growth drivers of the BAHS market include increasing awareness and improved reimbursement schemes. In addition, better patient outcomes and continued product innovation are key to fuelling market growth and further penetrating the market. There are several solutions in the marketplace that address some of the clinical indicators pointing towards the advantages of using 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. The 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.

The hearing implants market was heavily impacted by the outbreak of coronavirus in 2020. As the virus spread across the globe and hospitalisations increased, resources were allocated to patients infected with coronavirus, while elective surgeries, such as CI procedures, were postponed. While the overall market recovered from the low point in spring, the pace of the recovery was slower than in other areas of hearing healthcare, not least in emerging markets, and with the resurge in the number of infections in autumn and winter, elective surgeries were once again postponed. Overall, we estimate that the CI market declined by around 20% in 2020, which is significantly below our expectations of 10-12% growth under normal circumstances. We estimate that the BAHS market declined by more than 20%, which is also significantly below our normal expectations of market growth of 10-15%. However, we expect to see a normalisation of the market in 2021, but it is still too early to conclude if the market will benefit from pent-up demand, which is highly dependent on capacity and resource allocation.

Business update
In 2020, our Hearing Implants business area, which operates under the Oticon Medical brand, realised -13% growth in local currencies, which was entirely organic growth.

Revenue

(DKK million)	H1 20	H2 20	FY 20
	246	277	523
Growth			
Organic	-18%	-9%	-13%
Acquisitions	0%	0%	0%
Local currencies	**-18%**	**-9%**	**-13%**
FX	-1%	-4%	-3%
Total	**-19%**	**-13%**	**-16%**

Sales were heavily impacted by widespread lockdowns in virtually all markets and the resulting postponement of elective surgeries, particularly in the CI market. Our BAHS business was also severely impacted, but sales of sound processors, including upgrades, supported the business during the year.

Coclear implants

Our CI business was heavily impacted by the outbreak of coronavirus in spring, and the activity level quickly dropped to almost zero, as hospitals in virtually all markets where we are present prioritised coronavirus treatment. While we have seen recovery in sales since the low point in spring, this has happened at a slower pace than in other parts of the hearing healthcare market, and hospitals have prioritised surgeries of paediatric patients, which is an area where our exposure is lower than in the adult segment. Still, we started to see revenue growth in a number of markets in H2, including Germany and Italy, whereas France, our biggest market, continued to record negative growth, albeit to a much lesser extent than in H1. While the development was encouraging in most of the developed markets, sales to emerging markets continued to be a drag in H2 with only limited tender activity owing to the continued impact of coronavirus on both healthcare systems and public finances.

Our R&D efforts have continued in 2020, and earlier this year, we submitted our final application to the FDA for pre-market approval of the Neuro system in the US. We expect to be able to access the US market in H2 2021 at the earliest. We also published an updated reliability report, 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.

Bone anchored hearing systems

Our BAHS business was also impacted by coronavirus, albeit to a lesser extent than the CI business, and despite a negative development in revenue, we gained significant market share in 2020. The business entered 2020 on a high note by continuing the very strong growth we had seen in 2019 after the launch of the Ponto 4 sound processor with its industry-leading audiology and wireless streaming from smartphones. However, coronavirus also impacted BAHS sales significantly, and growth in H1 was slightly negative. We have seen encouraging recovery from the low point in spring driven by sound processor upgrades and temporary soft-band solutions that allow patients to start using the system while waiting for the actual implantation. On a sequential basis, we saw a material uplift in sales in H2, but due to strong comparative figures, growth was slightly more negative than in H1. From a geographic perspective, we recorded strong growth in a range of markets, including France, Germany and the Netherlands, whereas growth was negative in the US and the UK, our two largest markets.

In early spring, Oticon Medical introduced connectivity solutions for Neuro 2 worldwide, which was an important step for the Neuro system to become a truly premium offering in the market for cochlear implants. A few months later, in summer, the Neuro 2 Swim Kit solution was launched, featuring a waterproof solution that is highly functional, reliable and reusable. With these releases, Neuro 2 is a highly attractive solution for new candidates and existing users looking for the ultimate combination of sound quality, aesthetics and ease of use.

REVENUE
1,475
DKK MILLION

GROWTH
2%
IN LOCAL CURRENCIES

Diagnostics

Market developments

We estimate that in 2020, the global market for diagnostic instruments and accessories related to hearing healthcare declined by approx. 10% compared to 2019 due to coronavirus. The impact of coronavirus varied significantly between product categories and segments, with audiometers and equipment for hearing aid fitting, impedance and otoacoustic emissions (OAE) declining by around 20%, while other categories, including disposables, balance equipment and diagnostic auditory brainstem response (ABR) equipment, only saw modest declines or even slight growth. The negative market growth is significantly below our long-term growth expectations of 3-5%, which we believe are intact despite the significant – but temporary – impact of coronavirus. Despite coronavirus, 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 solutions and customer database management as well as ongoing consolidation in the industry.

Business update

With 2% growth in local currencies of which organic growth accounted for 1 percentage point, we succeeded in expanding our market-leading position in Diagnostics in 2020 with significant market share gains in a market that had declined due to coronavirus.

Revenue

(DKK million)	H1 20	H2 20	FY 20
	660	815	1,475
Growth			
Organic	-3%	4%	1%
Acquisitions	1%	1%	1%
Local currencies	**-2%**	**6%**	**2%**
FX	0%	-5%	-3%
Total	**-2%**	**0%**	**-1%**

At the beginning of 2020, Diagnostics continued its strong momentum from the year before and delivered strong growth. However, in line with the development in other parts of the hearing healthcare market, the outbreak of coronavirus in spring had a severe negative impact on the sales of diagnostic equipment, and we saw a material slowdown in new orders. In H2, we saw encouraging recovery and returned to growth in local currencies. Although instrument sales continued to be impacted by a lower activity level in some customer segments, we saw strong recovery in revenue generated by our service business thanks to pent-up demand.

From a geographic perspective, we saw full-year growth in both Pacific and Asia driven by Australia, China and South Korea. In Europe, revenue rose in H2 with strong sales growth in a number of markets, including Germany, France and Switzerland. Despite the positive recovery in H2, growth was flat in Europe for the full year. We also saw recovery in sales in the US in H2, but it lagged behind other regions due to the continued impact of coronavirus. Diagnostics has a higher share of sales to emerging markets than other hearing healthcare businesses in the Group, which has been a drag on revenue growth during the year due to the severe impact of coronavirus in these markets.

The past year has been another successful year for our multi-brand strategy, which allows us to focus on separate segments and customers and thereby increasing our already significant market share in the market as a whole. Our success is, among other factors, due to strong performance by our biggest brand, Interacoustics, which managed to grow its business even in a year that was heavily impacted by coronavirus. The strong performance was partly driven by Affinity Compact in the hearing aid fitting segment and by significant growth in the balance segment.

Interacoustics launches new solution for diagnosing dizzy patients

A new milestone in diagnosing patients with balance conditions was reached in autumn 2020 when the third generation of Micromedical VisualEyes™ by Interacoustics was launched. The product is the new generation of diagnostic equipment aimed at helping patients with balance and dizziness issues both in the vestibular system and in the central nervous system. The new VisualEyes™ system features more applications, for example the EyeSeeCam vHIT and several new tests, which makes the product relevant to more patient and customer groups.

REVENUE

1,306

DKK MILLION

Communications

Income statement

	H1			H2			FY		
DKK million	**2020**	**2019**	**Growth**	**2020**	**2019**	**Growth**	**2020**	**2019**	**Growth**
Revenue	546			760			1,306		
Production costs	-291			-358			-649		
Gross profit	**255**			**402**			**657**		
Gross margin	46.7%			52.9%			50.3%		
R&D costs	-78			-91			-169		
Distribution costs	-144			-213			-357		
Administrative expenses	-12			-17			-29		
Share of profit after tax, associates and joint ventures	-	28		-	38		-	66	
Operating profit (EBIT)	**21**	**28**	**-25%**	**81**	**38**	**113%**	**102**	**66**	**55%**
EBIT margin	3.8%			10.7%			7.8%		

Introduction

In the following sections, we review the income statement for our Communications segment, which only comprises our headset business and operates under the EPOS brand. EPOS was fully consolidated into the Group with financial effect from 1 January 2020 as a result of the demerger of Sennheiser Communications, our 50/50 joint venture with Sennheiser electronic GmbH & Co. KG. The joint venture only focused on R&D and production and had no external distribution activities, as products were distributed through the subsidiaries of our joint venture partner. Consequently, the composition of the income statement has changed, so there are no accurate comparative figures for 2019.

Revenue

In H2, revenue in Communications amounted to DKK 760 million, which is significantly above our initial plans for the half-year. This reflects sequential growth of 39% compared to H1 driven by an acceleration of the already strong demand for virtual collaboration tools, which started in mid-March. All in all, revenue for the full year amounted to DKK 1,306 million, which is significantly above our initial plans despite a slow start to the year.

Performance was strong in both Enterprise Solutions and Gaming, and revenue in both areas exceeded our plans to roughly the same extent. From a geographic perspective, sales exceeded our plans in all regions, but we saw extraordinarily strong performance in Europe, the historic stronghold of the business, and almost two-thirds of EPOS's revenue in 2020 was generated in this region. Revenue in North America accounted for roughly one fourth of total revenue followed by Asia and Pacific, and we see ample opportunities to grow our market shares in these regions.

Gross profit

Gross profit was DKK 402 million in H2, resulting in a gross margin of 52.9%. This corresponds to a margin expansion of 6.2 percentage points compared to H1 where significantly higher-than-normal freight charges and a particularly high demand for USB headsets, which have a relatively lower gross margin, had a dilutive effect on the gross margin. For the full year, the gross margin was 50.3%.

Operating expenses (OPEX)

OPEX amounted to DKK 321 million in H2, corresponding to a sequential growth rate of 37% from H1. The significant sequential growth reflects the strong revenue growth we have seen in the business, as we have continued to invest further in R&D and distribution activities, including sales and marketing activities. As outlined in the financial review for the Group, extraordinary branding costs were recognised as one-offs in 2020, but the total level was below our original expectations, as trade fairs and other activities were to a large extent cancelled in 2020 due to coronavirus. Some of these activities are, however, likely to take place in 2021 instead.

Operating profit (EBIT)

EBIT for H2 amounted to DKK 81 million, corresponding to an EBIT margin of 10.7%. Compared to H1, the significant margin improvement of 6.9 percentage points was driven by higher revenue and an improved gross margin. Although not directly comparable, EBIT was 113% higher than the Group's share of profit after tax in the joint venture in H2 2019, i.e. prior to the demerger.

EBIT for the full year was DKK 102 million, corresponding to a growth rate of 55% compared to the Group's share of profit after tax in the joint venture in 2019 and to an EBIT margin of 7.8%.

EPOS
ADAPT660

REVENUE
1,306
DKK MILLION

Communications - EPOS

Market developments

Enterprise headsets
In the past year, the market witnessed a surge in demand for headsets and virtual collaboration tools following the outbreak of coronavirus, and we estimate that the enterprise headset market has seen growth of around 30% in 2020. The global pandemic has led to a significant increase in remote working and a general acceleration of digitalisation, and enterprises around the world have become accustomed to online meetings as a substitute for travelling. This has naturally boosted the demand for professional audio and video devices significantly. Our expectations of a structural growth rate in the underlying market remain unchanged at 8-10% per year, and while the coronavirus pandemic has boosted market growth in 2020, we expect that the enterprise headset market will continue to grow at these historic rates in the coming years.

Gaming headsets
The market for gaming headsets has also experienced significant tailwind from the pandemic due to the increase in online gaming that we have seen in the past year, and the market grew significantly more than the 8-10% that we see as the structural growth rate for the market. Aside from the abnormal tailwind in 2020, the gaming community continues to grow with the increasing popularity of esports across the globe. As the average age of gamers continues to go up, the demand for high-end solutions and premium headsets is expected to develop favourably and support growth in the overall market value. On the product side, the wireless trend we have seen in the past years in consumer headsets is now also catching on in the gaming segment, driving an opportunity for smaller in-ear form factors.

Business update

Our Communications business specialises in premium audio and video solutions for enterprises and gamers, offering cutting-edge design and performance based on leading and advanced technologies under the EPOS brand. Driven by the surge in demand for headsets and virtual collaboration tools, the performance of EPOS greatly exceeded our initial expectations for 2020 and contributed 9 percentage points to the Group's growth in local currencies.

Revenue

	H1	H2	FY	H1*	H2*	FY*
Communications	546	760	1,306	7pp	10pp	9pp

**Contribution to the Group's total growth in local currencies (no comparative figures as Communications was not consolidated in 2019).*

After a soft start to the year where supply chain headwinds hampered sales, EPOS succeeded in exploiting the strong demand for headsets that arose as the pandemic spread across the globe from around mid-March. In particular, we experienced strong demand for USB-wired products, and we also saw significant growth in sales through online channels. The strong demand continued throughout the year, and in H2, we successfully increased our production capacity and thus unit sales, the former having been a limiting factor in H1. Despite the increased production capacity, we still had a higher-than-normal level of open orders at the end of 2020.

After having assumed end-to-end responsibility for distribution and establishing sales subsidiaries in many markets as part of the demerger process, EPOS was ready for an eventful year with focus on ensuring the successful launch of a completely new brand as well as new premium products. As a consequence of coronavirus, we had to adjust the launch of the EPOS brand in 2020, which was originally planned – among other marketing initiatives – to be fuelled by our presence at a range of trade fairs and conferences, which were, however, cancelled. Instead, we converted to virtual set-ups, and marketing initiatives were to a large extent conducted online due to the increased working-from-home trend.

EPOS launches "Understanding Sound Experiences" report and highly successful "Bad Audio is Bad Business" campaign

Bad audio is bad business, and "what?" is the most expensive word in business today. This is the clear conclusion of the latest survey performed by EPOS, which finds that 95% of audio end-users and decision-makers experience pain points relating to sound that affect their concentration or efficiency at work. Launched along with the successful "Bad Audio is Bad Business" campaign, EPOS's marketing efforts have secured maximum global reach, strong brand engagement and a significant increase in the voice of the EPOS brand.

Corporate information

Oticon Medical
Neuro 2

Shareholder information

Specification of movements in share capital

(DKK 1.000)

	2020	2019	2018	2017	2016
Share capital at 1.1.	49,057	50,474	51,793	53,216	54,425
Capital reduction	-919	-1,416	-1,319	-1,423	-1,209
Share capital at 31.12.	**48,138**	**49,057**	**50,474**	**51,793**	**53,216**
Nominal value per share, DKK	0.20	0.20	0.20	0.20	0.20
Total number of shares, thousand	240,691	245,287	252,368	258,966	266,081
Share information					
Highest share price, DKK	244.4	237.2	318.6	188.9	145.0
Lowest share price, DKK	132.2	160.45	167.4	122.3	105.6
Share price, year-end, DKK	240.6	209.8	184.9	173.5	122.8
Market capitalisation, DKK million*	57,718	50,470	45,308	43,864	31,829
Average trading turnover, DKK million*	99.8	112.4	128.6	69.3	63.1
Average number of shares, million*	239.78	243.55	249.14	256.6	263.75
Number of shares at 31.12., million*	239.90	240.56	245.22	252.82	259.19
Number of treasury shares at 31.12., million	0.8	4.7	7.1	6.1	6.9

Excluding treasury shares.

Share capital and price development

As of 31 December 2020, Demant's nominal share capital was DKK 48,138,234 divided into 240,691,168 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 919,173 through the cancellation of treasury shares approved at the annual general meeting on 10 March 2020.

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 14.7% in 2020, and on 31 December 2020, the share price was DKK 240.60, corresponding to a market capitalisation of DKK 57.7 billion (excluding treasury shares). The average daily trading turnover was DKK 99.8 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 33.7% during the year.

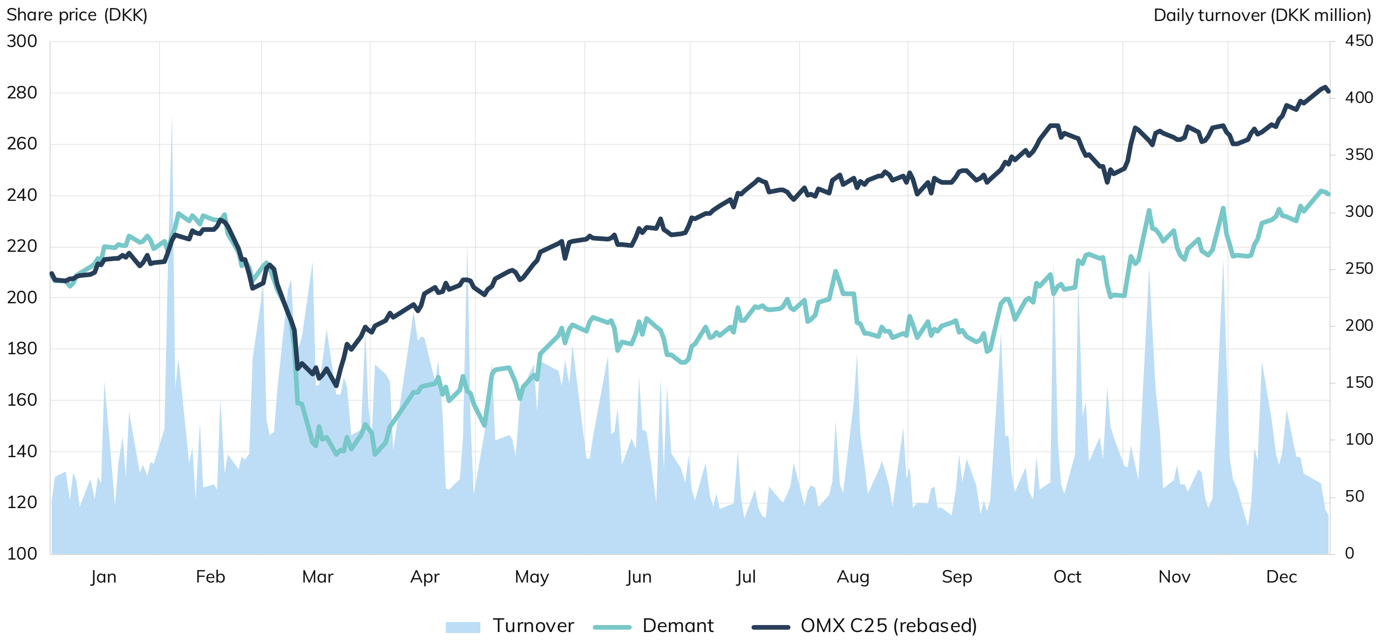
Ownership

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 2020, William Demant Foundation held – either directly or indirectly – approx. 58% 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 2020.

As of 31 December 2020, the company held 793,959 treasury shares, corresponding to 0.33% of the share capital.



Dividend and share buy-backs

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

Until the next annual general meeting in March 2021, 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.

Investor Relations (IR)

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.

With the release of the Annual Report 2020, we have increased the level of disclosure by providing segmental profit and loss statements for Hearing Healthcare and Communications, and with respect to the former, we have decided to report revenue separately for our Hearing Aids and Hearing Care businesses. Both initiatives serve the purpose of providing relevant, correct and adequate information about our Group.

We strive to 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 2020, we held more than 450 investor meetings and presentations. In 2020, the vast majority of these meetings were held in virtual settings because of travel restrictions and social distancing measures, but we expect – and welcome – an increase in the number of virtual meetings in the coming years. We also use our website, **www.demant.com**, as a means of communication with our stakeholders. At the end of 2020, 26 equity analysts were covering Demant. We refer to our website for a full list of analyst coverage.

Demant has a three-week quiet period prior to publication of annual reports, interim reports and interim management statements where communication with IR stakeholders is restricted.

Annual general meeting 2021

The annual general meeting will be held on Friday, 5 March 2021 at 3:00 p.m. as a fully online meeting due to coronavirus. By participating online, it is possible to follow the live webcast, ask the Board of Directors questions via chat and cast votes.

Contact information for investors and analysts

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E-mail: **info@demant.com**

Mathias Holten Møller
Head of Investor Relations

Christian Lange
Investor Relations Officer

Company announcements and investor news in 2020

2 Jan	Managers' transactions
4 Feb	Annual Report 2019
4 Feb	Notice to annual general meeting
10 Mar	Decisions of annual general meeting
15 Mar	Effects of coronavirus – outlook for 2020 withdrawn due to uncertainty
20 Apr	Capital reduction as well as total number of voting rights and capital
5 May	Interim Management Statement
9 Jun	New dates for Demant Capital Market Days – investor news
17 Jun	Update on the effects of coronavirus
2 Jul	Managers' transactions
17 Aug	Interim Report 2020
25 Sep	Updated financial calendar 2020
13 Oct	Interim Management Statement
26 Nov	Financial calendar 2021
30 Nov	Demant announces launch of new flagship hearing aids – investor news
9 Dec	Updated outlook for H2 2020

Financial calendar 2021

22 Jan	Deadline for submission of items for the agenda of the AGM
9 Feb	Annual Report 2020
5 Mar	Annual general meeting
4 May	Interim Management Statement
16-17 Jun	Capital Market Days
12 Aug	Interim Report 2021
2 Nov	Interim Management Statement

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 fields of audiology and hearing impairment. William Demant Invest, which is a wholly owned holding company for all William Demant Foundation's investment activities, holds the Foundation's shares in Demant. Charitable tasks are thus handled by the Foundation itself and the Foundation's investment 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 Invest's investment strategy, the Foundation's investments – apart from an ownership interest in Demant – also include other assets, as William Demant Invest 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 the Foundation, William Demant Invest and Demant. Please also see Note 8.1.

Concert at Ofelia Beach, Copenhagen 2019
Supported by William Demant Foundation

Risk management activities

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.

Coronavirus

For most of 2020, coronavirus presented a challenge to the Group beyond comparison, and while we are always exposed to the inherent risk of working in physical proximity to our users, patients and customers, the global pandemic was unprecedented. We faced widespread lockdowns in virtually all hearing healthcare markets, and many activities in our Group came to an almost complete stop, which included the temporary closure of hearing clinics and the postponement of elective surgeries, such as cochlear implant surgeries. Going into 2021, coronavirus continues to pose a risk to our business, but as we learned in 2020 where we saw remarkable recovery in the hearing healthcare market as governments eased restrictions, there have been no changes to the fundamental driver of demand for hearing healthcare.

Innovation

Aside from coronavirus, 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. 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 continue to maintain and develop our competencies in this area. It is our policy to continuously watch that third-party products do not infringe our patents and that our products do not infringe third-party patents. From time to time, the Group is involved in 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.

Supply

We closely monitor our supply situation and seek to ensure that we always have an inventory level that can counter any interruptions in production. In 2020, the outbreak of coronavirus presented a challenge to the supply of goods and raw materials in many industries, including the markets for hearing healthcare and professional headsets, but due to the close monitoring of our supply situation, we did not face any critical disruptions to our operations. We do, on a continuous basis, evaluate the geographical location and dependency of key suppliers of raw materials and components to ensure that we strike the right balance between flexibility, exposure and costs.

Product recalls

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. We seek to minimise the risk of product recalls by meeting detailed production requirements, by living up to well-defined quality control standards and by extensive testing.

Regulatory risks

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. The formal deadline for the release of the draft legislation has now been exceeded, and it remains unclear when the OTC category will be established. In any case, 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 Aids due to consolidation on fewer hands of large volumes of hearing aids. It could, however, also pose a risk to our Hearing Care 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. In response to this trend, we are working on adapting our operating model to a higher level of efficiency, which we have already done in other markets that have seen changes to reimbursement schemes over the years.

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 exit from the EU (Brexit), we do not expect any significant impact on our business, as medical equipment is exempt from import duty. In addition, we have sufficient inventory in local stock, and we do not expect Brexit to result in any significant disruption of the supply of medical equipment into the UK. 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.

IT infrastructure

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. In September 2019, the Group's IT infrastructure was hit by cybercrime. After thorough investigations, we concluded that no personal data had been exposed, extracted or accessed as a result of the incident. The IT incident was reported to the Danish Data Protection Agency (DDPA) in accordance with the EU General Data Protection Regulation (GDPR), and in 2020, we received the Agency's final assessment of the incident. The Agency found that we had processed personal data in accordance with the provisions of the GDPR, and it did not express any criticism of Demant's security level or handling of the matter. The final assessment concluded the Agency's investigation of the matter. The US Office for Consumer Rights (OCR) is also reviewing our response to the IT incident based on concern raised by a consumer. We are still awaiting the assessment from the OCR.

We are – and will continue to be – committed to continuously improving the Group's IT security. During the recovery process from the IT incident, we took steps to initiate a wide range of security activities and detection measures to further improve the level of IT security. We have conducted a maturity assessment of our IT security based on the Cybersecurity Framework of the National Institute of Standards and Technology (NIST) to focus our work on relevant parameters. The increasing digitalisation also means increased volume and complexity of the personal data collected by the Group.

Sustainability risks

The Demant Group is by nature an impact business that seeks to make a true difference for people living with hearing loss, and the Group thus contributes directly to improving world health. As a natural part of operating our business, we seek to limit the risk of adversely impacting our employees, society and the environment – in such areas as human and labour rights, retention, CO2 emissions as well as anti-bribery and anti-corruption – by working with the four pillars of our sustainability framework, which primarily have to do with our operational practices: people and culture, society and local community, environment and climate and business ethics and governance. For each pillar, we have individual ambitions, initiatives and targets that drive our progress. Please also refer to our 2020 Sustainability Report.

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. 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 around two-thirds of the Group's sales being invoiced in other currencies than Danish kroner and euros, 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 with a horizon of up to 18 months. In relation to exchange rate fluctuations, hedging provides some predictability in terms of profit and gives us the opportunity – and necessary time – to potentially redirect business arrangements in the event of persistent changes in foreign exchange rates. Besides entering into forward exchange contracts, 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.

Please see Note 2.2 for the impact on consolidated operating profit (EBIT) and equity for the year, given a change of 5% in the currencies with the highest exposure.

Please see Note 2.3 for an overview of the material forward exchange contracts in place as of 31 December 2020 to hedge against the Group's exposure to movements in exchange rates.

At the end of 2020, the fair value of the Group's forward exchange contracts was DKK 68 million, consisting of unrealised gains of DKK 80 million and losses of DKK 12 million. Please refer to Note 2.3 and 4.4 for more details.

Interest rate risks
In order to secure attractive interest rates for the Group in 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. 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) was DKK 7,135 million as of 31 December 2020. 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 10 million (DKK 17 million in 2019).

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 approx. 11% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparties provide security in their business. Overall, we therefore estimate that the risk relative to our total credit exposure is well-balanced at Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. Overall, the Group has limited deposits with financial institutions for which reason the credit risk of deposits is considered to be low. In 2020, the Group made an additional provision for bad debt of DKK 150 million, reflecting the increased risk of customers defaulting on their debt due to coronavirus. The provision was partly reversed by DKK 50 million towards the end of the year as a result of an updated risk assessment.

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 both cash inflows and cash outflows. We have access to considerable undrawn credit facilities, and the liquidity risk is therefore considered to be low. In light of the uncertainty related to the outbreak of coronavirus in spring 2020, we expanded our available credit facilities considerably during the year, and throughout the process, we have had strong support from both commercial and non-commercial banks. We are of the opinion that the Group has strong cash flows and a satisfactory credit rating, and the Group has not defaulted on loan agreements neither in the financial year 2020 nor in previous years.

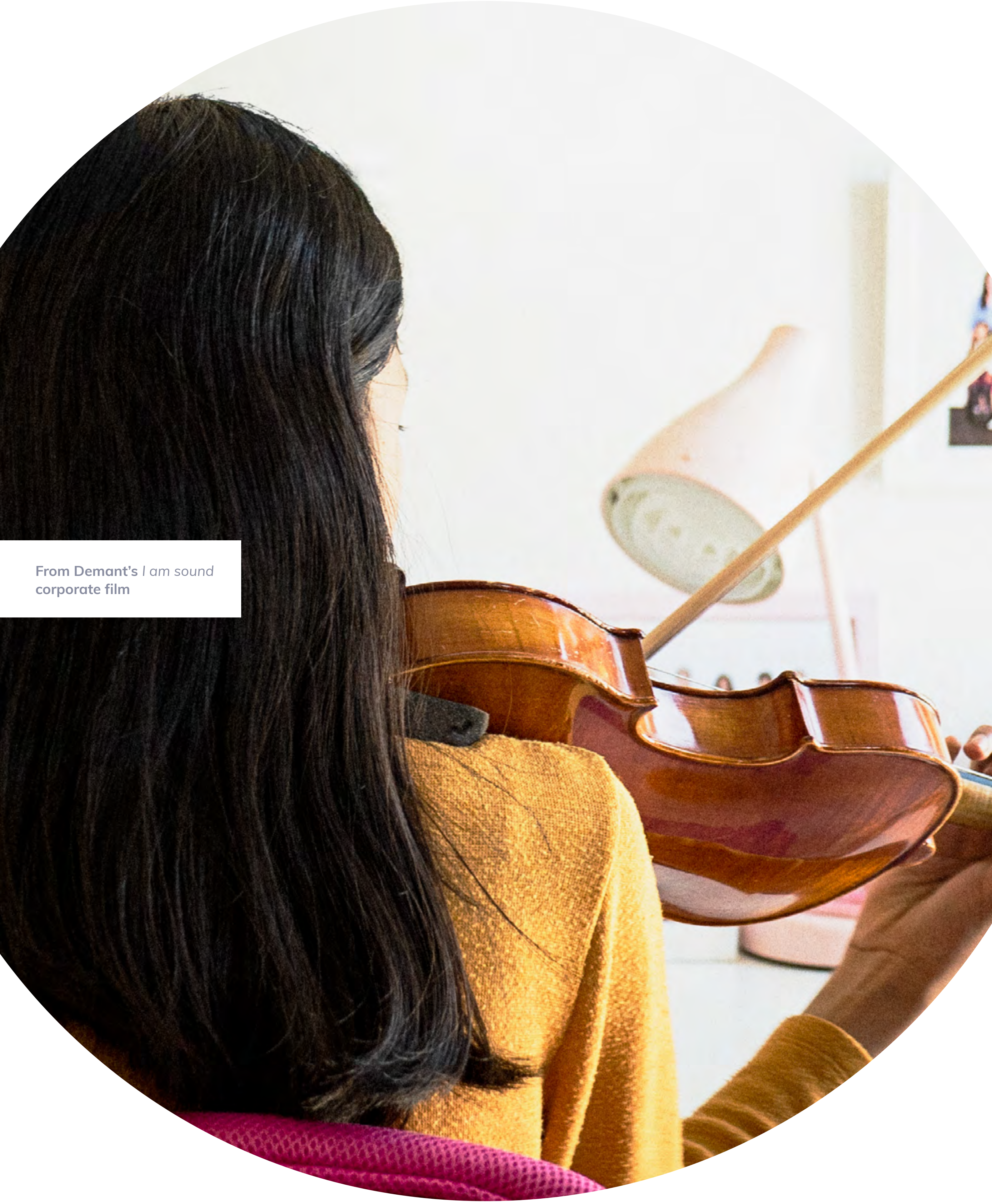
Financial reporting process and internal control
Once a year, we carry through a very detailed planning and budgetary process, and any deviations from the plans and budgets resulting from this process are carefully monitored month by month. In terms of sales and costs, month-over-month development is 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 the 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.

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. Following the IT incident in 2019, the company has increased its cyber insurance coverage. 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.



From Demant's *I am sound* **corporate film**

Sustainability

Demant is and has always been a responsible and well-functioning business. Established in 1904 out of a desire to help people with hearing loss, Demant's positive contribution to a healthy society has always driven our business.

In 2020, we further developed our sustainability approach to reflect our commitment to and ambitions for our work. Aside from focusing on our main contribution to society, we are strengthening sustainability in our operational practices. In the coming years, we have two main priorities in this regard: Diversity and inclusion as well as climate impact. While we focus on these areas in our new sustainability strategy, we will continue to improve other important areas of our business.

Sustainability reporting

In addition to our annual report, we publish a Sustainability Report every year. The report serves as Demant's Communication on Progress report to the United Nations Global Compact and as our statement on the UK Modern Slavery Act. Furthermore, the report serves as the statutory report to be presented under sections: 99a, 99b and 107d of the Danish Financial Statements Act.

On the following pages, we highlight our main sustainability achievements of the year. The full report is available on our website **www.demant.com/about/sustainability**

Our approach to sustainability

The new direction we have taken for our sustainability work builds on a thorough assessment of the most important sustainability topics for Demant and our stakeholders as well as on our current and potential contributions to the UN Sustainable Development Goals.

Our main contribution to society is clear: Life-changing differences through hearing health. This is the core of our sustainability framework. Connected to the core, we have four pillars of our sustainability work that primarily have to do with our operational practices. For each pillar, we have individual ambitions, projects and targets that drive our progress.

The core: Life-changing differences through hearing health

Demant is an impact business. For more than 115 years, our company has contributed to hearing health, and from this platform, we have expanded into the broader area of audio.

Hearing and our ability to innovate this area are the essential reference points for the whole Group. We enable millions of people to experience the joy of sound and good hearing, and with our groundbreaking research, innovative technologies and services, we are let into people's lives and involved in some of the most important aspects of living: The ability to communicate, socialise and be actively engaged without constraints.

In 2020, we have:

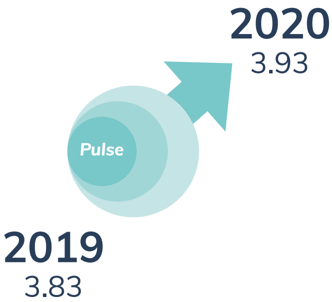
- Helped nearly 2 million hearing aid users
- Helped well above 10,000 implant users suffering from profound, conductive or single-sided hearing loss
- Facilitated the diagnosing of a three-digit million number of people with suspected hearing loss
- Facilitated the hearing screening of a two-digit million number of newborns
- Conducted research in cooperation with academia, health authorities and the industry to deepen our understanding of hearing, health and the brain

MAICO
easyScreen_BERAphone

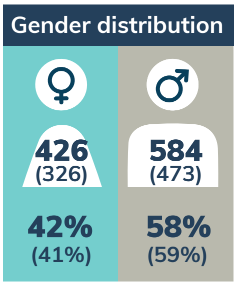
People & culture

Our employees are our greatest strength and our most valuable resource. Their well-being and engagement are fundamental to our success and our Management's top priority.

Main results in 2020



Global engagement score up from 3,83 to 3,93 on a scale from 1-5.



42% female managers globally. 1 percentage point increase in the number of female managers since 2019.

Another female member elected to the Board of Directors. 40% of the Board members elected by the shareholders are female.

New diversity and inclusion policy and framework under development.

Society & local community

A company is an important part of society, and for the Demant Group, it is paramount to be a good neighbour in the communities in which we operate. That means sharing our resources, donating to purposeful causes and engaging in impactful projects around the world.

Main results in 2020

DKK 111.9 million donated by William Demant Foundation. DKK 61.1 million to hearing health, research and education and DKK 50.8 million to cultural and social projects. Campaign for Better

Hearing: 52,342 people screened, USD 267,277 raised and 55 free hearing aids provided.

Environment & climate

In the Demant Group, we want to leave the planet in good shape for future generations. Therefore, we need to address our impact and limit our footprint.

Main results in 2020

Due predominantly to coronavirus restrictions, the Group's greenhouse gas (GHG) emissions per employee decreased by 20%.

Launch of smarter and greener hearing aid packaging.

Redesigned wax filter containers and optimised manufacturing process to save 11,5 tonnes of plastic per year.

Project launched in late 2020 to expand our emission reporting to scope 3, to identify actions for emission reductions and to set measurable targets.

Contributing to green energy production

Through its investment company, William Demant Invest (WDI), William Demant Foundation made an active choice in 2012 to contribute to a cleaner world by investing in the Borkum Riffgrund 1 wind farm. WDI's share of electricity produced amounts to 183,700,000 kWh annually. By comparison, the Demant Group uses around 20% of that amount or 33,700,000 kWh of electricity annually.

Business ethics & governance

In Demant, we comply with all rules and regulations and place great emphasis on always conducting our business in an ethical manner. We believe that going the extra mile and very often going beyond what local law requires can be necessary and can have a positive impact on local governments and practices.

Main results in 2020

New business ethics compliance programme launched with the Demant Group Code of Conduct and Whistleblower scheme. The launch included online training of employees, special training sessions for internal champions, country managers and all other top managers as well as a global communication campaign.

Increased focus on working from home in accordance with all necessary data privacy and IT security measures due to coronavirus.

Corporate governance

EPOS
EXPAND 80T

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. We focus on developing and maintaining a transparent corporate governance structure that promotes responsible business behaviour and long-term value creation.

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. Demant follows 44 of the 47 recommendations. The few cases (three) 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/sustainability/**

The report as well as the financial reporting process and internal control described in Risk management activities in this Annual Report, constitute Demant's statement on corporate governance, cf. section 107b of the Danish Financial Statements Act.

Tasks and responsibilities of the Board of Directors

In accordance with Danish legislation, Demant has a two-tier management system comprising the Board of Directors and the Executive Board, with no individual being a member of both. The division of responsibilities between the Board of Directors and the Executive Board is clearly outlined and described in the Rules of Procedure for the Board of Directors and the Instructions for the Executive Board.

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 long-term value creation. 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.

Composition and organisation

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, Anja Madsen and Lars Rasmussen are considered independent. Niels B. Christiansen and Niels Jacobsen are not considered independent as they are associated with William Demant Foundation.

Niels B. Christiansen, Niels Jacobsen and Anja Madsen stand for re-election at the annual general meeting in March 2021. Lars Rasmussen and Benedikte Leroy do not stand for re-election. The Board proposes that Sisse Fjelsted Rasmussen and Kristian Villumsen be elected new members of the Board. If the proposals are adopted, they will be considered independent. Kristian Villumsen brings excessive knowledge and commercial insights into the MedTech industry. Sisse Fjelsted Rasmussen has strong competences in finance, accounting and tax and will become chairman of the audit committee after Lars Rasmussen.

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.

Since 2012, Demant has had a diversity policy and has taken specific initiatives aimed at ensuring gender equality. The age, gender, education and competences of the members of our Board of Directors are listed in the Annual Report 2020. At the annual general meeting in March 2020, the Board of Directors reached its target to have at least two female members before the end of 2020, and with 40% female members and 60% male members, we have now reached an even distribution between the Board members elected by the shareholders.

As part of our ambitions to ensure diversity and inclusion in the Group, we have worked on preparing a new Demant diversity and inclusion policy, which will cover a broader definition of diversity than merely gender. We are still working on amending this policy for the Group and will in that context decide on our need to have a diversity policy with a broader definition of diversity for the Board of Directors and Executive Board.

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 is chairman of the audit committee.

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 2020 and attendance

In 2020, the Board of Directors convened on seven occasions. The audit committee held three meetings in connection with ordinary Board meetings. The nomination committee held two meetings, the remuneration committee held three meetings and the IT security committee held three meetings.

Evaluation of the performance of the Board of Directors

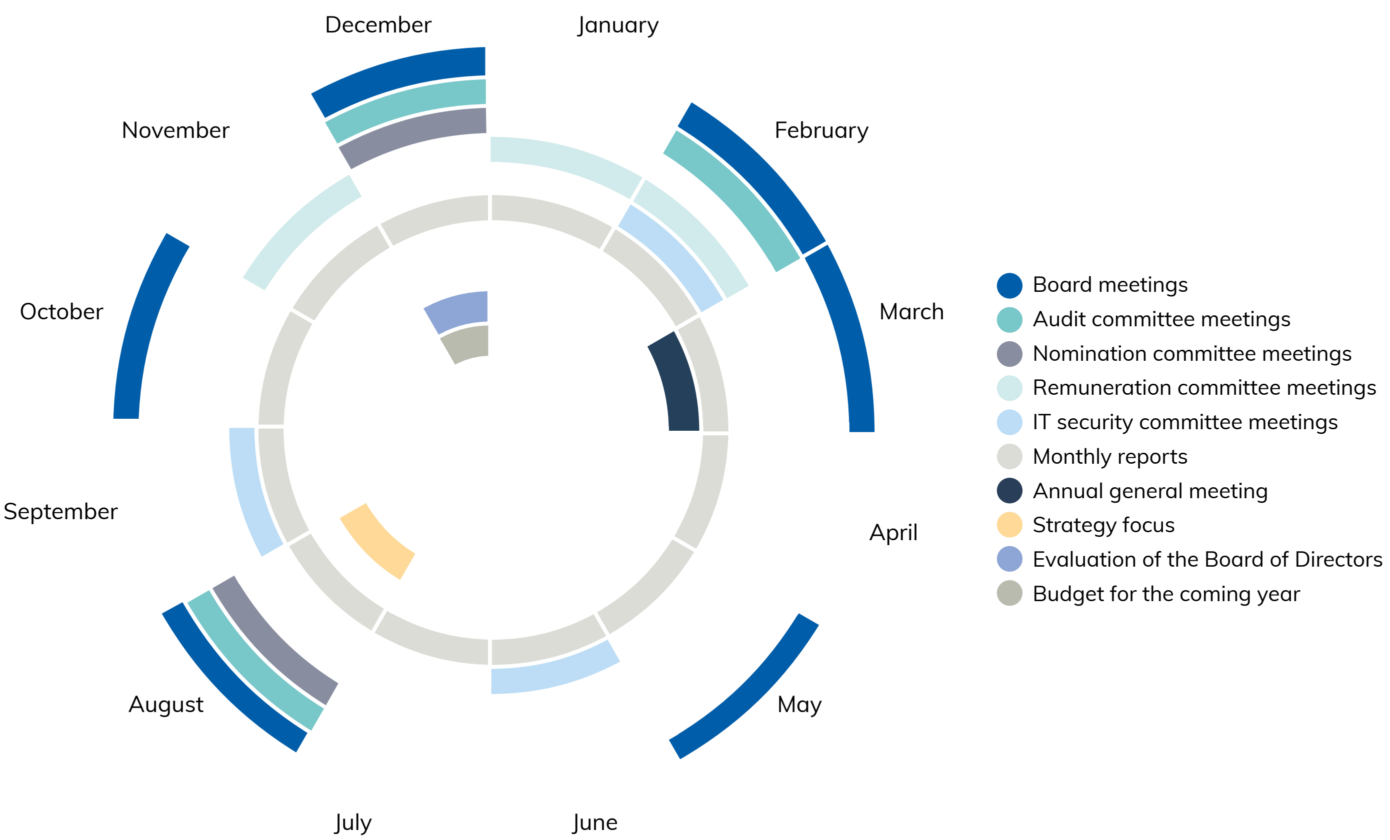
Once a year, the Chairman of the Board of Directors performs an evaluation of the Board's work. The evaluation is performed either through personal, individual interviews with the Board members or by means of a questionnaire to be filled out by the individual Board members. In both instances, the findings of the evaluation are presented and discussed at the subsequent Board meeting. At least every third year, the evaluation is performed with external assistance.

At the evaluation in 2020, external assistance was included, and the feedback was based on individual meetings with each Board member. Overall, the evaluation confirmed that the Board performs high-quality work and that it is diligent and well-functioning. The collaboration between the Board of Directors and the Executive Board works very well, and there is an open and trustful working atmosphere. The work performed by the Board takes its starting point in the annual wheel, which is continuously refined and updated and ensures the Board's commitment and immersion into relevant areas. As a result of the evaluation, the Board decided to dedicate more time and effort to the long-term strategic development of the company to continuously ensure that the potential of the company is exploited to the fullest.

Board of Directors' and Executive Board's remuneration

Demant has a remuneration policy and publishes a remuneration report. At the annual general meeting in March 2020, a revised remuneration policy was approved to comply with the new provision in section 139(a) of the Danish Companies Act.

The remuneration report is available on our website **www.demant.com**. The report will be submitted for advisory vote at the annual general meeting.



Executive Board

Søren Nielsen (male)
President & CEO
Born 1970
21,637 shares (+3,270)

Joined the company in 1995

Education: Holds a M.Sc. in Engineering from the Technical University of Denmark

Competences: Broad business and leadership experience from various management positions in the Group, including the commercial area, product innovation, quality and strategic development. International board experience, strong insights into the MedTech industry as well as a wide network in the global hearing healthcare community

Other positions: HIMPP A/S (M), HIMSA A/S (C), HIMSA II A/S (C), EHIMA (C), Vision RT Ltd. (M), Committee on Life Science under the Confederation of Danish Industry (C), Committee on Business Policy under the Confederation of Danish Industry (M), Central Board of the Confederation of Danish Industry (M)

René Schneider (male)
CFO
Born 1973
14,150 shares (+2,171)

Joined the company in 2015

Education: Holds a M.Sc. in Economics from Aarhus University

Competences: Broad business and financial leadership experience from various management positions with major listed companies leading to international experience in such areas as streamlining and re-establishing companies, conducting M&A and driving value creation

Areas of responsibility: Finance, HR, IT and Corporate Functions

Abbreviations
C = Chairman, DC = Deputy Chairman, M = Member

Board of Directors

Niels B. Christiansen (male)
Chairman since 2017
Born 1966
8,060 shares (unchanged)

Joined the Board in 2008
Chairman of the nomination, remuneration and IT security committees and member of the audit committee

Considered independent: No

Position: LEGO A/S, CEO & President

Other positions: William Demant Foundation (DC), William Demant Invest A/S (M) and Committee on Business Policy under the Confederation of Danish Industry (C)

Education: Holds a M.Sc. in Engineering from the Technical University of Denmark and an MBA from INSEAD

Competences: International leadership experience from major, global industrial, consumer goods and high-tech companies, business management and board experience as well as strong insights into industrial policy

Attendance in Board and committee meetings: No absence

Niels Jacobsen (male)
Deputy Chairman since 2017
Born 1957
1,001,340 shares (unchanged)

Joined the Board in 2017
Member of the audit, nomination, remuneration and IT security committees

Considered independent: No

Position: CEO, William Demant Invest A/S

Other positions: KIRKBI A/S (DC), Nissens A/S (C), Thomas B. Thrige Foundation (C), ABOUT YOU Holding GmbH (DC), EKF Danmarks Eksportkredit (M). Related to William Demant Invest: Jeudan A/S (C), Össur hf. (C), Vision RT Ltd. (C), Founders A/S (C), Boston Holding A/S (M)

Education: Holds a M.Sc. in Economics from Aarhus University

Competences: International leadership experience from major, global companies in the global healthcare and MedTech industry, business management and board experience as well as in-depth insights into financial matters, accounting, risk management and M&A

Attendance in Board and committee meetings: No absence

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

Joined the Board in 2014
Member of the audit committee

Considered independent: Yes

Position: Senior Vice President and General Counsel, Volvo Trucks

Education: Holds a Master of Laws degree from the University of Copenhagen

Competences: International leadership experience as general counsel in large, global technology companies within both consumer and business-to-business segments; lived and worked in the UK and Belgium for many years

Attendance in Board and committee meetings: No absence

Anja Madsen (female)
Born 1976
1,500 shares

Joined the Board in 2020
Member of the audit committee

Considered independent: Yes

Position: Executive Vice President, Føtex

Other positions: Lemvigh-Müller A/S (M)

Education: Holds a B.Sc. in Economics from London School of Economics and an MBA from INSEAD

Competences: International leadership experience from large companies in the retail segment; experienced leader of operations and transformation with focus on strategy execution; lived and worked in the UK for the past many years

Attendance in Board and committee meetings: No absence

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

Joined the Board in 2016
Chairman of the audit committee and member of the IT security committee

Considered independent: Yes

Other positions: Coloplast A/S (C), H. Lundbeck A/S (C), Igenomix s.l. (C), Committee on Diversity under the Confederation of Danish Industry (C), Danish Committee on Corporate Governance (DC)

Education: Holds a B.Sc. in Engineering from Aalborg University and an Executive MBA from SIMI

Competences: International leadership experience from global MedTech companies, management experience from such areas as innovation, globalisation, commercial models and efficiency improvements

Attendance in Board and committee meetings: No absence

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

Staff-elected Board member since 2015. Re-elected in 2019 for a term of four years

Considered independent: N/A

Position: Director of Configuration & Test, R&D, Demant
Has been with the Demant Group since 2002

Other positions: Danske Sprogseminarer A/S (M), Oticon A/S (M, staff-elected)

Education: Holds a M.Sc. in Electrical Engineering from the Technical University of Denmark

Attendance in Board and committee meetings: No absence

Casper Jensen (male)
Born 1979
500 shares (unchanged)

Staff-elected Board member in 2019 for a term of four years

Considered independent: N/A

Position: Vice President of Sales, Interacoustics, a subsidiary company of the Demant Group
Has been with the Demant Group since 2012

Education: Holds an MBA from Coventry University

Attendance in Board and committee meetings: Absent from 1 meeting

Jørgen Møller Nielsen (male)
Born 1962
366 shares (unchanged)

Staff-elected Board member since 2017 and also from 2011-2015. Re-elected in 2019 for a term of four years

Considered independent: N/A

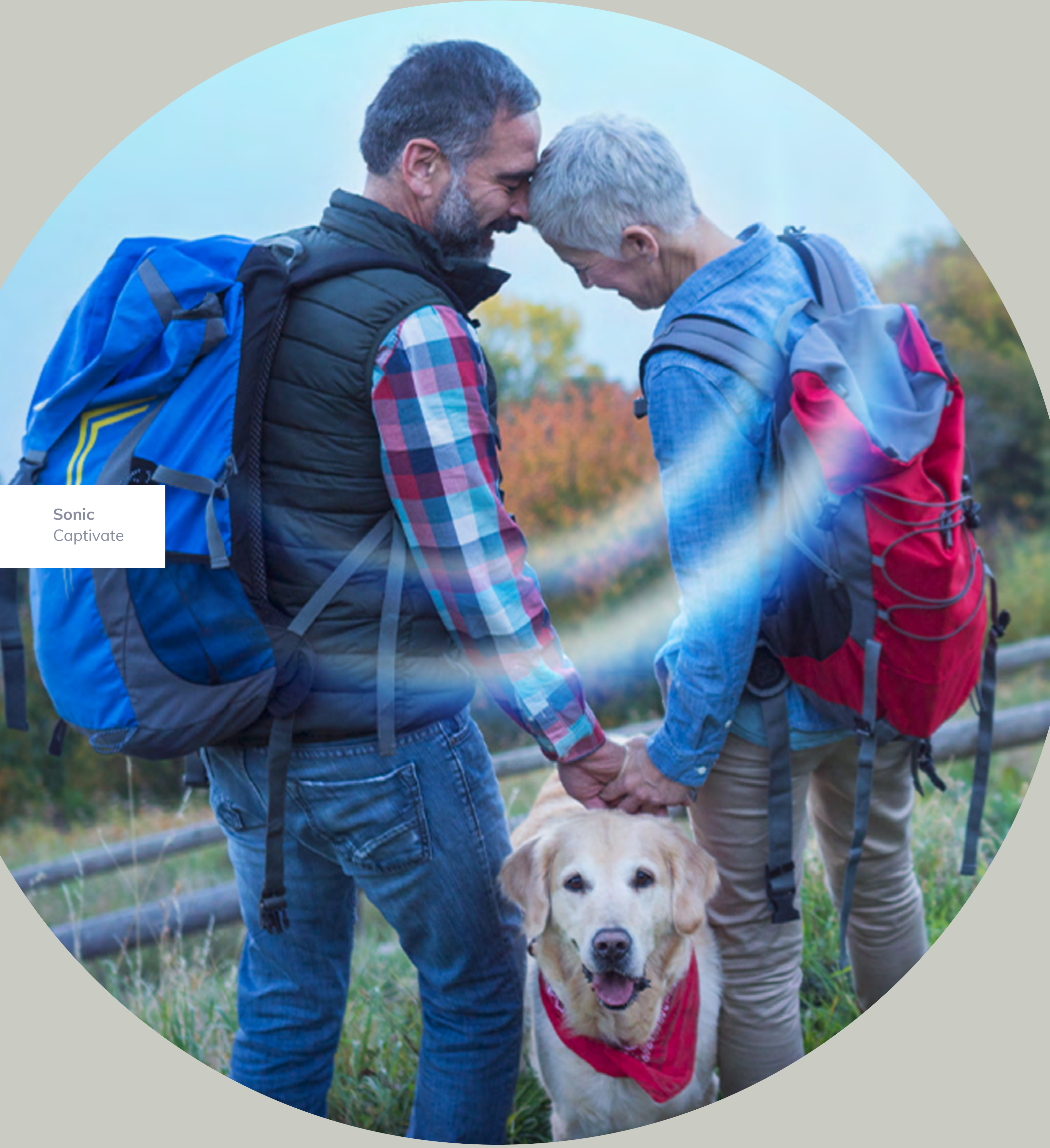
Position: Project Manager, Demant facility in Ballerup, Denmark
Has been with the Demant Group since 2001

Education: Holds a M.Sc. in Electrical Engineering from the Technical University of Denmark and a Diploma in Business Administration (Organisation and Strategy)

Attendance in Board and committee meetings: No absence

Abbreviations
C = Chairman, DC = Deputy Chairman, M = Member

Financial report



Management statement

The Board of Directors and Executive Board have today reviewed and approved the Annual Report 2020 of Demant A/S for the financial year 1 January – 31 December 2020.

The consolidated financial statements are prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements in the Danish Financial Statements Act. The Parent financial statements are prepared and presented in accordance with the Danish Financial Statements Act. Further, the Annual Report 2020 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 presentation of the Group's and the Parent's assets, liabilities and financial position at 31 December 2020, of the results of the Group's and the Parent's operations and of the Group's cash flows for the financial year 1 January – 31 December 2020.

In our opinion, Management's commentary includes a true and fair view of the development in the operations and financial circumstances of the Group and the Parent, of the results for the year and of the financial position of the Group and the Parent as well as a description of the most significant risks and uncertainties facing the Group and the Parent.

In our opinion, the Annual Report 2020 for Demant A/S with the file name DEMA-2020-12-31.zip for the financial year 1 January – 31 December 2020 for the Group and the Parent is prepared in compliance with the ESEF regulation.

We recommend that the Annual Report 2020 be adopted at the annual general meeting on 5 March 2021.

Smørum, 9 February 2021

Executive Board

Søren Nielsen, President & CEO

René Schneider, CFO

Board of Directors

Niels B. Christiansen, Chairman

Niels Jacobsen, Deputy Chairman

Thomas Duer

Casper Jensen

Benedikte Leroy

Anja Madsen

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 2020, 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 2020 and of the results of its operations and cash flows for the financial year 1 January 2020 to 31 December 2020 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 2020 and of the results of its operations for the financial year 1 January 2020 to 31 December 2020 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 24 years up to and including the financial year 2020.

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 2020 to 31 December 2020. 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.
- Tested the valuation model, including mathematical accuracy and obtained supporting evidence for future cash flow projections, estimates and key assumptions, including the applied discount rate.
- 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.
- Assessed the adequacy and appropriateness of disclosures in the notes and compliance with the requirements of IFRS 3.

Accounting for the business combination related to the demerger of Sennheiser Communications A/S

Refer to Note 6.1 in the consolidated financial statements.

On 1 January 2020, Demant A/S obtained control over the Gaming and Enterprise Solutions business within the joint venture Sennheiser Communication A/S through a demerger and thus effectively dissolved the joint venture. Consequently, Management has determined the purchase price based on fair value calculation of the business obtained and allocated this to the identifiable assets and liabilities. The business combination was recognised as of 1 January 2020 in the consolidated financial statements. The Gaming and Enterprise Solutions segments represent the new Communications segment in the consolidated financial statements.

The determination of fair value and the allocation of the purchase price to identifiable assets and liabilities as well as the step-up gain recognised rely on Management's judgements and assumptions, including the future cash flow anticipated from the business and the discount rate applied.

We have evaluated the judgements and tested the reasonableness of the key assumptions, including market potential, revenue and cash flow growth and discount rate. We assessed and challenged Management's assumptions used in its assessment of the fair value of the acquired business and determination of the purchase price, including:

- Assessed Management's process for determining the purchase price, including consulting with subject matter experts regarding the methodology and judgements made.
- Considered Management's process for identifying assets and liabilities acquired, including intangible assets and fair value of inventory, considering the rationale for the acquisition and the nature of the business.
- Tested the valuation model, including mathematical accuracy and obtained supporting evidence for future cash flow projections, estimates and key assumptions, including the applied discount rate.
- 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.
- Assessed the adequacy and appropriateness of disclosures in the notes and compliance with the requirements of IFRS 3 Business Combinations.

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. Mis-statements 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 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 describe 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.

Report on compliance with the ESEF Regulation

As part of our audit of the consolidated financial statements and the Parent financial statements of Demant A/S, we performed procedures to express an opinion on whether the annual report of Demant A/S for the financial year 1 January 2020 to 31 December 2020 with the file name DEMA-2020-12-31.zip is prepared, in all material respects, in compliance with the Commission Delegated Regulation (EU) 2020/815 on the European Single Electronic Format (ESEF Regulation), which includes requirements related to the preparation of the annual report in XHTML format. Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes the preparing of the annual report in XHTML format. Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained and to issue a report that includes our opinion. The procedures consist of testing whether the annual report is prepared in XHTML format. In our opinion, the annual report of Demant A/S for the financial year 1 January 2020 to 31 December 2020 with the file name DEMA-2020-12-31.zip is prepared, in all material respects, in compliance with the ESEF Regulation.

Management is responsible for preparing an annual report that complies with the ESEF Regulation. This responsibility includes:

- The preparing of the annual report in XHTML format;
- The selection and application of appropriate iXBRL tags, including extensions to the ESEF taxonomy and the anchoring thereof to elements in the taxonomy, for financial information required to be tagged using judgement where necessary;
- Ensuring consistency between iXBRL tagged data and the consolidated financial statements presented in human readable format; and
- For such internal control as Management determines necessary to enable the preparation of an annual report that is compliant with the ESEF Regulation.

Our responsibility is to obtain reasonable assurance on whether the annual report is prepared, in all material respects, in compliance with the ESEF Regulation based on the evidence we have obtained and to issue a report that includes our opinion. The nature, timing and extent of procedures selected depend on the auditor's judgement, including the assessment of the risks of material departures from the requirements set out in the ESEF Regulation, whether due to fraud or error. The procedures include:

- Testing whether the annual report is prepared in XHTML format;
- Obtaining an understanding of the company's iXBRL tagging process and of internal control over the tagging process;
- Evaluating the completeness of the iXBRL tagging of the consolidated financial statements;
- Evaluating the appropriateness of the company's use of iXBRL elements selected from the ESEF taxonomy and the creation of extension elements where no suitable element in the ESEF taxonomy has been identified;
- Evaluating the use of anchoring of extension elements to elements in the ESEF taxonomy; and
- Reconciling the iXBRL tagged data with the audited consolidated financial statements.

In our opinion, the annual report of Demant A/S for the financial year 1 January to 31 December 2020 with the file name DEMA-2020-12-31.zip is prepared in all material respects, in compliance with the ESEF Regulation.

Copenhagen, 9 February 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

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

Demant's Hearing Aids business
Greener hearing aid packaging

Consolidated financial statements

Consolidated income statement

(DKK million)	Note	2020	2019
Revenue	1.2	14,469	14,946
Production costs	1.3 / 1.4 / 1.6 / 8.3	-4,276	-3,621
Gross profit		**10,193**	**11,325**
R&D costs	1.3 / 1.4 / 8.3	-1,261	-1,120
Distribution costs	1.3 / 1.4 / 8.3	-7,067	-7,421
Administrative expenses	1.3 / 1.4 / 8.2 / 8.3	-840	-851
Share of profit after tax, associates and joint ventures	3.4 / 6.1	505	118
Other operating income		-	100
Operating profit (EBIT)		**1,530**	**2,151**
Financial income	4.2	38	41
Financial expenses	4.2	-232	-281
Profit before tax		**1,336**	**1,911**
Tax on profit for the year	5.1	-202	-444
Profit for the year		**1,134**	**1,467**
Profit for the year attributable to:			
Demant A/S' shareholders		1,121	1,462
Non-controlling interests		13	5
		1,134	**1,467**
Earnings per share (EPS), DKK	1.5	4.68	6.00
Diluted earnings per share (DEPS), DKK	1.5	4.68	6.00

Consolidated statement of comprehensive income

(DKK million)	2020	2019
Profit for the year	**1,134**	**1,467**
Items that have been or may subsequently be reclassified to the income statement:		
Foreign currency translation adjustment, subsidiaries	-467	131
Foreign currency translation adjustment, reclassified to the income statement	-	-14
Value adjustment of hedging instruments:		
Value adjustment for the year	110	-101
Value adjustment transferred to revenue	-12	91
Tax on items that have been or may subsequently be reclassified to the income statement	-3	7
Items that have been or may subsequently be reclassified to the income statement	**-372**	**114**
Items that will not subsequently be reclassified to the income statement:		
Actuarial gains/losses on defined benefit plans	-2	-55
Tax on items that will not subsequently be reclassified to the income statement	10	10
Items that will not subsequently be reclassified to the income statement	**8**	**-45**
Other comprehensive income/loss	**-364**	**69**
Comprehensive income	**770**	**1,536**
Comprehensive income attributable to:		
Demant A/S' shareholders	757	1,531
Non-controlling interests	13	5
	770	**1,536**
Breakdown of tax on other comprehensive income:		
Foreign currency translation adjustment, foreign enterprises	19	5
Value adjustment of hedging instruments for the year	-25	22
Value adjustment of hedging instruments transferred to revenue	3	-20
Actuarial gains/losses on defined benefit plans	10	10
Tax on other comprehensive income	**7**	**17**

Consolidated balance sheet 31 December

(DKK million)	Note	2020	2019
Assets			
Goodwill		8,320	7,826
Patents and licences		12	21
Other intangible assets		489	508
Prepayments and assets under development		283	221
Intangible assets	3.1	**9,104**	**8,576**
Land and buildings		980	887
Plant and machinery		217	240
Other plant, fixtures and operating equipment		350	372
Leasehold improvements		411	427
Prepayments and assets under construction		181	135
Property, plant and equipment	3.2	**2,139**	**2,061**
Lease assets	3.3	1,847	1,937
Investments in associates and joint ventures	3.4	833	963
Receivables from associates and joint ventures	3.4 / 4.3 / 4.4	247	182
Other investments	4.3 / 4.5	14	16
Other receivables	1.7 / 3.4 / 4.3 / 4.4	503	598
Deferred tax assets	5.2	553	551
Other non-current assets		**3,997**	**4,247**
Non-current assets	3.5	**15,240**	**14,884**
Inventories	1.6	1,968	1,852
Trade receivables	1.7 / 4.3	2,808	3,209
Receivables from associates and joint ventures	4.3	111	178
Income tax		63	106
Other receivables	1.7 / 4.3 / 4.4	441	521
Unrealised gains on financial contracts	2.3 / 4.3 / 4.5	81	13
Prepaid expenses		263	243
Cash	4.3 / 4.4	952	792
Current assets		**6,687**	**6,914**
Assets		**21,927**	**21,798**

Consolidated balance sheet 31 December

(DKK million)	Note	2020	2019
Equity and liabilities			
Share capital		48	49
Other reserves		8,202	7,587
Equity attributable to Demant A/S' shareholders		**8,250**	**7,636**
Equity attributable to non-controlling interests		29	9
Equity		**8,279**	**7,645**
Borrowings	4.3 / 4.4	3,499	2,512
Lease liabilities	3.3	1,437	1,546
Deferred tax liabilities	5.2	339	314
Provisions	7.1	305	283
Other liabilities	4.3 / 7.2	313	203
Deferred income	7.3	381	451
Non-current liabilities		**6,274**	**5,309**
Borrowings	4.3 / 4.4	3,612	5,513
Lease liabilities	3.3	456	418
Trade payables	4.3	802	652
Payables to associates and joint ventures		5	3
Income tax		131	66
Provisions	7.1	17	38
Other liabilities	4.3 / 7.2	1,801	1,521
Unrealised losses on financial contracts	2.3 / 4.3 / 4.4 / 4.5	14	43
Deferred income	7.3	536	590
Current liabilities		**7,374**	**8,844**
Liabilities		**13,648**	**14,153**
Equity and liabilities		**21,927**	**21,798**

Consolidated cash flow statement

(DKK million)	Note	2020	2019
Operating profit (EBIT)		1,530	2,151
Non-cash items etc.	1.8	855	966
Change in receivables etc.		266	-527
Change in inventories		-73	-218
Change in trade payables and other liabilities etc.		236	174
Change in provisions		41	46
Dividends received		41	183
Cash flow from operating profit		**2,896**	**2,775**
Financial income etc. received		20	25
Financial expenses etc. paid		-232	-280
Realised foreign currency translation adjustments		-2	1
Income tax paid		-61	-372
Cash flow from operating activities (CFFO)		**2,621**	**2,149**
Acquisition of enterprises, participating interests and activities		-394	-603
Investments in and disposal of intangible assets		-174	-195
Investments in property, plant and equipment		-507	-571
Disposal of property, plant and equipment		14	10
Investments in other non-current assets		-219	-329
Disposal of other non-current assets		288	274
Cash flow from investing activities (CFFI)		**-992**	**-1,414**
Repayments of borrowings	4.4	-82	-90
Proceeds from borrowings	4.4	1,446	1,647
Change in short-term bank facilities	4.4	-2,157	-352
Repayments of lease liabilities	3.3	-442	-446
Transactions with non-controlling interests		-3	-5
Share buy-backs		-197	-946
Cash flow from financing activities (CFFF)		**-1,435**	**-192**
Cash flow for the year, net		**194**	**543**
Cash and cash equivalents at the beginning of the year		792	248
Foreign currency translation adjustment of cash and cash equivalents		-34	1
Cash and cash equivalents at the end of the year		**952**	**792**
Breakdown of cash and cash equivalents at the end of the year:			
Cash	4.3 / 4.4	952	792
Overdraft	4.3 / 4.4	-	-
Cash and cash equivalents at the end of the year		**952**	**792**

Acquisition of enterprises, participating interests and activities includes loans of DKK 120 million (DKK 56 million in 2019) 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: Foreign currency translation reserve	Other reserves: Hedging reserve	Retained earnings	Demant A/S' share-holders' share	Non-controlling interests' share	Equity
Equity at 1.1.2020	**49**	**34**	**-21**	**7,574**	**7,636**	**9**	**7,645**
Comprehensive income in 2020:							
Profit for the year	-	-	-	1,121	1,121	13	1,134
Other comprehensive income:							
Foreign currency translation adjustment, subsidiaries	-	-467	-	-	-467	-	-467
Foreign currency translation adjustment reclassified to income statement	-	-	-	-	-	-	-
Value adjustment of hedging instruments:							
Value adjustment, year	-	-	110	-	110	-	110
Value adjustment transferred to revenue	-	-	-12	-	-12	-	-12
Actuarial gains/losses on defined benefit plans	-	-	-	-2	-2	-	-2
Tax on other comprehensive income	-	19	-22	10	7	-	7
Other comprehensive income/loss	-	-448	76	8	-364	-	-364
Comprehensive income/loss, year	**-**	**-448**	**76**	**1,129**	**757**	**13**	**770**
Share buy-backs	-	-	-	-147	-147	-	-147
Share-based compensation	-	-	-	4	4	-	4
Capital reduction through cancellation of treasury shares	-1	-	-	1	-	-	-
Transactions with non-controlling interests	-	-	-	-	-	-3	-3
Non-controlling interest on acquisition	-	-	-	-	-	10	10
Equity at 31.12.2020	**48**	**-414**	**55**	**8,561**	**8,250**	**29**	**8,279**

Consolidated statement of changes in equity (continued)

(DKK million)		Other reserves					
	Share capital	Foreign currency translation reserve	Hedging reserve	Retained earnings	Demant A/S' share-holders' share	Non-controlling interests' share	Equity
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**

Notes to consolidated financial statements

Section 1
Operating activities and cash flow

Revenue
14,469
DKK MILLION

Free cash flow
2,023
DKK MILLION

1.1 Segment disclosures

(DKK million)	2020			2019		
	Hearing Healthcare	Commu-nications	Consoli-dated	Hearing Healthcare	Commu-nications	Consoli-dated
Revenue	13,163	1,306	14,469	14,946	-	14,946
Production costs	-3,480	-796	-4,276	-3,621	-	-3,621
Gross profit	**9,683**	**510**	**10,193**	**11,325**	**-**	**11,325**
R&D costs	-1,092	-169	-1,261	-1,120	-	-1,120
Distribution costs	-6,621	-446	-7,067	-7,421	-	-7,421
Administrative expenses	-811	-29	-840	-851	-	-851
Share of profit after tax, associates and joint ventures	52	453	505	52	66	118
Other operating income	-	-	-	100	-	100
Operating profit (EBIT)	**1,211**	**319**	**1,530**	**2,085**	**66**	**2,151**

Distribution costs include intra-segment costs of DKK 4 million (DKK 0 million in 2019). There are no other intra-segment transactions.

Other segment disclosures

	2020			2019		
	Hearing Healthcare	Commu-nications	Consoli-dated	Hearing Healthcare	Commu-nications	Consoli-dated
Depreciation	843	17	860	795	-	795
Amortisation	143	8	151	129	-	129
Step-up gain	-	453	453	-	-	-

Description of products and services for each reportable segment
Based on IFRS 8 Operating Segments and the internal reporting model used by Management for the assessment of results and the use of resources, Management has identified Hearing Healthcare and Communications as the reportable segments in the Group.

This reflects Management's approach to the organisation and management of activities.

Hearing Healthcare comprises the four business areas: Hearing Aids, Hearing Care, Hearing Implants and Diagnostics, which provides Hearing Healthcare solutions involving manufacturing, servicing and sale of hearing aids and implants as well as Diagnostics products and services.

Communications comprises only our headset business, which operates under the EPOS brand and provides solutions for the professional call centre and office market (Enterprise headsets) and gaming headsets (Gaming).

Segment performance is evaluated on EBIT level and is based on the accounting policies for the consolidated income statement.

The Group's financial income and expenses as well as income taxes are managed on a Group basis and are not allocated to operating segments.

1.1 Segment disclosures

(DKK million)	2020					2019				
	Hearing Health-care	Commu-nications	Elimi-nations	Not allocated	Consoli-dated	Hearing Health-care	Commu-nications	Elimi-nations	Not allocated	Consoli-dated
Goodwill	7,903	417	-	-	8,320	7,826	-	-	-	7,826
Other intangible assets	717	67	-	-	784	750	-	-	-	750
Intangible assets	**8,620**	**484**	**-**	**-**	**9,104**	**8,576**	**-**	**-**	**-**	**8,576**
Property plant and equipment	2,123	16	-	-	2,139	2,061	-	-	-	2,061
Lease assets	1,802	45	-	-	1,847	1,937	-	-	-	1,937
Investments in associates	766	67	-	-	833	939	24	-	-	963
Other assets	763	46	-	508	1,317	796	-	-	551	1,347
Other non-current assets	**3,331**	**158**	**-**	**508**	**3,997**	**3,672**	**24**	**-**	**551**	**4,247**
Total non-current assets	**14,074**	**658**	**-**	**508**	**15,240**	**14,309**	**24**	**-**	**551**	**14,884**
Inventories	1,710	258	-	-	1,968	1,852	-	-	-	1,852
Trade receivables	2,468	340	-	-	2,808	3,209	-	-	-	3,209
Intragroup receivables	635	-	-635	-	-	-	-	-	-	-
Other current assets	873	86	-	-	959	942	-	-	119	1,061
Cash	911	41	-	-	952	792	-	-	-	792
Total current assets	**6,597**	**725**	**-635**	**-**	**6,687**	**6,795**	**-**	**-**	**119**	**6,914**
Total assets	**20,671**	**1,383**	**-635**	**508**	**21,927**	**21,104**	**24**	**-**	**670**	**21,798**
Equity	**14,970**	**359**	**-**	**-7,050**	**8,279**	**15,375**	**24**	**-**	**-7,778**	**7,645**
Borrowings	-	-	-	3,499	3,499	-	-	-	2,512	2,512
Lease liabilities	1,400	37	-	-	1,437	1,546	-	-	-	1,546
Other non-current liabilities	982	30	-	326	1,338	937	-	-	314	1,251
Total non-current liabilities	**2,382**	**67**	**-**	**3,825**	**6,274**	**2,483**	**-**	**-**	**2,826**	**5,309**
Borrowings	-	-	-	3,612	3,612	-	-	-	5,513	5,513
Lease liabilities	448	8	-	-	456	418	-	-	-	418
Intragroup payables	-	635	-635	-	-	-	-	-	-	-
Other current liabilities	2,871	314	-	121	3,306	2,804	-	-	109	2,913
Total current liabilities	**3,319**	**957**	**-635**	**3,733**	**7,374**	**3,222**	**-**	**-**	**5,622**	**8,844**
Total equity and liabilities	**20,671**	**1,383**	**-635**	**508**	**21,927**	**21,104**	**24**	**-**	**670**	**21,798**

Segment assets and liabilities are based on the accounting policies for the consolidated balance sheet and allocated based on the operation of the segment. The Group's borrowings, derivative financial instruments and income tax related assets and liabilities are managed on a Group basis and not allocated to operating segments.

1.2 Revenue from contracts with customers

(DKK million)	2020	2019
Disaggregation of revenue from contracts with customers		
Revenue by geographic region:		
Denmark	262	233
Other Europe	6,262	5,877
North America	5,340	6,194
Pacific	932	908
Asia	1,313	1,188
Other countries	360	546
Revenue from contracts with customers	**14,469**	**14,946**

Consolidated revenue mainly derives from the sale of goods and is broken down by the customers' geographical region. The ten largest single customers together account for less than 11% (13% in 2019) of total consolidated revenue.

(DKK million)	2020	2019
Revenue by segments:		
Hearing healthcare	13,163	14,946
Communications	1,306	-
Revenue from contracts with customers	**14,469**	**14,946**

(DKK million)	2020	2019
Value adjustments transferred from equity relating to derivatives made for hedging foreign exchange risk on revenue	12	-91

(DKK million)	2020	2019
Liabilities related to contracts with customers:		
Customer prepayments*	93	66
Future performance obligations*	824	975
Expected volume discounts and other customer-related items**	213	191
Expected product returns***	116	140
Contract liabilities with customers	**1,246**	**1,372**

(DKK million)	2020	2019
Changes in contract liabilities with customers:		
Contract liabilities at 1.1.	1,372	1,416
Foreign currency translation adjustment	-54	29
Changes to transaction price estimates from prior years	-	-18
Revenue recognised and included in the contract liability balance at 1.1.	-553	-541
Increases due to cash received, excluding amounts recognised as revenue during the year	448	495
Changes from expected volume discounts and other customer-related items	28	-8
Changes from product returns	-13	-1
Business combinations	18	-
Contract liabilities at 31.12.	**1,246**	**1,372**

**Included in deferred income.*

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

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

1.2 Revenue from contracts with customers

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 products and services within Hearing Healthcare and Communications. 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 48 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 judgements
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.

1.3 Employees

(DKK million)	Note	2020	2019
Staff costs:			
Wages and salaries		5,953	5,787
Share-based remuneration		12	7
Defined contribution plans		79	78
Defined benefit plans	7.1	28	22
Social security costs etc.		627	631
Staff costs		**6,699**	**6,525**
Staff costs by function:			
Production costs		892	873
R&D costs		839	725
Distribution costs		4,289	4,304
Administrative expenses		679	623
Staff costs		**6,699**	**6,525**
Average number of full-time employees		16,155	15,352

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

(DKK million)	2020			2019		
	Wages and salaries*	Share-based remune-ration**	Total	Wages and salaries*	Share-based remune-ration**	Total
Søren Nielsen, President & CEO	11.9	2.9	14.8	12.5	2.2	14.7
René Schneider, CFO	5.2	1.3	6.5	5.5	1.0	6.5
Executive Board	**17.1**	**4.2**	**21.3**	**18.0**	**3.2**	**21.2**
Fee to Board of Directors	**3.6**	**-**	**3.6**	**4.2**	**-**	**4.2**

**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 2019). These expenses are therefore included in wages and salaries.*

***In 2020, DKK 4.2 million (DKK 3.6 million in 2019) of the share-based remuneration was paid out.*

President & CEO, Søren Nielsen, is entitled to 24 months' notice in the event of dismissal. CFO, René Schneider, is currently entitled to 17 months' notice in the event of dismissal, which increases with seniority.

In 2020, the basic remuneration for a member of the Parent's Board of Directors was DKK 350,000 (DKK 350,000 in 2019). 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 2019), and the chairman of the audit committee receives three times the basic remuneration.

When the Hearing Healthcare business was severely impacted by coronavirus, the Executive Board made a voluntary reduction of 10% of their fixed salary from 1 April until the end of the year. For the same reason, the Board of Directors decided to reduce their fee by 20% from 1 May until the end of the year.

1.3 Employees (continued)

Share-based remuneration ("shadow share" programme)

(DKK million)	2020		2019	
	Executive Board	Other senior members of Management	Executive Board	Other senior members of Management
Liabilities at 1.1.	6.3	7.3	5.7	5.5
Expensed during the year in wages and salaries	4.2	5.1	3.1	4.8
Fair value adjustments	0.7	0.8	1.1	1.1
Settled during the year	-4.2	-4.2	-3.6	-4.1
Liabilities at 31.12.	**7.0**	**9.0**	**6.3**	**7.3**
Granted during the year	6.0	3.7	4.5	6.5
Unrecognised commitment at 31.12.*	7.3	5.3	5.0	7.9

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

The Group has two types of share-based remuneration programmes, which consist of RSU (restricted stock units) and "shadow share" programmes. The RSU programme was introduced in 2019 and is equity-settled, whereas the "shadow share" programme, which was introduced in 2016, 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 under both programmes is based on the average share price of the first five trading days after publication of the annual report.

RSU programme
The fair value of RSU granted to 13 employees (10 employees in 2019) was DKK 5 million (DKK 2 million in 2019) at the time of the grant (21,899 shares), and in 2020, the Group recognised costs of DKK 2 million (DKK 1 million in 2019) in the income statement related to the RSU programme. The costs are recognised on a straight-line basis, as the service is rendered.

At 31 December 2020, the remaining average contractual life of equity-settled share programmes was 21 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 six employees (eight in 2019) was DKK 10 million (DKK 9 million in 2019) at the time of the grant, and at 31 December 2020, the Group had liabilities of DKK 16 million (DKK 12 million in 2019) 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 2020, the remaining average contractual life of cash-settled remuneration programmes was 19 months (16 months in 2019).

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 judgements
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.

1.4 Amortisation, depreciation and impairment losses

(DKK million)	Note	2020	2019
Amortisation of intangible assets	3.1	151	129
Depreciation on property, plant and equipment	3.2	367	325
Depreciation on leased assets	3.3	493	470
Amortisation, depreciation and impairment losses		**1,011**	**924**
Amortisation, depreciation and impairment losses by function:			
Production costs		103	86
R&D costs		69	73
Distribution costs		633	651
Administrative expenses		206	114
Amortisation, depreciation and impairment losses		**1,011**	**924**

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

1.5 Earnings per share

	2020	2019
Demant A/S' shareholders' share of profit for the year, DKK million	1,121	1,462
Average number of shares, million	242.09	247.47
Average number of treasury shares, million	-2.31	-3.92
Average number of shares outstanding, million	**239.78**	**243.55**
Earnings per share (EPS), DKK	**4.68**	**6.00**
Diluted earnings per share (DEPS), DKK	**4.68**	**6.00**

1.6 Inventories

(DKK million)	2020	2019
Raw materials and purchased components	682	732
Work in progress	108	76
Finished goods and goods for resale	1,178	1,044
Inventories	**1,968**	**1,852**
Write-downs, provisions for obsolescence etc. included in the above	125	136
Included in the income statement under production costs:		
Write-downs of inventories for the year, net	77	42
Cost of goods sold for the year	3,192	2,733

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 judgements
Indirect production cost allocations to inventory
Indirect production cost allocations are based on relevant judgements related to capacity utilisation at the production facility, production time and other product-related factors. The judgements are reviewed regularly to ensure that inventories are measured at their actual production cost. Changes in judgements 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 judgements.

1.7 Receivables

(DKK million)	2020	2019
Trade receivables	2,808	3,209
Customer loans	610	714
Other receivables	334	405
Receivables	**3,752**	**4,328**

Credit risk

(DKK million)	Balance not due	0-3 months overdue	3-6 months overdue	6-12 months overdue	More than 12 months overdue
2020					
Expected loss rate	1%	4%	11%	22%	92%
Gross carrying amount – trade receivables	1,939	525	182	251	317
Gross carrying amount – customer loans	619	3	1	-	7
Gross carrying amount – other receivables	334	-	-	-	-
Loss allowance	**31**	**21**	**20**	**55**	**299**
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)	2020	2019
Allowance for impairment:		
Allowance for impairment at 1.1.	-339	-280
Foreign currency translation adjustments	26	-4
Applied during the year	145	69
Additions during the year	-267	-129
Reversals during the year	9	5
Allowance for impairment at 31.12.	**-426**	**-339**

1.7 Receivables (continued)

Of the total amount of trade receivables, DKK 243 million (DKK 239 million in 2019) is expected to be collected after 12 months. For information on security and collateral, please refer to Credit risks in note 4.1.

In 2020 the Group has made a provision for additional bad debt of DKK 100 million due to the uncertainties caused by the Covid-19 pandemic. The additional provision for bad debt is recognised in loss allowance for trade receivables more than 12 months overdue. The expected loss rate is 92 % for amounts more than 12 months overdue including the provision for additional bad debt. The adjusted loss rate is 61% excluding the provision for additional bad debt.

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.

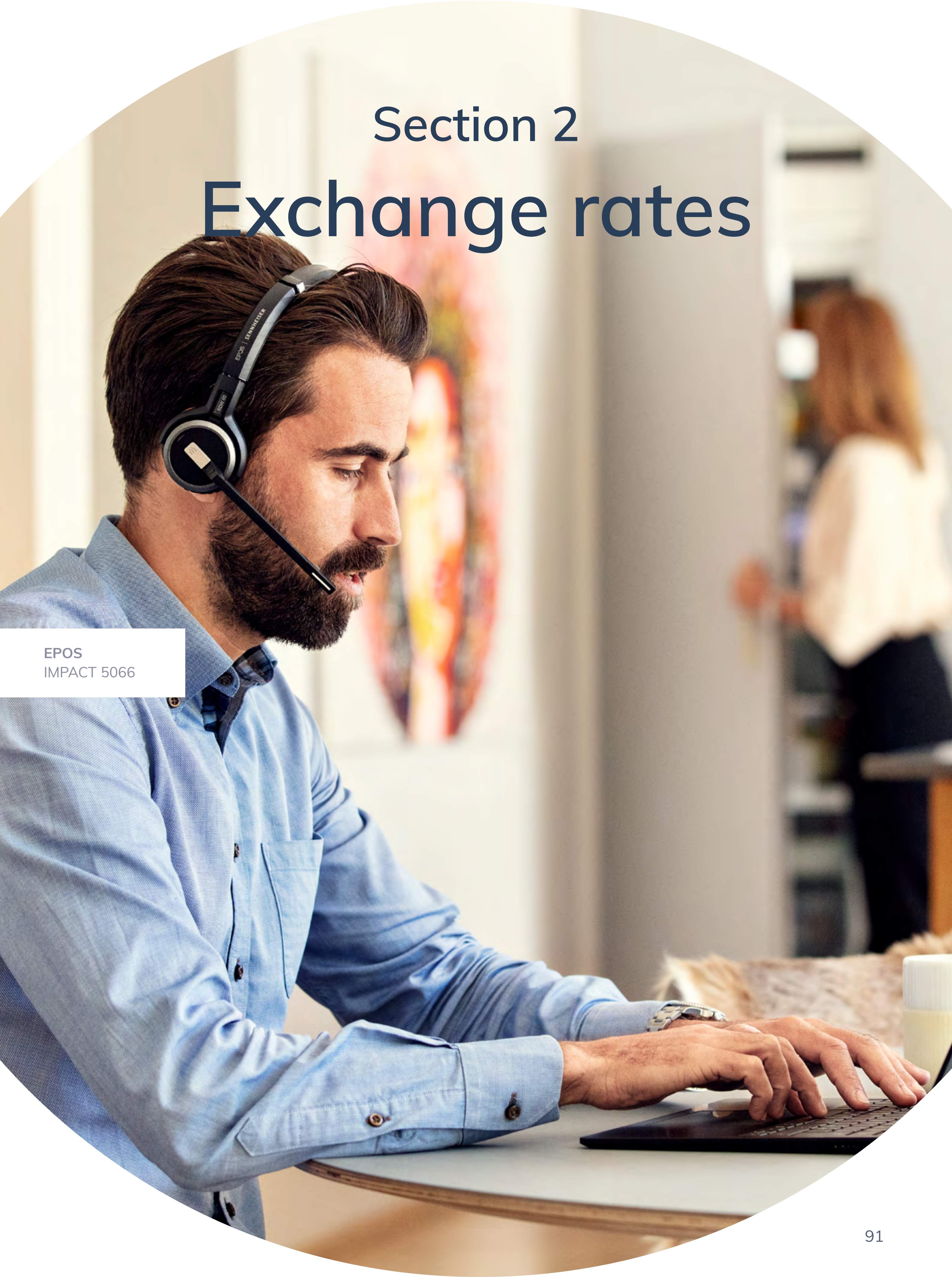
Receivables without a definite maturity date are measured at cost. Current receivables arisen as a result of the Group's ordinary activities are measured at nominal value. Impairment is based on expected credit losses, which include the use of the lifetime expected loss provision for trade receivables.

Accounting estimates and judgements
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.

1.8 Specification of non-cash items etc.

(DKK million)	2020	2019
Amortisation and depreciation etc.	1,048	959
Share of profit after tax, associates and joint ventures	-505	-118
Gain on sale of intangible assets and property, plant and equipment	2	-
Bad debt provisions	114	105
Exchange rate adjustments	156	-6
Employee salary share programme	50	-
Covid-19 rent concessions	-12	-
Other non-cash items	2	26
Non-cash items etc.	**855**	**966**

Section 2
Exchange rates



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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	2020	2019
USD	+19	+49
GBP	+16	+22
CAD	+15	+19
AUD	+11	+8
JPY	+5	+4
PLN	-22	-23

Effect on equity, 5% positive change in exchange rates

DKK million	2020	2019
USD	+179	+164
GBP	+20	+18
CAD	+48	+51
AUD	+13	+21
JPY	+4	+4
PLN	+27	+26

**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 2020, our forward exchange contracts realised a gain of DKK 12 million (loss of DKK 91 million in 2019), which increased reported revenue for the year. In addition, we raised loans in foreign currencies to balance out net receivables. At year-end 2020, we had entered into forward exchange contracts with a total contractual value of DKK 1,053 million (DKK 697 million in 2019) and a total net fair value of DKK 69 million (DKK -28 million in 2019).

Forward exchange contracts

(DKK million)	Expiry	Hedging period*	Average hedging rate	Contractual value	Fair value	Positive fair value at year-end	Negative fair value at year-end
2020							
USD	2021	11 months	638	-1,193	65	65	-
AUD	2021	10 months	457	-281	-4	-	4
GBP	2021	9 months	825	-384	2	3	1
CAD	2021	9 months	484	-372	7	7	-
JPY	2021	9 months	6.00	-120	3	3	-
PLN	2021	10 months	166	402	-6	1	7
EUR**	2024	48 months	741	895	2	2	-
				-1,053	**69**	**81**	**12**
2019							
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**

**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.*

***Forward exchange contracts in EUR hedged a fixed committed financial loan.*

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.

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.

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

	2020	2019	Change
EUR	745	747	-0.3%
USD	654	667	-1.9%
AUD	451	464	-2.8%
GBP	839	851	-1.4%
CAD	488	503	-3.0%
JPY	6.13	6.12	0.2%
PLN	168	174	-3.4%

Year-end exchange rate DKK per 100

	2020	2019	Change
EUR	744	747	-0.4%
USD	606	668	-9.3%
AUD	464	467	-0.6%
GBP	824	877	-6.0%
CAD	474	511	-7.2%
JPY	5.88	6.11	-3.8%
PLN	163	175	-6.9%

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, except for 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

Section 3
Asset base

Intangible assets
9,104
DKK MILLION

Property, plant and equipment
2,139
DKK MILLION

Other non-current assets
3,997
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 1.1.2020	**7,826**	**120**	**919**	**221**	**9,086**
Foreign currency translation adjustments	-373	1	-15	-5	-392
Additions during the year	-	-	41	133	174
Additions relating to acquisitions	867	1	22	-	890
Disposals during the year	-	-	-11	-	-11
Transfer to/from other items	-	-	99	-66	33
Cost at 31.12.2020	**8,320**	**122**	**1,055**	**283**	**9,780**
Amortisation at 1.1.2020	**-**	**-99**	**-411**	**-**	**-510**
Foreign currency translation adjustments	-	-	11	-	11
Amortisation for the year	-	-11	-140	-	-151
Depreciation transfer	-	-	-30	-	-30
Disposals during the year	-	-	4	-	4
Amortisation at 31.12.2020	**-**	**-110**	**-566**	**-**	**-676**
Carrying amount at 31.12.2020	**8,320**	**12**	**489**	**283**	**9,104**
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**

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 judgements
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. Regardless of this the products and services within Hearing Healthcare and Communications address different customer demands and customer groups, which would not be comparable in nature. Management therefore considers it most appropriate to separate the activities into two reportable segments, Hearing Healthcare and Communications. Impairment testing is therefore carried out for the Group´s two cash-generating units, Hearing Healthcare and Communications. 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 improve-ments	Prepay-ments and assets under construction	Total property plant and equipment
Cost at 1.1.2020	**1,147**	**712**	**1,368**	**950**	**135**	**4,312**
Foreign currency translation adjustments	-35	-25	-59	-30	-1	-150
Additions during the year	60	49	100	110	150	469
Additions relating to acquisitions	5	3	33	5	4	50
Disposals during the year	-	-8	-94	-54	-1	-157
Transferred to/from other items	77	11	-7	-8	-106	-33
Cost at 31.12.2020	**1,254**	**742**	**1,341**	**973**	**181**	**4,491**
Depreciation and impairment losses at 1.1.2020	**-260**	**-472**	**-996**	**-523**	**-**	**-2,251**
Foreign currency translation adjustments	10	17	46	19	-	92
Depreciation for the year	-24	-88	-145	-110	-	-367
Disposals during the year	-	7	85	52	-	144
Transferred to/from other items	-	11	19	-	-	30
Depreciation and impairment losses at 31.12.2020	**-274**	**-525**	**-991**	**-562**	**-**	**-2,352**
Carrying amount at 31.12.2020	**980**	**217**	**350**	**411**	**181**	**2,139**
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**

3.2 Property, plant and equipment

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 judgements
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)	2020	2019
Lease assets at 1.1.	1,937	2,029
Foreign currency translation adjustments	-59	35
Additions during the year	391	372
Additions relating to acquisitions	122	35
Disposals during the year	-51	-64
Depreciations during the year	-493	-470
Lease assets at 31.12.	**1,847**	**1,937**
Lease liabilities at 1.1.	**1,964**	**2,038**
Foreign currency translation adjustments	-71	36
Additions during the year	388	372
Additions relating to acquisitions	119	35
Covid-19-related rent concessions	-12	-
Disposals during the year	-53	-71
Payments	-442	-446
Lease liabilities at 31.12.	**1,893**	**1,964**
Current lease liabilities	456	418
Non-current lease liabilities	1,437	1,546
Amounts recognised in the income statement:		
Variable lease payments	20	20
Short-term lease expenses	21	14
Low-value assets	6	3

3.3 Leases (continued)

The Group's leases primarily comprise agreements regarding properties. The lease terms are of various length and may contain extension 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 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 adjusted for the functional currencies and length 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.

IFRS 16 Covid-19-Related Rent Concessions amendment

IFRS 16 is amended to exempt lessees, who have received rent concessions as a direct consequence of the Covid-19 pandemic, from the requirement to assess whether the concession is a lease modification. The Group has decided to apply the practical expedient to all rent concessions that meet the conditions as outlined in paragraph 46B of IFRS 16. This resulted in accounting for the concession as a variable lease payment. The rent concessions recognised in the income statement for 2020 amount to DKK 12 million.

Accounting estimates and judgements

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 1.1.2020	**946**	**182**	**531**	**94**
Foreign currency translation adjustments	-38	-11	-43	-5
Additions during the year	7	92	131	3
Additions relating to acquisitions	132	7	-	1
Disposals related to step-up acquisitions of associates	-165	-	-	-
Disposals, repayments etc. during the year	-83	-23	-83	-3
Movement to current assets	-	-	-90	-4
Cost at 31.12.2020	**799**	**247**	**446**	**86**
Value adjustments at 1.1.2020	17	-	-8	-19
Foreign currency translation adjustments	1	-	1	2
Share of profit after tax	48	-	-	-
Dividends received	-41	-	-	-
Disposals relating to step-up acquisitions of associates	-74	-	-	-
Other adjustments	83	-	-2	-2
Disposals during the year	-	-	-	-1
Value adjustments at 31.12.2020	**34**	**-**	**-9**	**-20**
Carrying amount at 31.12.2020	**833**	**247**	**437**	**66**
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 assets	-	-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**

Please refer to *Subsidiaries, associates and joint ventures* on page 148 for a list of associates and joint ventures.

3.4 Other non-current assets (continued)

Transactions with associates and joint ventures
In 2020, the Group recognised revenue from associates and joint ventures of DKK 294 million (DKK 457 million in 2019), received royalties from and paid license fees to associates and joint ventures, amounting to net income of DKK 1 million (net income of DKK 1 million in 2019) and received dividends from associates and joint ventures in the amount of DKK 41 million (DKK 183 million in 2019). In 2020, the Group received interest income from associates and joint ventures in the amount of DKK 4 million (DKK 3 million in 2019).

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.

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.

	Associates		Joint ventures	
(DKK million)	**2020**	**2019**	**2020**	**2019**
Financial information from financial statements(Group share)				
Revenue	518	699	-	563
Net profit for the year	50	52	-	66
Comprehensive income	50	52	-	66

3.5 Non-current assets by geographic region

(DKK million)	2020	2019
Denmark	2,261	1,880
Other Europe	5,940	5,588
North America	5,840	6,308
Pacific	798	813
Asia	272	252
Other countries	129	43
Non-current assets	**15,240**	**14,884**

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 two cash-generating units, Hearing Healthcare and Communications. Based on the impairment tests performed, a material excess value was identified in each cash-generating unit, compared to the carrying amount, for which reason no impairment of goodwill was made at 31 December 2020.

Future cash flows are based on the budget for 2021, on strategy plans and on projections hereof. Projections extending beyond 2021 are based on general parameters, such as expected market growth, selling prices and profitability assumptions. The terminal value for the period after 2025 is determined on the assumption of 2% growth. The pre-tax discount rate is 7% for Hearing Healthcare and 12% for Communications. 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, 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 we had no need for impairment in 2020.

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 judgements on which the calculation of the recoverable amount is based, the carrying amount of an asset or cashgenerating 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.

Section 4

Capital structure and financial management

Net interest-bearing debt including lease liabilities

7,135

DKK MILLION

Net financial items

194

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 7,135 million as of 31 December 2020, and the gearing multiple was 2.8 (NIBD/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 in general, credit risks only involve minor losses on loans to individual customers. The accumulated revenue from our ten largest customers accounts for approx. 11% of total consolidated revenue. Furthermore, when granting loans, we require that our counterparties provide security in their business. Overall, we therefore estimate that the risk relative to our total credit exposure is well-balanced at Group level.

The maximum credit risk relating to receivables matches the carrying amounts of such receivables. Overall, the Group has limited deposits with financial institutions for which reason the credit risk of deposits is considered to be low. In 2020, the Group made an additional provision for bad debt of DKK 150 million, reflecting the increased risk of customers defaulting on their debt due to coronavirus. The provision was partly reversed by DKK 50 million towards the end of the year as a result of an updated risk assessment.

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 2020 has the Group defaulted on any loan agreements.

4.2 Net financial items

(DKK million)	2020	2019
Interest on cash and bank deposits	1	3
Interest on receivables, customer loans etc.	32	36
Other financial income	1	1
Financial income from financial assets measured at amortised cost	**34**	**40**
Foreign exchange gains, net	4	1
Financial income	**38**	**41**
Interest on bank debt, mortgages etc.	-72	-117
Interest expense on lease liabilities	-45	-46
Financial expenses on financial liabilities measured at amortised cost	**-117**	**-163**
Foreign exchange losses, net	-1	-
Transaction costs	-114	-118
Financial expenses	**-232**	**-281**
Net financial items	**-194**	**-240**

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 83 million in 2020 (a loss of DKK 5 million in 2019).

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, the 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)	2020	2019
Unrealised gains on financial contracts	81	13
Financial assets used as hedging instruments	**81**	**13**
Receivables from associates and joint ventures	358	361
Customer loans	610	714
Other receivables	334	405
Trade receivables	2,808	3,209
Cash	952	792
Financial assets at amortised cost	**5,062**	**5,481**
Other investments	14	16
Financial assets at fair value through profit/loss	**14**	**16**
Unrealised losses on financial contracts	-14	-43
Financial liabilities used as hedging instruments	**-14**	**-43**
Debt to credit institutions etc.	-5,930	-4,687
Short-term bank facilities etc.	-1,181	-3,338
Lease liabilities	-1,893	-1,964
Trade payables	-802	-652
Other liabilities	-1,763	-1,379
Financial liabilities measured at amortised cost	**-11,569**	**-12,020**

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 351 million (DKK 405 million in 2019).

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					
	Less than 1 year	1-5 years	More than 5 years	Total	Carrying amount	Weighted average effective interest rate
2020						
Interest-bearing receivables	241	491	218	950	917	
Cash	955	-	-	955	952	
Interest-bearing assets	**1,196**	**491**	**218**	**1,905**	**1,869**	**1.6%**
Debt to credit institutions etc.	-2,441	-3,525	-1	-5,967	-5,930	
Short-term bank facilities etc.	-1,201	-	-	-1,201	-1,181	
Borrowings	**-3,642**	**-3,525**	**-1**	**-7,168**	**-7,111**	**0.6%**
Net interest-bearing debt	**-2,447**	**-3,034**	**217**	**-5,263**	**-5,242**	**0.2%**
Lease liabilities	-436	-1,255	-411	-2,102	-1,893	
Net interest-bearing debt including lease liabilities	**-2,882**	**-4,289**	**-194**	**-7,365**	**-7,135**	
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**	

Trade payables and other liabilities have a contractual maturity of less than one year, with the exception of other liabilities of DKK 313 million (DKK 203 million in 2019), which have a contractual maturity of 1-10 years. The contractual cash flows approximate their carrying amounts.

Borrowings broken down by currency: 29% in US dollars (23% in 2019), 55% in Danish kroner (51% in 2019), 16% in euros (24% in 2019), 0% in Canadian dollars (1% in 2019) and 0% in other currencies (1% in 2019).

Reconciliation 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)	2019	Cash flow from financing activities	Net cash flow from overdraft	Non-cash changes: IFRS 16 transition	Acqui-sitions	Foreign exchange movement	Other additions	Disposals	2020
Lease liabilities	-1,964	442	-	-	-119	71	-388	65	-1,893
Debt to credit institutions etc.	-4,687	-1,364	154	-	-40	7	-	-	-5,930
Short-term bank facilities	-3,338	2,157	-154	-	-	154	-	-	-1,181
Liabilities from financing activities	**-9,989**	**1,235**	**-**	**-**	**-159**	**232**	**-388**	**65**	**-9,004**
Interest-bearing liabilities	**-9,989**	**1,235**	**-**	**-**	**-159**	**232**	**-388**	**65**	**-9,004**

(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**

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

Interest cap

(DKK million)	2020: Expiry	Interest rate/strike	Contractual amount at year-end	Positive fair value at year-end	Negative fair value at year-end	2019: Expiry	Interest rate/strike	Contractual amount at year end	Positive fair value at year-end	Negative fair value at year-end
DKK/DKK	**2023**	**0%**	650	-	2	2022	0%	650	-	2
			650	**-**	**2**			**650**	**-**	**2**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -2 million (DKK -2 million in 2019), and the contractual value of interest cap is DKK 650 million (DKK 650 million in 2019). The cap will run until 2023.

Sensitivity analysis in respect of interest rates
Based on consolidated net debt at the end of the 2020 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 approx. DKK 10 million (DKK 17 million in 2019). About 59% (56% in 2019) 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 judgements 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)

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.

4.5 Fair value hiearchy (continued)

(DKK million)	2020				2019			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets used as hedging instruments	-	81	-	**81**	-	13	-	**13**
Other investments	-	-	14	**14**	-	-	16	**16**
Financial liabilities used as hedging instruments	-	-14	-	**-14**	-	-43	-	**-43**
Contingent considerations	-	-	-121	**-121**	-	-	-128	**-128**

There have been no transfers between level 1 and 2 in the 2020 and 2019 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)	**2020**	**2019**	**2020**	**2019**
Carrying amount at 1.1.	16	14	-128	-170
Foreign currency translation adjustment	-1	1	7	-2
Acquisitions	-	-	-76	-36
Disposals, repayments, settlements etc.	-1	-	56	70
Other adjustments	-	1	20	10
Carrying amount at 31.12.	**14**	**16**	**-121**	**-128**

Section 5
Tax

Tax on profit

202

DKK MILLION

Effective tax rate*

15.1%

**The effective tax rate for 2020 reflects the non-taxable nature of the positive one-off fair value adjustment realised as part of the consolidation of EPOS.*

5.1 Tax on profit

(DKK million)	2020	2019
Current tax on profit for the year	-224	-405
Adjustment of current tax, prior years	48	21
Change in deferred tax	8	-42
Adjustment of deferred tax, prior years	-32	-14
Impact of changes in corporate tax rates	-2	-4
Tax on profit for the year	**-202**	**-444**
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	1.3%	1.5%
Impact of changes in corporate tax rates	0.2%	0.2%
Impact of unrecognised tax assets, net	1.1%	0.2%
Permanent differences	-11.6%	-0.4%
Other items including prior-year adjustments	2.1%	-0.3%
Effective tax rate	**15.1%**	**23.2%**

The permanent differences are extraordinarily high in 2020 due to the fact that the Group is exempt from paying tax on the positive one-off fair value adjustment of DKK 453 million realised as part of the consolidation of EPOS.

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)	2020	2019
Deferred tax recognised in the balance sheet:		
Deferred tax assets	553	551
Deferred tax liabilities	-339	-314
Deferred tax, net at 31.12.	**214**	**237**
Deferred tax, net at 1.1.	**237**	**281**
Foreign currency translation adjustments	-2	2
Changes in deferred tax assets	8	-42
Additions relating to acquisitions	-2	-3
Adjustment of deferred tax, prior years	-32	-14
Impact of changes in corporate tax rates	-2	-4
Deferred tax relating to changes in equity, net	7	17
Deferred tax, net at 31.12	**214**	**237**

The tax value of deferred tax assets not recognised is DKK 111 million (DKK 130 million in 2019) 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.

5.2 Deferred tax (Continued)

(DKK million)	Temporary differences at 1.1.2020	Foreign currency translation adjust-ments	Acquisi-tions	Recognised in profit for the year	Recognised in other comprehen-sive income	Temporary differences at 31.12.2020
Breakdown of the Group's temporary differences and changes:						
Intangible assets	-365	21	-1	-56	-	-401
Property, plant and equipment	-29	-	2	-16	-	-43
Leased assets	6	-1	-	6	-	11
Inventories	241	-2	-	14	-	253
Receivables	58	-5	-	13	-	66
Provisions	79	17	-1	-1	-	94
Deferred income	183	-23	-	-1	-	159
Tax losses	63	-9	-	40	-	94
Other	1	-	-2	-25	7	-19
Total	**237**	**-2**	**-2**	**-26**	**7**	**214**

(DKK million)	Temporary differences at 1.1.2019	Foreign currency translation adjust-ments	Acquisi-tions	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**

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 judgements

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)	Hearing Healthcare			Communi-cation	Total
	North America	Europe	Asia Pacific	Global	2020
2020					
Intangible assets	8	6	-	9	23
Property, plant and equipment	5	30	-	15	50
Other non-current assets	14	235	-	16	265
Inventories	5	13	-	73	91
Current receivables	14	124	-	112	250
Cash and cash equivalents	8	27	-	34	69
Non-current liabilities	-12	-101	-	-13	-126
Current liabilities	-11	-127	-	-186	-324
Acquired net assets	**31**	**207**	**-**	**60**	**298**
Goodwill	185	265	-	417	867
Acquisition cost	**216**	**472**	**-**	**477**	**1,165**
Carrying amount of non-controlling interests on obtaining control	-7	-204	-	-24	-235
Fair value adjustment of non-controlling interests on obtaining control	2	-3	-	-453	-454
Contingent consideration and deferred payments	-62	-14	-	-	-76
Acquired cash and cash equivalents	-8	-27	-	-34	-69
Cash acquisition cost	**141**	**224**	**-**	**-34**	**331**

Figures are shown at fair value on the aquisition date.

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 cash equivalents	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 consideration and deferred payments	-28	-7	-1	-	-36
Acquired cash and cash equivalents	-25	-25	-5	-	-55
Cash acquisition cost	**270**	**126**	**53**	**-**	**449**

Figures are shown at fair value on the aquisition date.

6.1 Acquisition of enterprises and activities (continued)

On 1 January 2020, the ownership structure of Sennheiser Communications A/S was changed through a demerger whereby Demant A/S obtained full control of the Gaming and Enterprise Solutions segments, and German Sennheiser electronic GmbH & Co. KG ("Sennheiser KG") obtained control of the Mobile segment. The purchase price for the Gaming and Enterprise Solutions segments was DKK 477 million. The demerger is based on a cashfree split of ownership.

On 2 January 2020, Demant A/S acquired an additional interest in Audilab SAS, which is a large retail network of hearing aid clinics in France, based on a model of shared ownership with audiologists. We previously held a non-controlling interest in the network, and we are now the direct owner of 95% of the shares in Audilab SAS. The total fair value of 95% of the shares in Audilab SAS, on the acquisition date, was DKK 381 million.

The Group's other acquisitions in 2020 consist of a number of minor retail acquisitions, 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 2020, a few adjustments were made to the preliminary recognition of acquisitions made in 2019. 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 1 million (DKK 2 million in 2019), the impact on contingent considerations was DKK 0 million (DKK 3 million in 2019). In relation to acquisitions with final recognition in 2015-2019, adjustments were made in 2020 in respect of estimated contingent considerations. Such adjustments are recognised 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 454 million (DKK 13 million in 2019), and adjustments of contingent considerations made via the income statement of DKK 16 million (DKK 9 million in 2019) are recognised under Distribution costs for acquisitions and DKK 5 million are recognised in Share of profit after tax, associates and joint ventures for associates and joint ventures.

Of the total acquisition entries in 2020, the fair value of estimated contingent considerations in the form of earn-outs or deferred payments accounted for DKK 76 million (DKK 36 million in 2019). 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 82 million (DKK 39 million in 2019) for acquisitions.

The acquired assets include contractual receivables amounting to DKK 126 million (DKK 38 million in 2019) of which DKK 1 million (DKK 1 million in 2019) was thought to be uncollectible at the date of the acquisition. Of total goodwill in the amount of DKK 867 million (DKK 491 million in 2019), DKK 91 million (DKK 198 million in 2019) can be amortised for tax purposes.

Transaction costs in connection with acquisitions made in 2020 amounted to DKK 2 million (DKK 2 million in 2019), which has been recognised under Distribution costs.

Revenue and profit generated by the acquired enterprises since our acquisition in 2020 amount to DKK 1,428 million (DKK 125 million in 2019) and DKK 143 million, excluding one-off in EPOS of DKK 217 million (DKK 6 million in 2019), respectively. Had such revenue and profit been consolidated on 1 January 2020, we estimate that consolidated pro-forma revenue and profit would have been DKK 14,524 million (DKK 15,060 million in 2019) and DKK 1,136 million (DKK 1,472 million in 2019), 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 2021, we have acquired additional distribution enterprises. We are in the process of assessing their fair value. The acquisition cost is expected to relate primarily to goodwill.

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 with addition of fair value of previously held interests in the acquiree. 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 judgements
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 judgements made in respect of the particular acquisitions, taking sales run rates of the acquired entity into account.

Section 7

Provisions, other liabilities etc.

Provisions

322

DKK MILLION

Other liabilities

2,114

DKK MILLION

7.1 Provisions

(DKK million)	2020	2019
Staff-related provisions	50	46
Miscellaneous provisions	29	47
Other provisions	**79**	**93**
Defined benefit plan liabilities, net	243	228
Provisions at 31.12.	**322**	**321**
Breakdown of provisions:		
Non-current provisions	305	283
Current provisions	17	38
Provisions at 31.12.	**322**	**321**

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	Miscel-laneous	Total
Other provisions at 1.1.2020	**-**	**46**	**47**	**93**
Foreign currency translation adjustments	-	-	-2	-2
Additions relating to acquisitions	-	-	1	1
Provisions during the year	-	-	19	19
Applied during the year	-	-	-10	-10
Reversals during the year	-	4	-26	-22
Other provisions at 31.12.2020	**-**	**50**	**29**	**79**
Breakdown of provisions:				
Non-current provisions	-	50	12	62
Current provisions	-	-	17	17
Other provisions at 31.12.2020	**-**	**50**	**29**	**79**
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**

7.1 Provisions (continued)

(DKK million)	2020	2019
Present value of defined benefit obligations:		
Defined benefit obligations at 1.1	519	413
Foreign currency translation adjustments	-2	13
Additions relating to acquisitions	-	1
Current service cost	28	21
Calculated interest on defined benefit obligations	1	4
Actuarial gains/losses	11	55
Net benefits paid	-1	3
Contributions from plan participants	8	9
Defined benefit obligations at 31.12.	**564**	**519**
Fair value of defined benefit assets:		
Defined benefit assets at 1.1.	291	257
Foreign currency translation adjustments	-	7
Expected return on defined benefit assets	-	3
Actuarial gains/losses	9	-
Contributions	22	21
Net benefits paid	-1	3
Defined benefit assets 31.12.	**321**	**291**
Defined benefit obligations recognised in the balance sheet, net	**243**	**228**
Return on defined benefit assets:		
Actual return on defined benefit assets	9	3
Expected return on defined benefit assets	-	3
Actuarial gains/losses on defined benefit assets	**9**	**-**
Assumptions:		
Discount rate	0.1%	0.2%
Expected return on defined benefit assets	0.0%	0.2%
Future salary increase rate	1.2%	1.3%

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 28 million (DKK 22 million in 2019), accumulated actuarial loss recognised in the statement of comprehensive income amount to DKK 129 million (DKK 128 million in 2019).

The Group expects to pay approximately DKK 23 million in 2020 (DKK 25 million in 2019) into defined benefit plans.

Defined benefit obligations in the amount of DKK 117 million (DKK 107 million in 2019) will mature within 1-5 years and obligations in the amount of DKK 447 million (DKK 412 million in 2019) after five years.

If the discount rate is 0,5% higher (lower), the defined benefit obligation would decrease with 8% (increase with 9%). If the expected salary growth rate is 0,5% higher (lower) the defined benefit obligation would increase with 1% (decrease with 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 judgements 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 as well as 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 expenses 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 judgements
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)	2020	2019
Product-related liabilities	351	343
Staff-related liabilities	738	567
Other debt, public authorities	374	239
Contingent considerations	121	128
Other costs payable	530	447
Other liabilities	**2,114**	**1,724**
Due within 1 year	1,801	1,521
Due within 1-5 years	313	203

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

The carrying amounts of other liabilities approximate the fair values 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 judgements
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)	2020	2019
Prepayments from customers	93	66
Future performance obligations:		
Deferred warranty-related revenue	494	593
Deferred free products revenue	151	195
Deferred service revenue	179	187
Total	**917**	**1,041**

Expected recognition of revenue

	Less than 1 year	1-2 years	2-4 years	More than 4 years	Total
2020					
Prepayments from customers	88	5	-	-	93
Deferred warranty-related revenue	262	160	69	3	494
Deferred free products revenue	99	44	7	1	151
Deferred service revenue	87	64	27	1	179
Total	**536**	**273**	**103**	**5**	**917**
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**

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 1.2 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 2020 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

From Demant's *I am sound* **corporate film**

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 148 and financial information on transactions with associates and joint ventures can be found in Note 3.4.

In 2020, William Demant Foundation paid administration fees to the Group of DKK 1 million (DKK 1 million in 2019). The Group paid administration fees to William Demant Invest A/S of DKK 1 million (DKK 2 million in 2019).

In 2020, the Group paid service fees to Össur hf., a subsidiary of William Demant Invest A/S, of DKK 52 million (DKK 57 million in 2019) and received service fees of DKK 20 million (DKK 15 million in 2019) from Össur hf.

In 2020, the Group received service fees from Vision RT, a subsidiary of William Demant Invest A/S, in the amount of DKK 7 million (DKK 3 million in 2019). At year end 2020 the Group had receivables of DKK 6 million for services provided to Vision RT (DKK 50 million in 2019).

In 2020, William Demant Foundation donated DKK 1 million (DKK 1 million in 2019) to Interacoustics Research Unit at the Technical University of Denmark. Further, William Demant Foundation acquired diagnostic equipment worth DKK 0,5 million (DKK 2 million in 2019) from the Group.

Since 2011, 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 1.3.

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

(DKK million)	2020	2019
Statutory audit	14	14
Tax and VAT advisory services	2	2
Other services	2	3
Total	**18**	**19**

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 3 million (DKK 4 million in 2019) and consists of VAT and tax services, tax advisory services related to transfer pricing, issuance of various assurance reports (including COVID aid packages) as well as consulting services.

8.3 Government grants

(DKK million)	2020	2019
Government grants by function:		
Production costs	42	-
R&D costs	52	17
Distribution costs	227	-
Administrative expenses	25	-
Total	**346**	**17**

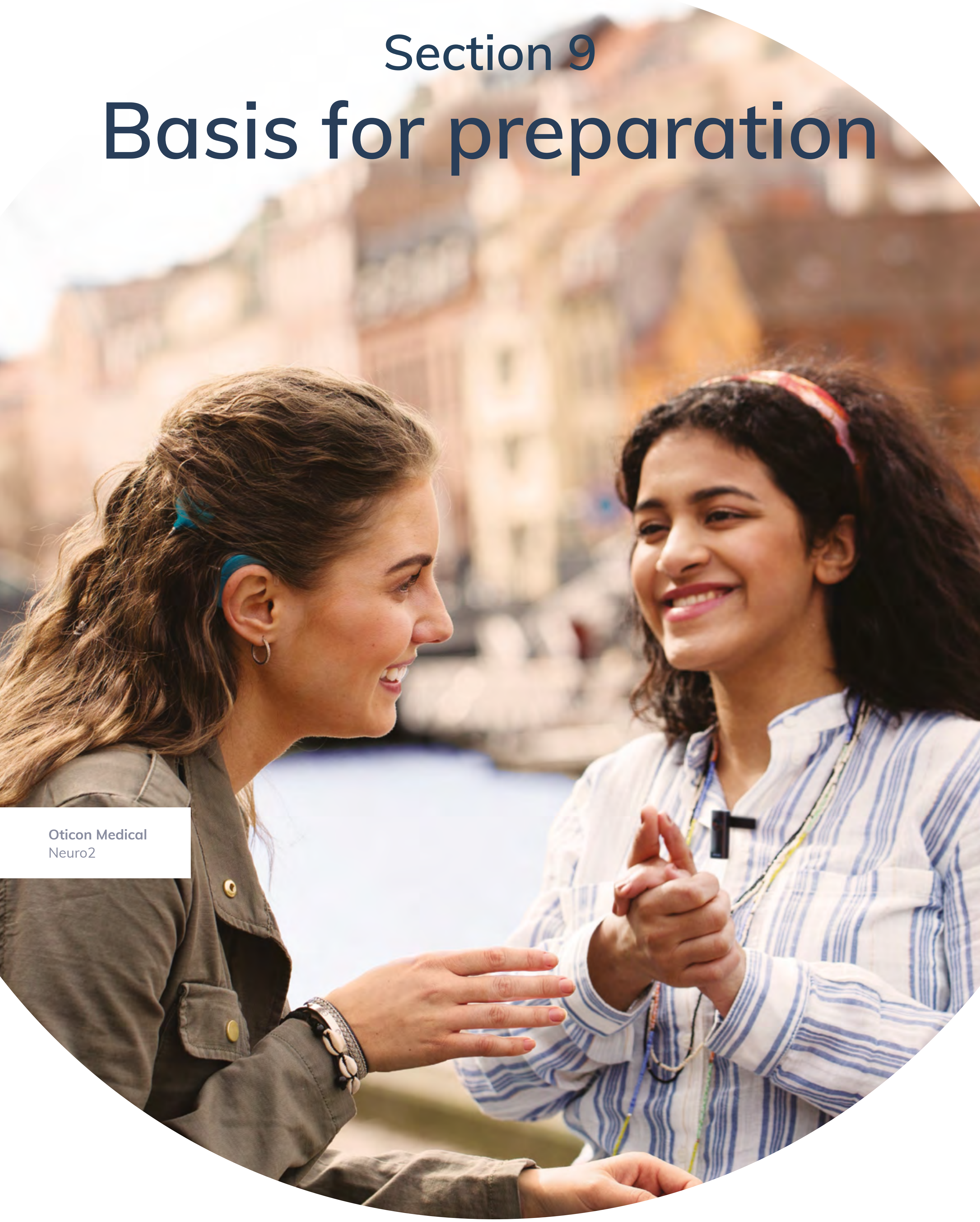
In 2020, the Demant Group received government grants in the amount of DKK 346 million (DKK 17 million in 2019) of which DKK 326 million is related to Covid-19 publicly funded compensation schemes. Non-Covid-19 grants are offset against research and development costs.

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

The company is not aware of any events after the balance sheet date that might affect the financial statements.

Section 9
Basis for preparation



Oticon Medical
Neuro2

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 Segment disclosures
1.2 Revenue from contracts with customers
1.3 Employees
1.6 Inventories
1.7 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 2020.

Except for the implementation of new and amended standards as described below as well as insignificant reclassifications of the comparative figures for 2019, the accounting policies remain unchanged compare to last year.

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 2020. 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 2020.

IASB has issued new accounting standards and amendments not yet in force:

- IAS 1 Presentation of Financial Statements
- IFRS 3 Business Combinations
- IAS 16 Property, Plant and Equipment
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets

None of the above standards are endorsed by the EU. 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.

9.1 Group accounting policies (continued)

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.

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 and income tax paid. Cash flow from operating activities also includes 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. In addition to this, cash flow from investing activities also includes movement in receivables from associates and joint ventures as well as customer loans.

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. Repayments of lease liabilities are included as well.

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 judgements

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.

Significant accounting estimates and judgements are described below:

1.6 Inventories
1.7 Receivables
3.3 Leases
3.5 Impairment (identification of CGUs)
5.2 Deferred tax
6.1 Acquisition of enterprises and activities

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

1.2 Revenue from contracts with customers
1.3 Employees
1.6 Inventories
1.7 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

MAICO
Euroscan

Parent income statement

(DKK million)	Note	2020	2019
Administrative expenses	10.1 / 10.2	-119	-95
Other operating income and expenses		34	135
Operating profit/loss EBIT		**-85**	**40**
Share of profit after tax, subsidiaries	10.8	379	909
Share of profit after tax, associates and joint ventures	10.8	459	80
Financial income	10.3	82	16
Financial expenses	10.3	-59	-77
Profit before tax		**776**	**968**
Tax on profit for the year	10.4	13	3
Profit for the year	10.5	**789**	**971**

Parent balance sheet 31 december

(DKK million)	Note	2020	2019
Assets			
Goodwill		30	33
Rights		-	1
Intangible assets	10.6	**30**	**34**
Land and buildings		24	25
Property, plant and equipment	10.7	**24**	**25**
Leases		1	1
Investments in subsidiaries	10.8	11,024	10,449
Loans to subsidiaries	10.8	944	751
Investments in associates and joint ventures	10.8	42	272
Loans to associates and joint ventures	10.8	1	2
Other investments		-	1
Other receivables		10	12
Other non-current assets		**12,022**	**11,488**
Non-current assets		**12,076**	**11,547**
Receivables from subsidiaries		-	669
Loans to associates and joint ventures		-	95
Income tax		12	3
Other receivables		6	11
Prepaid expenses		12	6
Receivables		**30**	**784**
Current assets		**30**	**784**
Assets		**12,106**	**12,331**

Parent balance sheet 31 december

(DKK million)	Note	2020	2019
Equity and liabilities			
Share capital		48	49
Other reserves		517	2,038
Retained earnings		5,295	3,482
Total equity		**5,860**	**5,569**
Deferred tax liabilities	10.4	10	11
Provisions		**10**	**11**
Interest-bearing debt		3,473	2,509
Lease liabilities		1	-
Other debt		25	20
Non-current liabilities	10.9	**3,499**	**2,529**
Interest-bearing debt	10.9	2,656	4,191
Debt to subsidiaries		49	-
Other debt	10.9	32	31
Current liabilities		**2,737**	**4,222**
Liabilities		**6,236**	**6,751**
Equity and liabilities		**12,106**	**12,331**
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)		Other reserves				
	Share capital	Foreign currency translation reserve	Hedging reserve	Reserve according to equity method	Retained earnings	Total equity
Equity at 1.1.2019	**50**	**-78**	**-1**	**2,288**	**3,173**	**5,432**
Profit for the year	-	-	-	984	-13	971
Dividends received				-1,267	1,267	-
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**
Profit for the year	-	-	-	375	414	789
Dividends received				-1,594	1,594	-
Foreign currency translation adjustment of investments in subsidiaries etc.	-	-4	-	-413	-	-417
Disposals related to investments in associates				-33	33	-
Reclassifications				83	-83	-
Other changes in equity in subsidiaries	-	-	-	60	-	60
Value adjustment for the year	-	-	4	-	-	4
Tax relating to changes in equity	-	1	-	-	-	1
Share buy-backs	-	-	-	-	-147	-147
Capital reduction through cancellation of treasury shares	-1	-	-	-	1	-
Share-based compensation	-	-	-	-	2	2
Other changes in equity	-	3	-	-3	-1	-1
Equity at 31.12.2020	**48**	**-78**	**1**	**594**	**5,295**	**5,860**

At year-end 2020, the share capital was nominally DKK 48 million (DKK 49 million in 2019) 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 2020, the number of outstanding shares was 239,893,471 (240,561,173 in 2019).

	2020		2019	
	Treasury shares	Percentage of share capital	Treasury shares	Percentage of share capital
Treasury shares at 1.1.	4,725,862	1.9%	7,148,143	2.8%
Cancellation of treasury shares	-4,595,867	-1.9%	-7,080,940	-2.8%
Share buy-backs	667,702	0.3%	4,658,659	1.9%
Treasury shares at 31.12.	**797,697**	**0.3%**	**4,725,862**	**1.9%**

As part of the company's share buy-back programme, the company acquired 667,702 treasury shares in 2020 (4,658,659 shares in 2019) worth a total of DKK 147 million (DKK 946 million in 2019).

Section 10
Notes to Parent financial statements

Oticon Medical
Neuro 2

10.1 Employees

(DKK million)	2020	2019
Wages and salaries	56	52
Share-based remuneration	9	5
Staff costs	**65**	**57**
Average number of full-time employees	29	27

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

	2020			2019		
	Wages and salaries*	Share-based remuneration**	Total	Wages and salaries*	Share-based remuneration**	Total
Søren Nielsen, President & CEO	11.9	2.9	14.8	12.5	2.2	14.7
René Schneider, CFO	5.2	1.3	6.5	5.5	1.0	6.5
Executive Board	**17.1**	**4.2**	**21.3**	**18.0**	**3.2**	**21.2**
Fees to Board of Directors	**3.6**	**-**	**3.6**	**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 1.3 in the consolidated financial statements.

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

(DKK million)	2020	2019
Statutory audit	2	2
Other services	-	3
Total	**2**	**5**

*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 2019). These expenses are therefore included in wages and salaries.
**In 2020, DKK 4.2 million (DKK 3.6 million in 2019) of the share-based remuneration was paid out.

10.3 Net financial items

(DKK million)	2020	2019
Interest from subsidiaries	19	13
Interest income	2	3
Foreign exchange gains, net	61	-
Financial income	**82**	**16**
Interest expenses	-48	-58
Transaction costs	-12	-2
Foreign exchange losses, net	-	-17
Financial expenses	**-60**	**-77**
Net financial items	**22**	**-61**

10.4 Tax on profit for the year and deferred tax

(DKK million)	2020	2019
Current tax on profit for the year	-12	3
Adjustment of current tax, prior years	-	-1
Change in deferred tax	-1	1
Tax on profit for the year	**-13**	**3**
Deferred tax recognised in the balance sheet:		
Deferred tax, net at 1.1.	-11	-12
Changes in deferred tax	1	1
Deferred tax, net at 31.12.	**-10**	**-11**

10.5 Proposed distribution of net profit

(DKK million)	2020	2019
Transferred to reserves for net revaluation according to the equity method	375	984
Retained earnings	414	-13
Total	**789**	**971**

10.6 Intangible assets

(DKK million)	Goodwill	Rights and other intangible assets	Total intangible assets
Cost at 1.1.2020	**65**	**11**	**76**
Cost at 31.12.2020	**65**	**11**	**76**
Amortisation at 1.1.2020	**-32**	**-10**	**-42**
Amortisation for the year	-3	-1	-4
Amortisation at 31.12.2020	**-35**	**-11**	**-46**
Carrying amount at 31.12.2020	**30**	**-**	**30**
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**

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

10.7 Tangible assets

(DKK million)	Land and buildings
Cost at 1.1.2020	**31**
Cost at 31.12.2020	**31**
Depreciation and impairment losses at 1.1.2020	**-6**
Depreciation for the year	-1
Depreciation and impairment losses at 31.12.2020	**-7**
Carrying amount at 31.12.2020	**25**
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

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 1.1.2020	**8,275**	**751**	**330**	**97**
Foreign currency translation adjustments	-	-5	-	-
Additions during the year	2,143	276	-	-
Disposals during the year	-	-78	-193	-96
Other adjustments	-	-	-83	-
Cost at 31.12.2020	**10,418**	**944**	**54**	**1**
Value adjustments at 1.1.2020	**2,174**	**-**	**-58**	**-**
Foreign currency translation adjustments	-413	-	-	-
Share of profit after tax	379	-	-4	-
Dividends received	-1,594	-	-	-
Disposals during the year	-	-	-33	-
Other adjustments	60	-	83	-
Value adjustments at 31.12.2020	**606**	**-**	**-12**	**-**
Carrying amount at 31.12.2020	**11,024**	**944**	**42**	**1**
Non-current	11,024	944	42	1
Current	-	-	-	-
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

The carrying amount of investments in subsidiaries and associates include capitalised goodwill for the year of DKK 868 million (DKK 574 million in 2019).

Loans to subsidiaries of DKK 944 million (DKK 751 million in 2019) 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 148 for further information on subsidiaries, joint ventures and associates.

Note 10.9 Interest-bearing debt

(DKK million)

	Contractual cash flows					
	Less than 1 year	1-5 years	More than 5 years	Total	Carrying amount	Weighted average effective interest rate
2020						
Debt to credit institutions etc.	2,041	3,498	-	5,539	5,496	
Short-term bank facilities etc.	640	-	-	640	633	
Lease liabilities	-	1	-	1	1	
Interest-bearing liabilities	**2,681**	**3,499**	**-**	**6,180**	**6,130**	**0.6%**
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%**

A part of other debt of DKK 32 million (DKK 31 million in 2019) has a contractual maturity of less than one year, and a part of other debt of DKK 25 million (DKK 20 million in 2019) has a contractual maturity of 1-5 years. The contractual cash flows approximate their carrying amounts.

Interest-bearing debt broken down by currency: 63% in Danish kroner (60% in 2019), 27% in euros (28% in 2019) and 10% in US dollars (12% in 2019).

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

Interest cap

(DKK million)

	2020					2019					
	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	2023	0%	650	-	2	DKK/DKK	2022	0%	650	-	2
			650	**-**	**2**				**650**	**-**	**2**

The fair value of the interest cap (a strip of call options) outstanding at the balance sheet date is DKK -2 million (DKK -2 million in 2019), and the contractual value of the interest cap is DKK 650 million (DKK 650 million in 2019). The cap will run until 2023.

Sensitivity analysis in respect of interest rates
Based on the bank debt facilities at the end of the 2020 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 9 million (DKK 12 million in 2019). About 90% 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 3,144 million in 2020 (DKK 2,290 million in 2019) of which DKK 453 million was drawn (DKK 309 million in 2019).

Moreover, we have established a mutual guarantee with Oticon A/S in the amount of DKK 650 million (DKK 650 million in 2019), 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 2020 for some of our subsidiaries.

The Parent is jointly taxed with William Demant Invest A/S, which is the administration company, and all Danish subsidiaries of both. Under the Danish Corporation Tax Act, the parent is fully liable for corporate tax payments and any obligation to withhold tax at source in respect of interest, royalties and dividends in relation to its own subsidiaries and secondary liable in regard to tax payments due for William Demant Invest A/S and its partly owned subsidiaries.

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 2020 or any amended financial period incorporating the said financial year. The company does not expect any material loss to arise from this guarantee.

For the purpose of section 78a, subsection 5 of the Danish Financial Statement Act, Demant A/S has undertaken to guarantee liabilities of the subsidiary EPOS Group A/S. 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. Subsidiaries and 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 accounting 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 86(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%
Oticon España S.A., Spain	100%
Oticon Limited, United Kingdom*	100%
Oticon Malaysia Sdn, Malaysia*	100%
Oticon Medical A/S, Denmark*	100%
Oticon Medical AB, Sweden	100%
Oticon Medical Maroc, Morocco*	100%
Oticon Medical LLC, USA	100%
Oticon Polska Sp. z o.o., Poland*	100%
Oticon Portugal, Unipessoal LDA, Portugal*	100%
AccuQuest Hearing Center LLC, USA	100%
Acoustic Metrology Limited, United Kingdom	100%
ACS Sluchmed Sp. z o.o., Poland	100%
Acustica Sp. z o.o., Poland*	100%
Akoustica Medica M EPE, Greece*	100%
Amplivox Ltd., United Kingdom	100%
Audika AB, Sweden*	100%
Audika AG, Switzerland*	100%
Audika ApS, Denmark*	100%
Audika Australia Pty. Ltd., Australia	100%
Audika Groupe S.A.S., France*	100%
Audika New Zealand Limited, New Zealand*	100%
Audio Seleccion S.L., Spain*	100%
Audiology Services Company LLC, USA	100%
AudioNet America, Inc., USA	100%
Audmet Australia Pty. Ltd., Australia	100%
Audmet B.V., the Netherlands*	100%
Audmet Canada LTD., Canada	100%
Audmet New Zealand Limited, New Zealand*	100%
Audmet OY, Finland*	100%
Audmet S.r.l., Italy*	100%
BC Implants AB, Sweden*	100%
Bernafon A/S, Denmark*	100%
Bernafon AB, Sweden*	100%
Bernafon AG, Switzerland*	100%
Bernafon Hörgeräte GmbH, Germany	100%
Bernafon Ibérica S.L.U., Spain*	100%
Bernafon LLC, USA	100%
Centro Auditivo Telex Ltda., Brazil	100%
Danacom Høreapparater A/S, Denmark*	100%
Demant Italia S.r.l., Italy*	100%
Demant Japan K.K., Japan*	100%
Demant Korea Co. Ltd., Korea*	100%
Demant México, S.A. de C.V., Mexico*	100%
Demant Operations S.A. de C.V., Mexico	100%
Demant Sales Strategic Accounts A/S, Denmark*	100%
Demant Schweiz AG, Switzerland*	100%
Demant Singapore Pte Ltd, Singapore*	100%
Demant South Africa (Pty) Ltd., South Africa*	100%
Demant Technology Centre Sp. z o. o., Poland*	100%
DGS Business Services Sp. Z o.o., Poland*	100%
DGS Diagnostics Sp. z o.o., Poland	100%
DGS Poland Sp. z o.o., Poland	100%
Diagnostic Group LLC, USA	100%
Diatec A/S, Denmark*	100%
Diatec AG, Switzerland*	100%
Diatec Diagnostics GmbH, Germany*	100%
Diatec Shanghai Medical Technology Co., Ltd., China*	100%
Diatec Spain, S.L.U., Spain*	100%
e3 diagnostics Inc., USA	100%
EPOS Group A/S, Denmark* **	100%
Etymonic Design Inc., Canada*	100%
Guymark UK Limited, United Kingdom	100%
Hear Better Centers LLC, USA	100%
Hearing Holding Belgium NV, Belgium*	100%
Hearing Screening Associates LLC, USA	100%
HearingLife Canada Ltd., Canada*	100%
Hidden Hearing (N.I.) Limited, United Kingdom*	100%
Hidden Hearing Limited, United Kingdom	100%
Hidden Hearing Limited, Ireland*	100%
Hidden Hearing (Portugal), Unipessoal Lda., Portugal*	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%
Medton Ltd., Israel*	100%
Micromedical Technologies Inc., USA	100%
Neurelec S.A.S., France*	100%
NexGen Healthcare Management Inc., Canada	100%
Oticon Shanghai Hearing Technology Co. Ltd., China*	100%
Oticon Inc., USA	100%
Prodition S.A.S., France*	100%
Sensory Devices Inc., USA	100%
SES Isitme Cihazlari Sanayi ve Ticaret A.S., Turkey*	100%
Sonic Innovations Pty Ltd., Australia	100%
Sonic Innovations Inc., USA	100%
The Q Group, LLC, USA	100%
Udicare S.r.l., Italy*	100%
Van Boxtel Hoorwinkels B.V., the Netherlands	100%
Workplace Integra Inc., USA	100%
Your Hearing Network LLC, USA	100%
Audilab S.A.S., France*	95%
FrontRow Calypso LLC, USA	75%
Dencker A/S, Denmark*	40%
HIMSA A/S, Denmark	25%
Solaborate Inc., USA	20%

The list above includes the Groups active companies.

**Directly owned by the Parent.*

***EPOS Group A/S is presenting financial statements in accordance with the Financial Statements Act § 78a.*

Life-changing hearing health

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