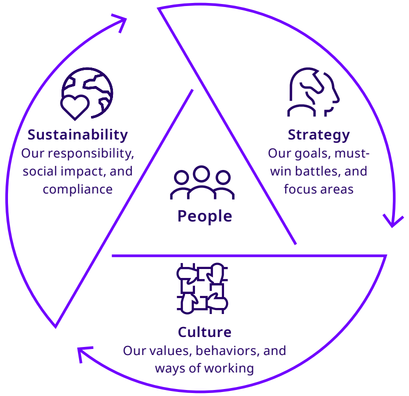
Annual Report 2020/21

Wonderful Sound for All

WSAudiology

Table of **contents**

05
Letter from our Chair and CEO
Wonderful Sound for **All**



15
Strategy
Our strategy is fueled by **a clear purpose** and supported by our two unique audiology platforms – Widex and Signia

20
Our brands
We have the **industry's strongest brand portfolio** with five distinct brands

Overview

According to the WHO, there are

1.6

billion people with hearing loss worldwide; 430 million people with disabling hearing loss

... of whom

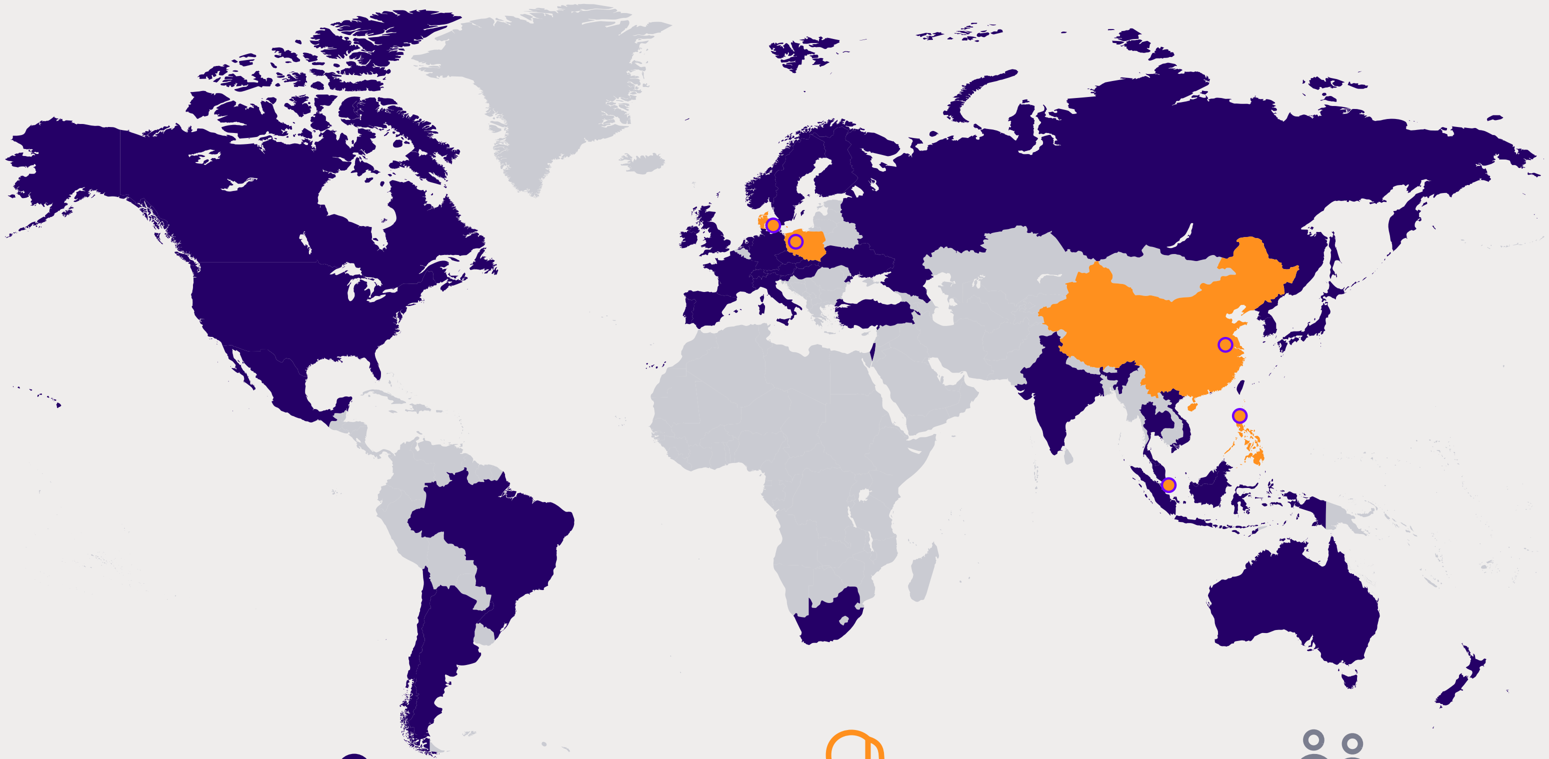
15-20%

currently use hearing aid devices

At a glance

WS Audiology is a global leader in the hearing aid industry. **We help millions of people** regain and benefit from the miracle of hearing by designing and manufacturing innovative hearing aid devices and solutions. We improve people's health, well-being, and quality of life as we strive to unlock human potential by making wonderful sound part of everyone's life.

Through our global customer network of thousands of hearing care providers, as well as through our consumer-facing businesses, we help increase the awareness of hearing challenges and facilitate access to professional care.



- Main production sites
- Production
- Presence

Headquartered in Denmark and Singapore
11,000+
employees in more than
40
countries.

5
main production sites
in Denmark, Singapore, China, Poland and the Philippines.

Hearing aid devices sold to
7 million
people in more than
130
countries
since the inception of WSA in March 2019.

Letter from our Chair and CEO

Strong performance in challenging times

Our dedicated employees steered WS Audiology safely and successfully through the challenges faced by all of us in the past financial year, enabling us to continue to deliver on our purpose of **unlocking human potential by making wonderful sound part of everyone's life.**

While the COVID-19 pandemic continued to affect most markets, our learnings from its first wave in the spring of 2020 ensured great operational resilience and agility. Continued innovation, new product launches and our multi-brand, multi-channel sales strategy with a strong digital focus, were cornerstones of our efforts to reach even more customers and consumers, grow our business and deliver strong financial results. We were pleased to meet our expectations for the year, growing revenue organically by 22% to pass the EUR 2 billion mark and simultaneously delivering a historically strong normalized EBITDA* of EUR 464 million – an increase of 40% compared to the year before.

* Normalized EBITDA is defined on page 43

During the financial year we made progress on each of the three pillars that are the drivers behind our ambition to become a market leader: strategy, culture and sustainability.

A strategy that fuels growth

We strongly believe that in order to achieve the market expansion needed for true market leadership, we must invest in our brands and innovate beyond the product. We are therefore pioneering innovation in a broad sense; in addition to award-winning products and new features, we innovate through aesthetics and design, in consumer journeys and through digital connectivity. And we work on realizing leadership in high growth areas: online, where hear.com is the clear market leader, managed care in the US, emerging markets and working with leading retailers.

In July 2021 we acquired Auralcare, a US retail chain with 110 locations under the My Hearing Centers brand. We also acquired Koalys during the financial year, a start-up offering a range of digital, cloud-based, and portable audiometry solutions. This acquisition will further our leadership position in tele-audiology.

Marco Gadola
Chair

Eric Bernard
President and CEO

> As a true leader, we must also lead in sustainability. We have set objectives to become the most environmentally friendly and diverse hearing aid company serving the most people and doing more than anyone else to realize our purpose.

From the early stages of the pandemic we insisted on continuing to innovate.

In the financial year we introduced three world firsts: Signia Active Pro, Signia Motion X and the Signia Augmented Xperience platform. Signia Active Pro is a top spec hearing aid in the form of a hearable, helping younger hearing-impaired consumers to deal with stigma and seek professional help earlier. Signia Motion X is the first-ever rechargeable superpower hearing aid that delivers up to 61 hours of run-time per charge. And our new Signia Augmented Xperience platform, introduced in May 2021, uses two processors for the first time. Speech and background sounds are processed separately for outstanding speech clarity in an immersive environment.

We also achieved strong recognition from users and experts for our efforts to continuously improve hearing aid users' experience. The Widex Moment platform with PureSound technology continued to receive extensive praise from health tech reviewers, audiologists and music lovers. During the financial year we added leading artificial intelligence features to the Widex Moment range, making it easier to adjust the hearing aids to the user's individual needs.

Our long-term innovation efforts were recognized as we were ranked as the top patent applicant over the last two decades by the World Intellectual Property Organization. We are proud of this recognition and continue to foster the strong innovation capabilities anchored in one of the industry's largest R&D organizations.

Combining the best of two cultures

Our people are paramount to the success of WS Audiology. In March 2021, we introduced a new set of values and behaviors based on input from more than 1,000 employees. The new values and behaviors play a crucial role in the culture journey we embarked on in late 2020, combining the best of the two companies to build a shared culture.

During the financial year we quickly made progress through an effective and creative leader-led cascade, as well as with global programs to connect the organization from top to bottom and engage in dialogue about the workplace we want to build together. A pulse survey in June showed significantly higher engagement levels globally, which we perceive as an indication that we've made a strong start.

Revenue above EUR

2bn

Sustainability embedded in strategy

As a true leader, we must also lead in sustainability. We have set objectives to become the most environmentally friendly and diverse hearing aid company serving the most people and doing our utmost to realize our purpose. Leading the way often means going where no one has gone before: we have committed to the science-based targets initiative (SBTi) as the first hearing aid company and introduced hard and measurable objectives, supporting the UN Global Compact.

Outlook for 2022

The attractive growth fundamentals of the hearing care market remain unchanged. WSA will continue to leverage its unique portfolio of differentiated product brands and attractive sales channels to strengthen its market penetration and expand access to hearing healthcare.

On that basis, and under the assumption that the pandemic and the availability of components will not materially disrupt our business, we expect to deliver high single digit organic revenue growth in the financial year 2021-2022, with normalized EBITDA exceeding EUR 500 million. Completed acquisitions are expected to contribute with revenue growth of approximately 2% in addition to the organic growth.

Marco Gadola
Chair of the Board of Directors

Eric Bernard
President and CEO

Corporate highlights

We strive to make wonderful sound part of everyone’s life by fueling innovation and driving market expansion, creating a culture where all employees know and share our core values, and by leading in sustainability.

Strategy

We **launched several world firsts,** including the award winning Signia Active Pro, Signia Motion X, the award winning Signia AX platform and key upgrades to our Widex Moment platform.

Key acquisitions completed, including Koalys and Auralcare.

We **continued to innovate** beyond the product with new connectivity features, online hearing diagnostics and remote fitting.

Culture

Our **culture journey** has been progressing with new values and behaviors defined, based on the input from 1,000+ employees.

Engagement levels are up by more than 10 percentage points according to a June 2021 survey.

The integration of the two cultures moves towards **commercial excellence and best practice.**

Sustainability

We strengthened our **sustainability focus** and launched far-reaching ambitions to lead with science-based targets.

Our headquarters in Singapore was converted to using **100% green energy.**

Innovation highlights

In 2020/21 we launched a number of **groundbreaking innovations,** helping people with hearing loss enjoy wonderful sound even more. Investing in our brands and continuously innovating is key to fulfilling our purpose of delivering Wonderful Sound to All.

Signia Augmented Xperience platform
Has the world's first dual processor technology that intelligently and automatically processes speech and sound to better ensure that users always hear clearly.

Signia Motion Charge & Go
The first BTE with up to 61 hours of use in a single charge.

Signia Active Pro
The world's first hearing aid that looks like an earbud.

Signia Insio Charge & Go AX
The world's first contactless rechargeable custom in-the-ear hearing aid.

Rexton Bi-core platform
A smooth all-round hearing experience, with an ultra-quick binaural link and embedded Speech Preservation Technology.

Widex Moment BTE RD
A rechargeable behind-the-ear Widex Moment device delivering the most natural sound.

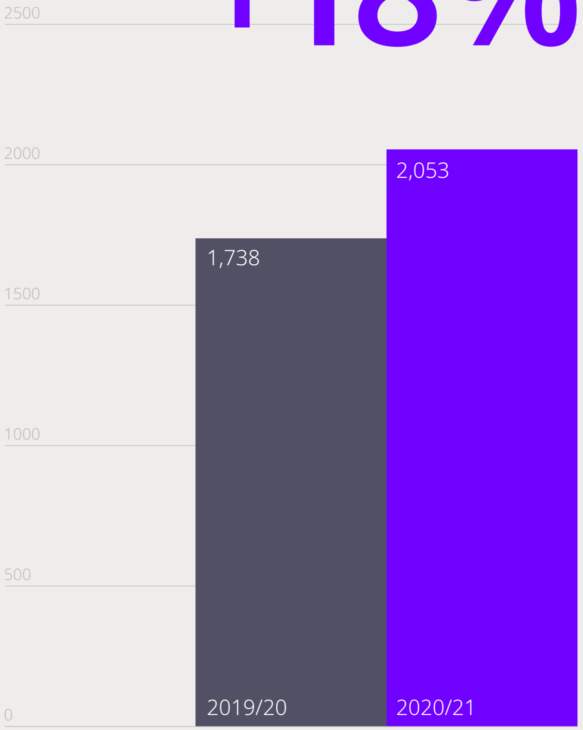
Widex Moment CIC Micro
The first completely-in-canal hearing aid with Widex Moment's natural sound.

Widex My Sound app
Using artificial intelligence to finetune Widex hearing aids to individual needs.

Financial highlights

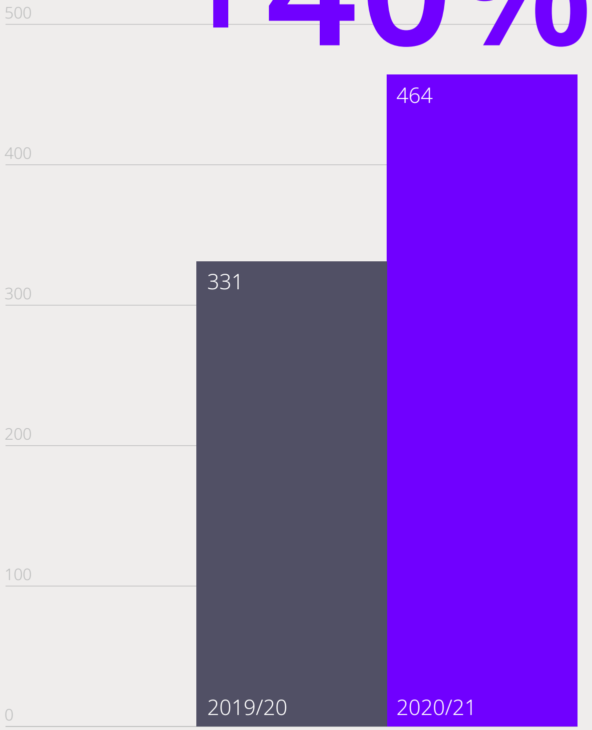
Revenue growth
EURm

+18%



EBITDA, Normalized improvement
EURm

+40%



Organic growth

+22%

Revenue grew organically by 22%, with good growth across markets, driven by both wholesale and our consumer-facing businesses.

Normalized EBITDA margin

23%

Normalized EBITDA margin increased by 4% points in line with our expectations.

R&D spend*
EURm

142

Total R&D spend increased by 12% as part of our commitment to innovate and position WSA as a pioneer in the industry.

Free cash flow
EURm

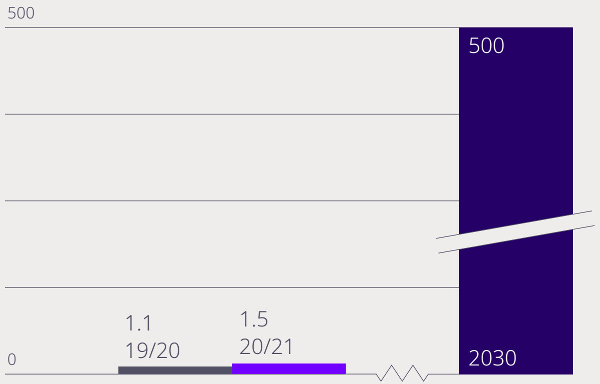
262

Free cash flow before financing was driven by improved earnings and positive working capital development.

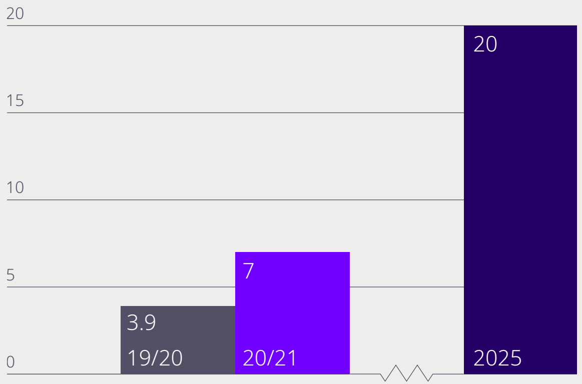
* Including capitalizations, depreciation and amortization

Sustainability highlights

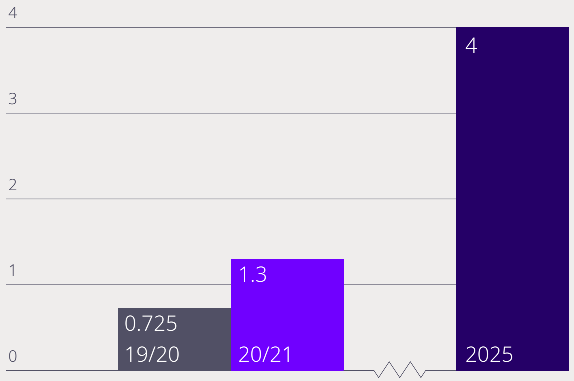
Goal 1 – Awareness
million



Goal 2 – Accessibility
million



Goal 3 – Affordability
million



Goal 1
Awareness
1.5m
people became aware of hearing loss through Shoebox online and offline screening.

Target of **500 million** by 2030

Goal 2
Accessibility
7m
people were served with hearing devices.

Target of **20 million** by 2025

Goal 3
Affordability
1.3m
people were served with affordable hearing devices

Target of **4 million** by 2025

Goal 4
Diversity & inclusion
15%
female representation in Group Management

Target of **30%** by 2025

Goal 5
Environment
23%
share of renewable electricity directly consumed by WSA

Target of **100%** by 2025

Read more about our sustainability goals on page 23

5-year key figures and financial ratios

EURm	2020/21 12 months IFRS	2019/20 12 months IFRS	2018/19 17 months IFRS*	2017/18 12 months IFRS*	2016/17 12 months DK GAAP*
Income statement					
Revenue	2,053	1,738	1,670	599	584
Gross profit	1,202	973	998	441	394
R&D costs**	102	84	84	30	29
EBITDA, Normalized	464	331	316	120	113
EBITDA	413	201	104	132	116
Depreciation and amortization	305	317	183	20	42
EBIT	109	(116)	(79)	100	71
Net financial items	(190)	(183)	(220)	(10)	(6)
(Loss)/Profit before tax	(81)	(299)	(299)	90	65
(Loss)/Profit for the year/period	(82)	(243)	(285)	70	50
Balance sheet					
Assets	6,668	6,811	6,691	615	581
Net interest-bearing debt	3,504	3,452	-	-	-
Net working capital	225	241	-	-	-
Equity	1,701	1,770	1,982	318	260

* WS Audiology A/S was established on 28 February 2019 to effectuate the merger of the Sivantos Group and the Widex Group. Widex group was regarded as the account acquirer and consequently the figures from 2016/17, 2017/18 and the first 5 month of 2018/19 disclose pre-merger figures from the Widex Group

** Total R&D spend amounted to EUR 142 million in 2020/21 (2019/20: EUR 127 million) and includes expensed cost of EUR 102 million (2019/20: EUR 84 million) and capitalized costs of EUR 81 million (2019/20: EUR 79 million) offset by amortizations for the year, refer to page 43 for breakdown.

EURm	2020/21 12 months IFRS	2019/20 12 months IFRS	2018/19 17 months IFRS*	2017/18 12 months IFRS*	2016/17 12 months DK GAAP*
Other key figures					
Investment in property, plant and equipment, net	43	35	39	18	20
Cash flow from operating activities	397	240	168	94	70
Free cash flow	262	116	-	-	-
Average number of employees	11,441	10,791	10,899	4,175	4,035
Financial ratios, %					
Organic growth	22	(11)	4	-	-
Gross profit margin	59	56	60	74	67
EBITDA margin, normalized	23	19	19	22	20
EBITDA margin	20	12	6	20	19
EBIT margin	5	(7)	(5)	17	12
Return on equity	(5)	(13)	(25)	24	21
Equity ratio	26	26	30	52	45

Key figures/ financial ratios definitions
EBITDA = Earnings before interest, tax, depreciation, amortization
EBIT = Earnings before interest and tax
Net financial items = Interest income, interest expenses and other financials net
Gross profit margin = Gross profit/(loss) x 100/revenue
EBITDA margin = EBITDA x 100/revenue
EBITDA margin, normalized = EBITDA, normalized x 100/revenue
EBIT margin = EBIT x 100/Revenue
Return on equity = Profit/(loss) for the year x 100/average equity
Equity ratio = Total equity/total assets x 100
Net Working Capital = Trade receivable + Inventories – Trade payables
Free cash flow = Operating cash flow - net capex
Net interest-bearing debt = total interest-bearing debt – cash and cash equivalents

Strategy and sustainability

Accessibility is key to hearing health.
Our goal is to serve

20 million

people with hearing devices by 2025

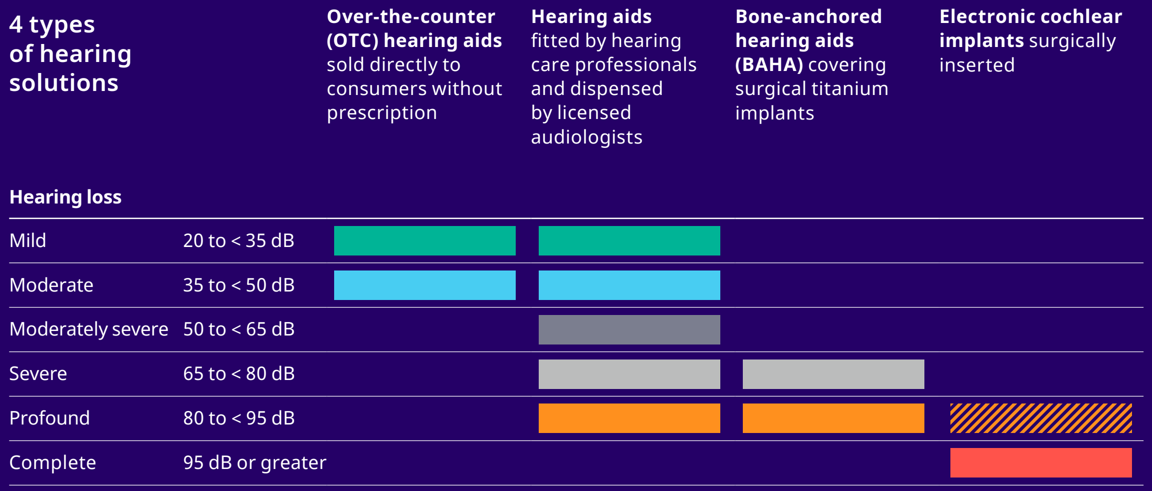
Overview of the global market

Our purpose is to serve all people suffering from hearing loss worldwide. According to the WHO, over 430 million people have disabling hearing loss requiring rehabilitation – and nearly 700 million people will suffer from this disability by 2050.

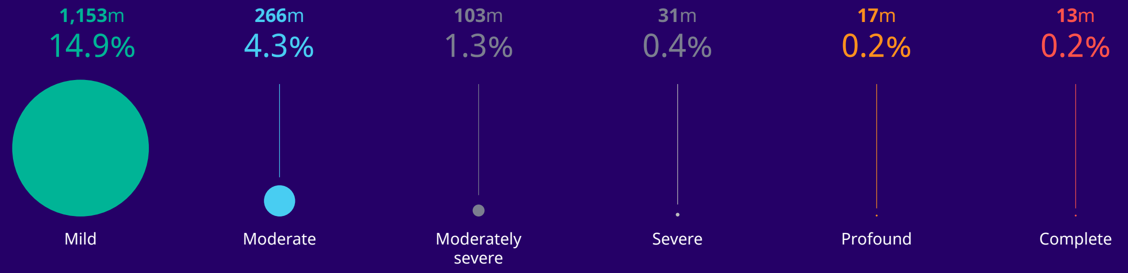
Fewer than one in five people with disabling hearing loss is currently wearing a hearing solution. The hearing aid market is expected to grow on average 5-6% annually with an estimated 18 million units sold worldwide in 2021. The largest markets are the US, Germany, France, Canada, the UK, Japan and China.

The markets are very different due to regulation, infrastructure and other regional conditions. The adoption rate of hearing aids therefore varies significantly from 40% in the most mature markets to less than 10% in emerging markets.

Our market is developing at a rapid pace and WSA is uniquely positioned for both scale, growth and leadership, enabling us to pursue our purpose of bringing wonderful sound to all and becoming a market leader.



People with varying degrees of hearing loss



* World Health Organization: World Report on Hearing 2021.

A complex and **highly resilient** market

The global market for hearing aids is comprised of multiple sales channels and points of contact with professional customers and end consumers. The adoption rate in the relevant hearing-impaired population, reimbursement schemes and the overall maturity of markets varies significantly across WS Audiology's geographical areas.

In addition to the well-established channels where consumers are supported by hearing care professionals, over-the-counter (OTC) hearing aids are being introduced in some markets. OTC hearing aids are sold directly to consumers without prescription, and the products address mild-to-moderate hearing loss. In October 2021 – after the end of the financial year – the US Food and Drug Administration (FDA) published its proposal to establish a new category of OTC hearing aids in the US. The final version of the proposal is expected to come into effect in the second half of 2022.

During the financial year 2020/21, the French hearing aid market was significantly stimulated by the introduction of new regulation, which established full hearing aid reimbursement and drove market growth in excess of 50% in the first nine months of 2021. The change increases affordability and is expected to have a significant and lasting impact on the adoption rate and market development in France for years to come.

COVID-19 continued to impact the global market in 2021 with significant variation across regions. The US market was severely impacted initially, but recovered as restrictions eased. The global market for hearing aids saw good recovery in 2021 and proved highly resilient against economic turbulence.

Key channels for consumers

- Independent hearing clinics
- Government clinics and hospitals
- Manufacturer-owned retail stores
- Specialized hearing retailers
- Big retail chains
- Opticals
- Online
- Managed care

Strategy

Our strategy focuses on driving market expansion by innovating beyond the product and leading in high-growth segments. It is fueled by a clear purpose and supported by two unique audiology platforms – Widex and Signia – as well as different business models designed to encourage and enable more people to live a better life. **We are unlocking human potential by making wonderful sound part of everyone's life** – with the ambition to become a market leader.

7 million

people with hearing loss were served with our hearing aids since the inception of WSA in March 2019.

Innovation is at the core of our business. We aim to go beyond what is expected and break down stigma and other barriers to hearing health. In 2021 we launched the Signia Active Pro hearing aid shaped like an earbud, targeting a younger audience that doesn't find traditional hearing aids appealing. But innovation is more than products and features, aesthetics and design. We also innovate in the consumer journey space offering online hearing diagnostics and remote fitting – an area catapulted by COVID-19, and through digital connectivity with wireless charging and phone connectivity making people's lives easier.

At the same time we work on realizing leadership in high growth areas. We aim to leverage our presence across sales channels to build strong market positions in the fastest growing segments of our global industry. Among our focus points are online fitting and testing, managed care in the US, emerging markets and working with fast-moving retailers.

In May 2021, hear.com N.V., part of the WSA Group, announced that it had postponed plans for its initial public offering in the US due to challenging equity market conditions. The company will continue to monitor the market for more stable conditions.

In July 2021, we acquired Auralcare, a US retail chain with 110 locations under the My Hearing Centers brand. We also acquired Koalys during the financial year, a start-up offering a range of digital, cloud-based, and portable audiometry solutions. This acquisition helps to further strengthen the company's leadership in tele-audiology.

Purpose

Wonderful Sound for All

Ambition

Become a market leader

Business model

The foundation that enables our strategic efforts is our reinforcing ecosystem of multiple brands that support both the hearing impaired and hearing care providers. We are leveraging **multiple sales channels** and a broad range of brands to cover all segments of our industry.

Our innovative hearing devices and solutions are developed on two separate audiology platforms to provide consumers with true choices. We sell our solutions through wholesale, retail, online and managed care in the US – as well as innovative diagnostics that increase awareness.

Wholesale

- Independents
- Retail chains
- Governments
- Opticians

Own retail stores

HearUSA
bloom hearing specialists
lifestyle hearing
WIDEX HEARING SPECIALISTS

Online

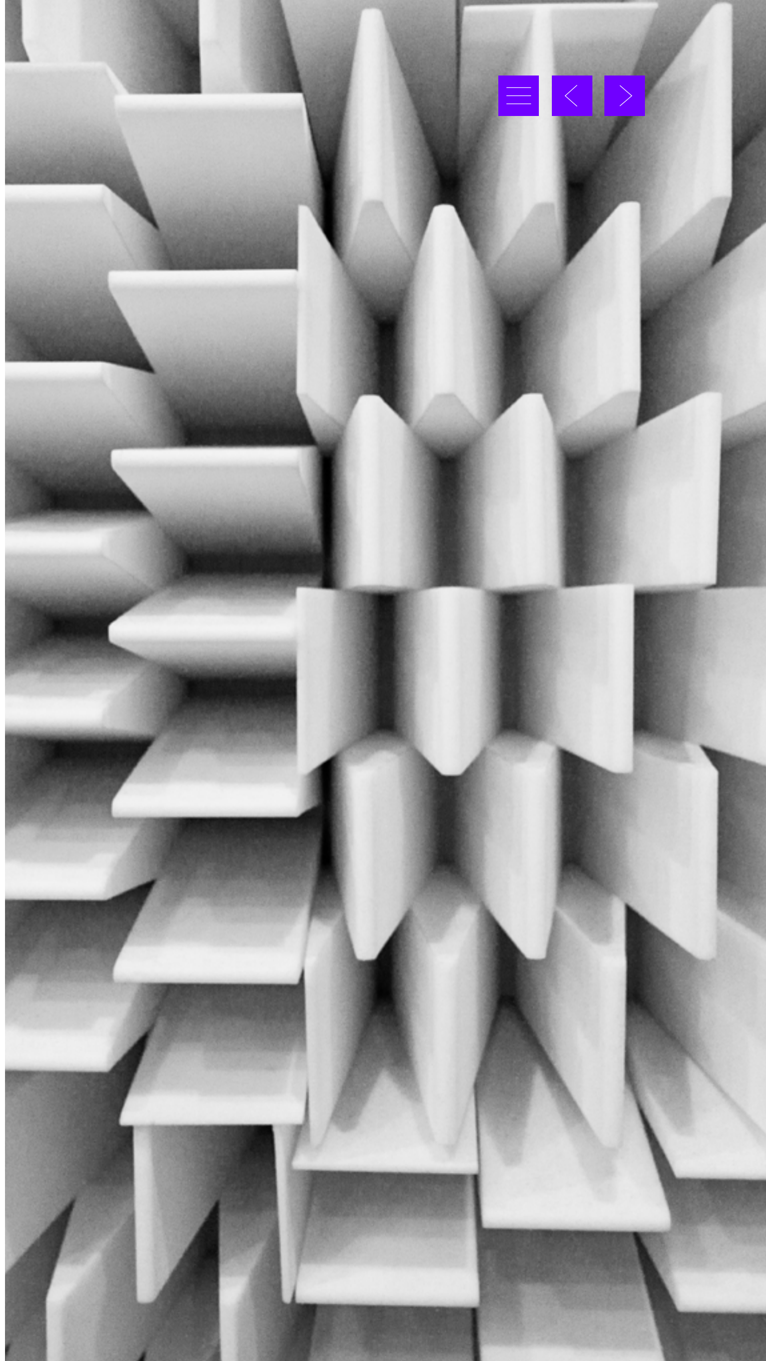
hear.com
audibene So klingt Glück!

Managed care

TruHearing
HCS Hearing Care Solutions

Diagnostics

SHOEBOX
koalys



Innovation and R&D

WS Audiology is a global leader and pioneer in hearing aid innovation with one of the industry's largest R&D organizations. More than 900 employees work across three main R&D centers in Denmark, Germany and Singapore to continuously develop new solutions. Innovation is the fuel for our five major brands – **Signia, Widex, Rexton, Vibe and AudioService.**

In 2020/21, we increased our investments in innovation by 12% with R&D expenses of EUR 142 million, corresponding to an R&D to sales ratio of 7%. The continued investments contributed to the successful launches of several new products, including iF Design Award winner Signia Active Pro and the new two-processor Signia Augmented Xperience platform. There were also leading artificial intelligence innovations in the My Sound Application from Widex.

As part of the merger integration, WS Audiology launched a program in 2019 to build the strongest R&D powerhouse in the industry, with unified processes and improved performance and output. Despite the disruption from COVID-19, these efforts continued in 2020/21. WS Audiology strengthened the specific competencies and capabilities in each of the three R&D centers and the utilization of these skills across the Group.

WS Audiology's long-term commitment to innovation and its position as a pioneer in the industry was further underlined in April 2021 when we were ranked as the top patent applicant for conventional hearing assistive technology by the World Intellectual Property Organization (WIPO) in its assistive technology trends report. It uses patent and other data from 1998 to 2019 to provide factual evidence on innovation in the global assistive tech landscape.

We are at the **forefront of innovation**

Read more in the WIPO report

Innovating for five brands

WSA is unique by having two distinct audiology platforms: Widex and Signia. Each platform has its own exclusive features, resulting in hearing aids that are truly differentiated.

Thanks to PureSound Technology, Widex is delivering the most natural sound. Signia launched an unparalleled new platform in May 2021 called Signia AX. It uses two separate processors for the first time: one for sounds in focus, like a conversation partner's voice, the other for surroundings.

Widex and Signia each have dedicated teams of engineers constantly working on improving products and platforms. On top of that we have a common dedicated R&D team focused on creating features and add-ons, which can be leveraged by all our brands. Here we have a fine-tuned, multi-stage design process, where new ideas are sourced from all over the organization, rated and developed.

Innovations are categorized within Audiology Apps, Fitting Software, Embedded Software, Hardware or Mechanics. Some innovations require implementation in multiple fields, and Systems Engineering is used to ensure coherence in this process.

WS Audiology adheres to a platform development approach to reduce the development time per product and distribute costs on several products. When a new platform is developed – such as Signia Augmented Xperience launched in May 2021 – a range of 10-20 products with varying features are typically derived from it.

900

More than 900 employees work in our three main R&D centers

Our brands

WS Audiology has a strong brand portfolio with five distinct brands.

Rooted in unparalleled innovation and decades of experience, our brands are managed independently and built on different platforms with their own unique technology inside. We take a dialogue-based approach and engage closely with our stakeholders to ensure continued development and refinement. We conduct research, surveys, and interviews to establish valuable and actionable insights into the needs, wants and aspirations of consumers and customers. Through strong local retail brands, we offer the most differentiated choice of brands to consumers.

MISSION:

“To deliver sound so natural, people forget about their hearing loss.”

Widex

As an industry leader in sound quality, it is natural that Widex continues to leverage decades of heritage in all solutions and innovations. Widex Moment is the embodiment of ultimate sound. Through leading audiological research and quality craftsmanship, customers are served with the most natural sound in the industry alongside cutting edge AI personalization. Widex Moment’s lead feature, PureSound, delivers unparalleled signal quality and excites both professionals and end users alike around the globe, most recently in China and Latin America. Widex shares its passion for sound not only through its products but also via the Sound Ambassador program that engages with inspirational musicians and composers.

During the financial year the positive feedback from customers, consumers and media continued to grow. Moment has become the new industry-wide benchmark for superiority in sound. The rechargeable mRIC has become the most popular Widex Moment form factor. And the Widex My Sound App was added to the rich portfolio, using AI to fine-tune Widex hearing aids to individual needs.

MISSION:

“Enhancing human performance through iconic innovations that shape the prescription audio category.”

MISSION:

“To deliver proven hearing technology in the most reliable way.”

Signia

This year saw the birth of Signia’s new brand identity. The brand took on the challenge of transforming a low engagement category, strongly stigmatized, with a low penetration rate and a long purchase decision time, into a likeable category. To achieve this ambitious goal, the brand seeks to motivate people, and empower them with information that is easy to understand and act on, to turn hearing loss into an advantage.

Signia supports consumers whose expectations are higher than ever as they face the challenges of modern life and strive to perform at their best while working longer and playing harder. The iconic innovations of Signia lift hearing performance to ensure that consumers do not simply regain hearing – but hear better than ever.

At the core of the brand are consumer driven innovations. In 2021 Signia introduced four game changing “firsts” in the industry:

- Active Pro, the first fully fledged medically graded hearing aid in the shape of an earbud.
- Motion Charge & Go, the first rechargeable Super Power device with motion sensors and more than 60 hours of battery life.
- Augmented Xperience, the first audiology platform with dual processors that provides outstanding speech clarity while being fully immersed in the surroundings.
- Insio AX, the first contactless, rechargeable custom hearing aid with motion sensor and streaming capability from Apple and Android.

Rexton

During the financial year, Rexton was relaunched, based on a unique brand positioning that underlines the reliability of the brand. Rexton hearing aids are built to be worn wherever people work and play. They go where wearers need to go, and never let them down. They’re built to perform in all conditions, using proven hearing technology that is tested to the highest standards.

We successfully introduced Rexton’s M-Core platform, resulting in a Share of Wallet of 28% at key customer Costco. Throughout the year, the brand expanded to new markets: Poland, South Africa, and the Netherlands. During EUHA, the European Hearing Aid Association’s exhibition, Rexton introduced its new BiCore platform and welcomed Germany as a new market. At the same event the Lifeproof Campaign was kicked off to drive the brand positioning “Rely on Rexton”.

Other products that we introduced during the financial year were Rexton Assist, to optimize user experience, and Rexton Telecare, enabling remote fitting of new and existing hearing aids.

MISSION:

"Partnering to build successful hearing brands and businesses."

MISSION:

"Making better hearing as easy as it can be."

Audio Service

Audio Service partners with diverse companies, from independent audiologists to retail brands, to build successful private label hearing businesses. Demand for hearing aids is growing, and consumers are looking for solutions in a wider range of retail channels from brands they trust.

The Audio Service business under WSA-owned brands (AS, Coselgi and A&M labels) had a robust double-digit growth, driven mainly by the key continuation of the new **G6 platform** for the AS label, plus other launches like the **Coselgi Mojo** range.

The **Coselgi and A&M brands** both went through a brand revitalization process, getting a new brand image and specific new campaigns, resulting in additional rollouts of these brands in a few new markets.

The **private label business** of Audio Service also had a solid performance thanks to strong customer demand, resulting in several additional labels added to the existing portfolio in key markets.

Vibe

In China and Japan, Vibe hearing aids are sold online through eCommerce marketplaces such as Tmall and Amazon. Vibe's unique online software tools help customers have access to online hearing screenings and hearing aid fittings. The introduction of Vibe perfectly fits the digital customer journey in both markets and no doubt creates a new segment of its own kind. Both markets keep double-digit strong unit growth compared to the last financial year.

Sustainable business

Goal 1: Awareness

We make people aware of hearing health and hearing solutions that fit personal needs.

Goal 2: Accessibility

We make it easy to get hearing solutions wherever people are.

Goal 3: Affordability

We bring relevant hearing solutions to all people, through technology and commercial innovation.

Goal 4: Diversity & inclusion

We foster the inclusion of people with diverse views, opinions, and backgrounds.

Goal 5: Environment

We take care of the planet we live on, and we therefore evolve towards circular business models.

Employee engagement

We ensure high workplace satisfaction and actively engaged employees, while reducing employee turnover.

Talent attraction, development, and retention

We attract, develop, and retain the talents who are the key drivers to deliver on our purpose.

Human rights & labor rights

We respect human and labor rights. This is fundamental to our way of doing business.

Suppliers code of conduct and due diligence

We ensure our suppliers live up to our expectations related to environment, human rights, labor rights and business ethics.

Business ethics & anti-corruption

We are committed to working against corruption in all its forms, by always acting professionally, fairly and with integrity.

Governance & accountability

We set up a strong sustainability governance to ensure the sustainability programs are anchored in the organization.

Raising awareness and breaking barriers

Many people are not aware of their hearing loss. Through our retail network and online platforms, we make hearing tests available to people, wherever they are.

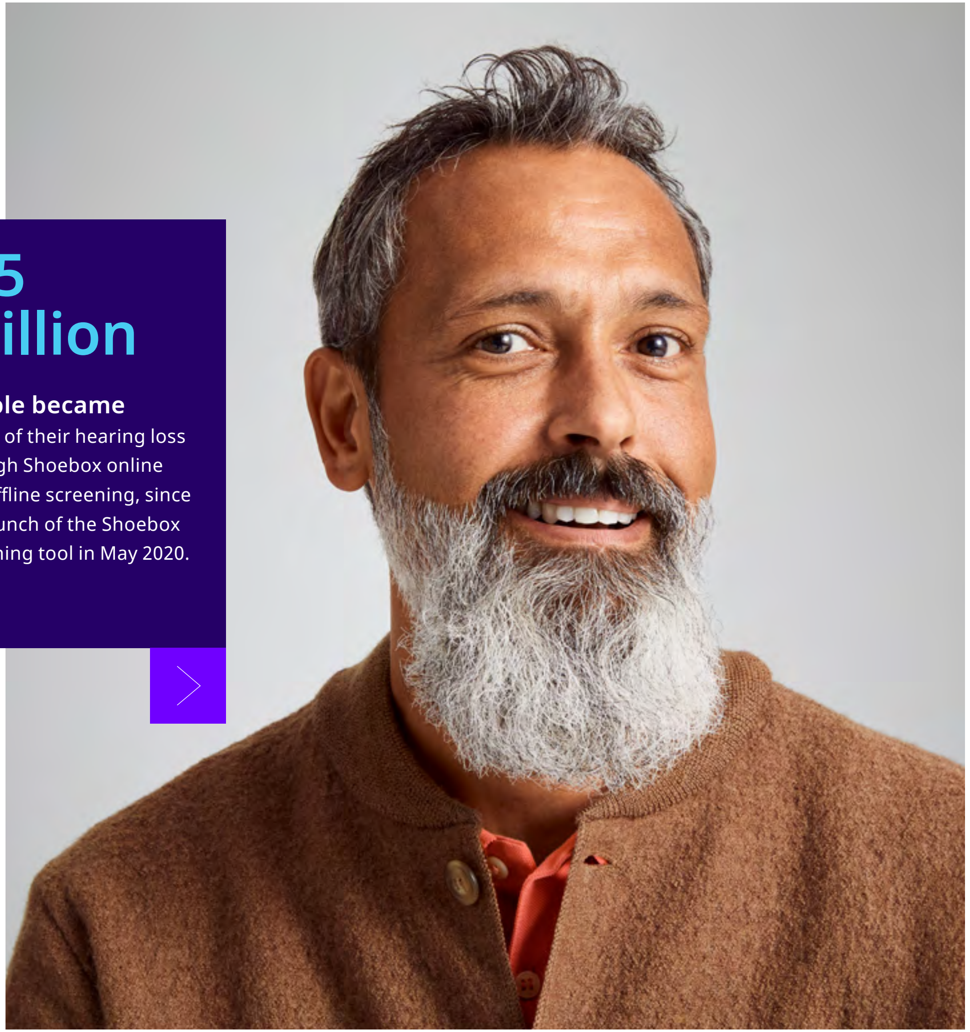
At WSA one of our goals is to raise awareness of hearing loss and the difference good hearing health can make to people's lives. Shoebox, offering portable cloud-based solutions, allows people to take tests virtually anywhere. This solution was originally designed to serve remote areas and has proven invaluable in enabling hearing testing during the COVID-19 pandemic.

In May, we also welcomed Koalys to WSA. Koalys offers a range of digital, cloud-based, and portable audiometry solutions. We will provide professional remote audiological assistance that enables consumer engagement using our digital touchpoints, and hence further enhance awareness and accessibility of hearing care.

> Improving awareness is key to improving hearing health. At WSA our ambition is to reach 500 million people through Shoebox online and offline testing by 2030.

1.5 million

people became aware of their hearing loss through Shoebox online and offline screening, since the launch of the Shoebox screening tool in May 2020.



Case

Vibe makes hearing easy and accessible

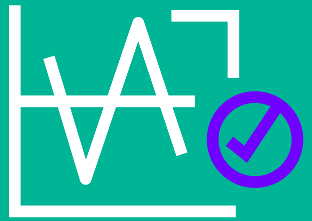
Through technology and commercial innovation, we bring complete and affordable hearing solutions to new markets.

In China, Vibe hearing aids are directly available for sale online through eCommerce marketplaces such as Tmall and JD.com. Customers can receive remote hearing care through online hearing screenings and hearing aid fittings. Our Vibe customer service employees are carefully trained to provide the highest quality of service.

Vibe's unique online software tools are also made available to distribution partners to provide their customers with the same high quality of remote hearing care.

Vibe makes hearing aids that can be customized to individual hearing needs. This is especially important for people who do not have easy access to professional audiological care in China where the number of hearing care professionals is much lower per capita than in more developed markets such as the US and Germany.

Moving towards our purpose: Wonderful Sound for All



2.3 million

people served with hearing aids in China, India, Southeast Asia, South America, Eastern Europe, Middle East, and Africa, since the inception of WSA in March 2019.

30%

more people served with Vibe hearing aids in China this year compared to last year.

People

Our employees are paramount to the success of WS Audiology, and we strive to provide them with a great place to work and grow. We recognize that we are also responsible for the impact of our business activities on our partners and the people in the communities in which we operate.

Values and behaviors
In March 2021, we introduced a new set of values and behaviors based on input from more than 1,000 employees. The new values and behaviors play a crucial role in the culture journey we embarked on in late 2020 while navigating the COVID-19 pandemic.

Employee engagement
We want to ensure high workplace satisfaction and actively engaged employees, while reducing employee turnover. We therefore strive to make WS Audiology a great place to work and grow.

In pursuit of this ambition, we launched WSA Heartbeat in 2021 as a frequent employee survey, which replaces our annual engagement survey. In June 2021, we completed our first WSA Heartbeat pulse where we saw a significant increase in engagement levels, indicating that our culture journey is on the right track. We will continue to monitor engagement levels on a regular basis.

Our new set of values and behaviors represents what we believe in and how we strive to think and act everyday

Values What we believe in	**Going beyond together**	**Pioneering for better solutions**	**Passion for impact**
	We value the inclusion of **diverse views, opinions and backgrounds.** We collaborate to reach shared goals, we celebrate together and we all take responsibility for creating **a cool place to work.**	With an **entrepreneurial mindset, we challenge the status quo** to improve people's lives around the world, and we always aspire to be **at the forefront of innovation** in every sense.	We always want to **make a positive, sustainable difference** for our customers, colleagues and company. We **take pride in our work,** and when we do something, we do it right.
Behaviors How we think and act every day	**We proactively strive** to create a trustful work environment, where everyone's input is valued. **We work together** as one team, across functions and borders, helping each other to be successful. **We engage** with diversity and inclusion in everything we do. **We care** for each other and contribute to having fun at work.	**We anticipate** customer and consumer needs and desires. **We take calculated risks,** and we learn from our mistakes. **We prioritize** time and resources for the most impactful ideas, and we work with speed and agility to realize them. **We innovate** beyond the product.	**We are results-oriented** and trust each other to take ownership of work and decisions. **We empower** each other and set clear expectations at individual and team level. **We enable personal growth** with clear development plans, stretch opportunities and provide fair and respectful feedback. **We act with integrity,** transparency and high ethical standards.

Fostering a diverse and inclusive workforce

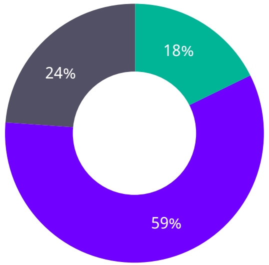
We strive to create a work environment where diverse ideas, views, opinions and backgrounds are valued.

Our differences give broader perspectives and better equip us to solve challenges, increase innovation and create industry-leading customer experiences.

Underlining our commitment to Diversity & Inclusion ('D&I'), we welcomed a Global Head of Diversity & Inclusion in September 2021 to further strengthen WS Audiology's global efforts in driving an inclusive work environment.

Age distribution in the workforce

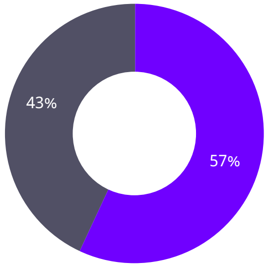
%



- <30 years
- 30-50 years
- > 50 years

Gender balance in the workforce

%



- Female
- Male

D&I communities across WSA

In 2020, we launched our first volunteer network – Team for Inclusion, Diversity, and Equality (TIDE) – focusing on our D&I goals in the US and serving as a feedback loop between our people and executive leadership.

In 2021, we launched several employee resource groups consisting of a total of 43 passionate colleagues around the globe. Each group has a specific focus within diversity and inclusion, thus bringing to life our commitment to ensure equal opportunities and foster a diverse workforce.

Safe and inclusive workforce for all

We promote everyone's equal value and opportunities and condemn all forms of discrimination. We expect our people to be responsible for treating others with dignity and respect.

In September 2020, we made a clear commitment to equality and to a culture that is free from discrimination and harassment by launching our Group Harassment Free Policy.

Gender balance at WSA

Our diversity and inclusion agenda aims at a more balanced gender representation at all managerial levels.

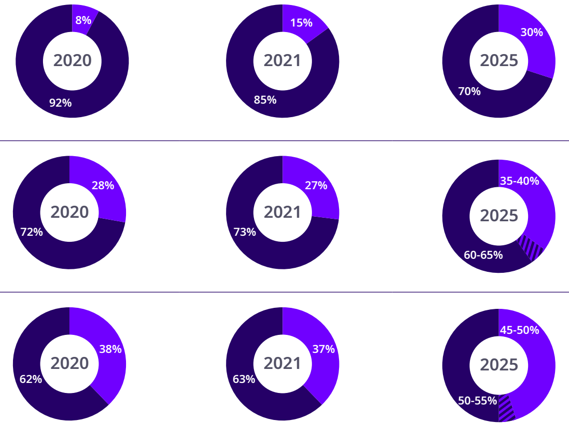
Key Performance Indicator (KPI) | Baseline | Progress | Targets

Gender in Group Management Team

Gender in Global Leadership Team

Gender in Managerial Roles (Managers with direct reports)

- Female
- Male



At a WSA overall employee level we have a fairly balanced gender representation, consisting in 2021 of 57% women and 43% men. As of 30 September 2021, our Group Management Team was comprised of 13 members representing nine nationalities and 15% made up by women.

The Board of Directors currently consists of 10 members, including two female members after Malou Aamund was appointed in 2021. Our goal is to reach a 30% share of women in the Group Management Team by 2025, 35-40% female representation in the Global Leadership Team and a 45-50% share of women in other managerial roles.

To reach our goals and ensure accountability, we have defined clear 2025 targets for increasing the share of female leaders across WSA.

Furthermore, we continuously focus on ensuring that gender diversity is promoted in candidate selection, especially for leadership positions. In addition, we ensure that the composition of gender and nationality at leadership courses is monitored and calibrated.

Our responsibility

Our Code of Conduct reflects our belief that respecting human rights is fundamental to doing business. We support the 10 principles of the United Nations (UN) Global Compact, the UN Guiding Principles on Business and Human Rights (UNGP), and the principles defined within the International Labor Organization Core Conventions.

We are aware of the risks of human rights violations across our value chain and act on this responsibility by exercising our influence to promote and protect the human rights of all those we work with. We continue to monitor and mitigate any labor rights risks through complying with national legislation, having open and honest relationships with employees, and respecting their right to be informed, heard and to voice their concerns in an open and transparent manner.

15%

of employees are covered by collective bargaining agreements.

Child labor and forced labor
The risk of child labor and forced labor in our own operation is low, as we deploy thorough hiring procedures, ensuring that we have no child labor or any forms of forced or compulsory labor in WSA. Relative to our own operation, the risk of child labor and forced labor in our external supply chain is higher but strictly managed through our supply chain due diligence.

Freedom of association and collective bargaining
We respect our employees' freedom of association and their rights to collective bargaining, also in countries of operation where these rights are not inherent. The employee representatives on workers councils in selected countries continue to facilitate the dialogue between the company and employees regarding employment conditions.

Human rights impact assessment
We completed a human rights impact assessment of WS Audiology in 2021, with the support of external human rights experts from BSR. The assessment covers the full scope of WSA's corporate operations and value chain, from supply chain to sales, marketing, and distribution. Through this assessment, we get a more comprehensive picture of the salient issues relating to human rights, we review our corporate policies related to human rights, and identify gaps in our human rights due diligence approach. This serves as an important input for us to become fully aligned with UNGP.

Health and safety
WS Audiology is committed to providing safe and healthy working conditions for our employees, contractors, and visitors, and systematically eliminating hazards and reducing risks as emphasized in our Environmental, Health & Safety Policy. We have established a management system in accordance with OHSAS 18001 at our manufacturing sites in Singapore, China, Poland, and Denmark, covering the design and production of hearing aids and their components.

Local community engagement
Helping others fully participate in life again is a great motivation for many of the employees who work for us. We adhere to an "every-step-counts" approach and encourage all employees to participate in any activity that makes a positive difference. We have a broad scope of engagement that has been driven by the passion of our people.

Taking care of the planet

Our environmental and climate impact is mainly related to material consumption waste from our operations and packaging, electronic waste generated when our products are replaced, as well as from overall greenhouse gas emissions. Even though our products are small and energy consumption is limited, we still endeavor to improve resource efficiency and minimize our impact.

Our Environmental, Health & Safety Policy underlines our commitment to ensuring that our product life cycle contributes to a sustainable future by continuously reducing our impact on the environment and climate.

Clean production

Our main production sites in Singapore, China, Poland, and the Philippines have implemented environmental management systems according to ISO standards. Our production site in Denmark will be certified in the financial year 2021/2022.

We monitor relevant laws and regulations to ensure compliance and work to continuously reduce water and energy consumption as well as waste generation. The effectiveness of our environmental management system is reviewed by management and through internal and external audits.

We ensure that hazardous waste is collected and disposed of in accordance with applicable regulation, and we continuously improve the data quality pertaining to non-hazardous waste and work to increase the recycling rate.

The production of hearing aids is not intensive in terms of energy or water consumption. However, we are committed to reducing energy consumption and increasing the use of renewable energy.

One of our two headquarters, just outside Copenhagen in Lynge, was designed to impact the surrounding environment as little as possible. The building has a geothermal system that uses groundwater as a heat reservoir to store heating and cooling for an entire year's consumption. A wind turbine rises above the headquarters, delivering excess energy to the electricity grid. The building is carbon neutral.

Our environmental management systems are aligned with ISO standards

Rechargeable hearing aids are not only more convenient, but also better for the environment

WS Audiology has always been a pioneer in hearing aid technology and the inventor of many world firsts – especially in the field of rechargeable hearing solutions, which saves hundreds of disposable batteries per hearing aid user.

We have performed a thorough life cycle assessment to compare the environmental impacts of rechargeable and non-rechargeable hearing aids. The life cycle assessment is carried out according to the ISO 14040/44 standards.

The environmental advantage of rechargeable hearing aids is clear and applies to all 18 environmental categories, including climate change, fossil depletion, and human and eco-toxicity.

Life cycle assessment

Cradle-to-gate
Raw materials, parts and components supply

Production
Production of hearing aids, accessories, and batteries

Dispatch packaging
Packaging of hearing aids for customers and consumers

Transport
Transport hearing aids to customers

Usage phase
Consumers use hearing aids for an average of 5.5 years

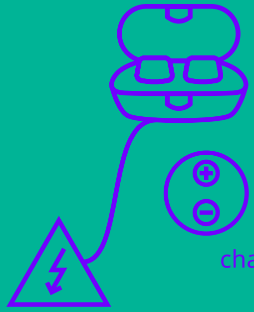
End-of-life treatment
Disposal of hearing aids, accessories, and batteries

Non-rechargeable

2 hearing aids,
670 Zn-air batteries

65%

Rechargeable hearing aids have 65% less environmental impact compared to non-rechargeable hearing aids [1,2,3,4]



Rechargeable

2 hearing aids,
1 charging unit
2.3 Li-ion batteries
electricity used for charging the batteries

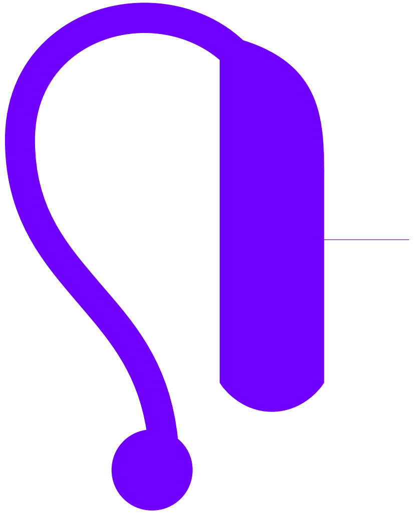
1 Comparing functionally equivalent devices. 2 Based on functional unit of Life Cycle Assessment: Use of two hearing aid devices for 12 hours per day with an average use profile over a period of 5.5 years in the EU-28. 3 Average savings across impact categories for Life Cycle Assessment. 4 Life Cycle Assessment includes 18 impact categories.

Assessment based on data from Signia.

Circular business model

We are committed to transitioning to a circular business model re-using materials to the widest extent possible. Over 60% of the returned hearing aids components are reused to repair hearing aids, where all reused parts have been thoroughly tested in accordance with applicable standards and permissible regulatory frameworks.

As far as possible, the remaining parts of returned hearing aids are sent for recycling to close the circular loop, avoiding waste.



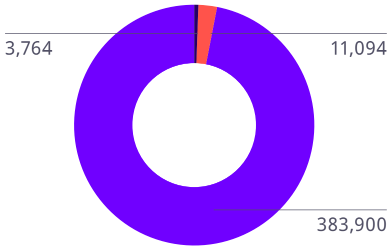
100%

of the electronic waste from our repair center in Philippines is sent for recycling.

Greenhouse gas emissions

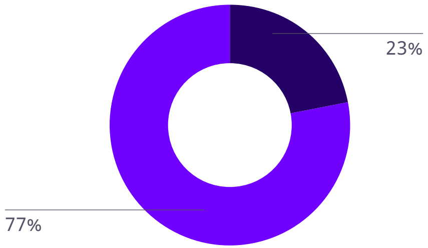
We are working to improve our energy efficiency and reduce our greenhouse gas emissions, even though the emissions of our own operation (scope 1 and 2) are limited. Most of the emissions are in the value chain (scope 3).

Total emissions – Scope 1, 2, & 3 (tCO_2e)



- Scope 1
- Scope 2 (market based)
- Scope 3

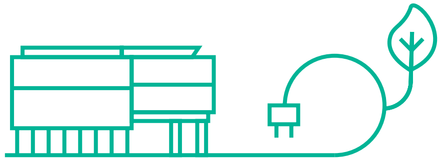
% share of renewable electricity



- % of electricity from renewable sources
- % of electricity from non-renewable sources

Science-based targets

We have committed to setting science-based climate targets in line with limiting the global temperature rise to 1.5° C. Our ambition is that 100% of the electricity directly consumed by WSA should come from renewable sources and we aim to be carbon neutral in our own operations by 2025. Since June 2021, our Singapore headquarters has been powered by 100% renewable electricity. This means the share of renewable electricity used by WSA as a whole will increase from 16% last year to 23%, bringing us closer to our commitment of using 100% renewable electricity by 2025.



Business **ethics**

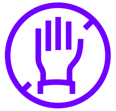
We are building true global leadership in our industry on a foundation of healthy business ethics and a well-structured approach to compliance across our Group.

Anti-corruption

We are committed to working against corruption in all its forms, by always acting professionally, fairly and with integrity. We take a zero-tolerance approach to bribery, corruption and fraud. This is entrenched in our Code of Conduct ("Code"), which guides the organization and employees in conducting their day-to-day business.

Anti-corruption considerations are integral to our business partner handling process, and we continue to ensure that our partners acknowledge and respect their responsibility when doing business with us.

The main risks related to our activities include employees' and business partners' violation of our anti-corruption commitment and the resulting potential legal and financial consequences. We have established multiple measures, such as vetting of all suppliers and ad hoc evaluations, to ensure that there is zero tolerance of any corrupt behavior in our business. In addition, all WS Audiology employees must read and become familiar with our Code, as its principles need to be part of their daily work.



We take a zero-tolerance approach to bribery, corruption and fraud.

Anti-competitive behavior

We adhere to anti-trust laws and ensure fair competition, achieving our market position through the outstanding quality of our products as well as our performance. We do not discuss any anti-trust relevant information with competitors, suppliers, or customers. Further, we do not participate in any discussions or enter into agreements with competitors that could result in a restriction of competition, or use our position in the market to discriminate against others through unfair business practices. In addition, our ethical guidelines in competitive intelligence govern us when collecting information about competitors in an ethical manner. Our approach is aligned with SCIP*.

* Strategic & Competitive Intelligence Professionals (SCIP)

Whistle-blower mechanism

We foster an environment where our employees can ask questions and raise issues or concerns about business ethics and other topics without fear of retaliation.

Employees can raise concerns to their managers, Legal Compliance Advisor, Regional Compliance Officer and Human Resources Department. Employees and third parties can raise concerns anonymously to tell-us@wsa.com and/or through the WSA Compliance Portal.

The WSA Compliance Portal is available in 15 languages. Reports in the WSA Compliance Portal are done through an externally hosted internet portal by an independent third party service provider.

We follow up on every reported violation with internal compliance investigations when justified by supporting evidence. Upon completion of an investigation, we propose solutions for any identified issue and ensure all are carried out. We also respond to incidents of employee misconduct with appropriate disciplinary action.

All emails and reporting are always kept confidential to the extent permitted by law and will only be shared on a need-to-know basis with the required person(s) who shall investigate and/or decide on the reported potential violation.

Suppliers code of conduct and due diligence

Our supply chain

Our supply chain consists of direct material suppliers and indirect suppliers. The direct material suppliers provide us with batteries, plastics, packaging, components, etc. Indirect suppliers include real estate, facility management, and other service providers.

Our main suppliers are located in Europe, North America, and Asia.

Our Code of Conduct for Suppliers

As reflected in our Code of Conduct, we recognize a range of operational and reputational risks in our supply chain, and we refrain from working with third parties that do not share our commitment to integrity.

The WS Audiology Code of Conduct for Suppliers reflects our internal values and the expectations of external stakeholders, such as customers, regulators, investors, and the public.

Risk assessment and supplier due diligence

As part of our sourcing procedure, all potential suppliers that enter tenders must sign the Code of Conduct for Suppliers.

Based on the environmental, social, and governance risks of the countries in which we do business, we identified 25 high-risk suppliers.

We conduct due diligence procedures to evaluate the qualifications and reputation of suppliers and avoid working with suppliers whose standards are incompatible with our Code. Due to COVID travel restrictions, we conducted five Code of Conduct audits, instead of 11 as originally planned. Since the audit is only effective if it is carried out in person, we must postpone the audits of the remaining suppliers to next year. This year, we invited third party auditors to conduct the audits. The audit result shows that most suppliers have major non-compliances related to working hours and safety management. We will follow up closely with these suppliers.

WSA UK Modern Slavery Act

Statement FY19-20
Read more

Our quality management systems in main manufacturing sites are **ISO 13485 certified.**

Product safety, marketing, and labeling

As a medical device company, we understand that product safety and information must never be compromised as quality issues and unsafe use of our hearing aids or other devices could lead to damages to consumers.

Product safety

Our quality policy outlines our commitment to high quality and safe hearing solutions.

WS Audiology's product risk management procedure is certified according to ISO 14971. We are committed to minimizing the residual risks as far as reasonably possible to avoid serious injuries.

Our ISO 13485 certified multi-site Quality Management System (QMS) allows global governance and local adaptations to ensure efficient quality management throughout the WS Audiology Group.

In addition, by implementing our Product Related Environmental Protection (PREP) procedure, we comply with all legal environmental obligations such as ROHS and REACH, and safeguard consumer health.

Our products are registered according to local regulations. We continuously survey requirements and take them into consideration when we develop new products.

- Our manufacturing sites in China, Denmark, Germany, the US, and Singapore have all successfully passed the US Food and Drug Administration (FDA) audit inspections since 2018.
- WS Audiology was the first hearing aid manufacturing company that was successfully audited under the EU's new Medical Device Regulation (MDR) and received the new certificates in Q1/2020.

Our post market surveillance system enables us to follow and manage complaints. In case of safety issues, we have a procedure to report to authorities, and if necessary, recall products.

Health and safety impacts are assessed for improvement for all our product categories.

Marketing and labeling

To ensure the veracity of marketing claims, we maintain a claim management practice that establishes the claim type and required data substantiation. Each claim and supporting substantiation is listed in a platform evidence document. Furthermore, each product launch is documented with a clinical evaluation.

We ensure that the product safety manual for each product is included in the package to every consumer who purchases our hearing devices.

We have zero incidents of non-compliance with regulations and/or voluntary codes concerning product and service information and labeling.

Our quality management systems in main manufacturing sites are ISO 13485 certified.

Data privacy and cyber security

Data privacy

We strive to foster a corporate culture of responsibility, respect and trust for personal data and the privacy rights of individuals by complying with all applicable laws wherever we do business.

WS Audiology ensures through routinely reviewed processes and policies that personal data are collected, stored, processed, disclosed, protected, secured, and destroyed properly and according to good data protection practices. Individuals exercising their rights to rectify, change or be informed about what data WS Audiology processes from and about them, can exercise those rights in compliance with relevant legal requirements.

Cyber security

Safe, reliable and precise handling of information is essential to the success of our business. Risk management and IT security are therefore an integral part of WSA IT strategy.

Key objectives are:

- To safeguard Group and customers' data and to protect and guarantee the integrity of the digital assets.
- To achieve our business goals while reducing IT risks and potential impact through technical measures and controls.
- To keep our employees and management aware and educated about security risks and best practices.
- To ensure the availability of IT services and infrastructure according to business needs.

Materiality assessment and stakeholder engagement

We value the input and expectations from stakeholders about WS Audiology's sustainability performance. In addition to an ongoing dialogue with our stakeholders, we conduct materiality assessments every second year to ensure that stakeholder expectations are considered as part of our sustainability approach.

Materiality assessment steps

Step 1 – Identify and group sustainability topics based on:

- Sustainable Development Goals.
- Topics and future challenges for the sector reported by peers, competitors, and NGOs.
- Relevant laws and regulations.
- Reporting standards, incl. Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB).

Step 2 – Assess importance of each sustainability topic

Each sustainability topic is evaluated according to the importance for our business and our stakeholders.

A topic is considered important to WS Audiology if it has a direct impact on the financial performance of the Group; if it represents risks or opportunities for WS Audiology; or if our business has a significant effect on the topic.

A topic is important to stakeholders if WS Audiology's performance on the topic has a significant impact on the stakeholders.

Step 3 – Prioritize material topics

Group Management, selected employees, customers, and suppliers are engaged and provide their input to the materiality assessment. The result reflects the collective input. WSA's Board of Directors reviews the results of the materiality assessment.

Sustainability topics that are important to WSA and its stakeholders

Our materiality assessment results guide the sustainability topics we disclose.

Customers' main concerns are product safety, access to hearing care, awareness of hearing health, human rights, the supply chain code of conduct, and due diligence.

Areas of high priority to our **own employees** include development and retention, innovation and product design, diversity and inclusion, employee engagement, and talent attraction.

Our suppliers focus on product safety and the supply chain code of conduct, and due diligence.

Our Group Management's view is aligned with our customers, employees, and suppliers.

Concerns and priorities raised by stakeholders are addressed and progress is disclosed. We keep monitoring the topics that are not defined as material but may become more important going forward.

Material topics

Create positive impact
1 Awareness of hearing health
2 Affordability
3 Access to hearing care

People
4 Diversity & Inclusion
5 Employee engagement
6 Talent attraction, development and retention
7 Human rights & labor rights

Planet
8 Circular economy and clean production
9 Climate action
10 Environment – innovation & product design

Business ethics and compliance
11 Business ethics and anti-corruption
12 Suppliers code of conduct and due diligence
13 Product safety
14 Ethical marketing
15 Anti-trust/anti-competition
16 Data privacy and cyber security

Governance
17 Governance and accountability

Performance

61

hours – that's how long the battery lasts on a single charge in our Signia Motion Charge & Go SP X rechargeable hearing aid

Sales performance

Organic sales growth was strong across both our wholesale and consumer facing businesses in 2020/21. Our Wholesale business grew 22% organically and generated revenue of **EUR 1,155 million** supported by all regions and with strong performance with key accounts. In the consumer facing segments we grew revenue by 21% to **EUR 899 million** with double-digit growth across all channels and particular strong performance within managed care and online sales.

EUR

900m

+28%

EUR

818m

+20%

EUR

335m

+11%

EMEA-LA-CA

Our activities in EMEA, Latin America and Canada delivered strong sales performance, with 28% organic growth and generated revenue of EUR 900 million despite an increase in COVID-19 cases and restrictions in some markets during Q2 and Q3.

In addition to the recovery from very challenging market conditions in the prior financial year, the strong organic growth was supported by favorable changes to the reimbursement scheme in France from January 2021 and the successful launches of Signia Active Pro and the Signia Augmented Xperience platform across key European markets. Our activities in emerging markets also performed very well and contributed meaningfully to the growth.

US

Our US business increased revenue by 20% organically to EUR 818 million despite adverse impact from COVID-19 in the first half of the financial year. In the second half of the year, recovery was strong in the independent segment following launches of Signia Active Pro and the Signia Augmented Xperience platform. The managed care segment and online channel also contributed significantly to the positive development, while our retail business grew solidly despite COVID-19 headwinds. The Auralcare acquisition further strengthened our retail platform and contributed to revenue in the last quarter of the year.

APAC

Sales performance was solid in our APAC business, which increased revenue by 11% organically to EUR 335 million despite challenging market conditions.

The year was marked by restrictions and lockdowns in the important Japanese and South Asian markets, which were partly outweighed by strong growth in China. Despite sporadic lockdowns Australia and India showed a good growth trajectory fueled by new product launches and innovative customer concepts.

Financial review

Profit and loss

Revenue

The Group grew revenue by 18% to EUR 2,053 million in financial year 2020/21 (2019/20: EUR 1,738 million) which translates into an an organic growth of 22%, well in line with expectations for the financial year. The reported revenue was affected by adverse currency impact of 5% point and 1% point gain from acquisitions. The strong organic growth was realized on the back of a low baseline in 2019/20, which was heavily impacted by COVID-19 coupled with good momentum from new product launches and strong performance across regions. Compared to financial year 2018/19 organic growth was 10% in 2020/21.

Gross profit and margin

WS Audiology's reported gross profit was EUR 1,202 million, up by 24% compared to last year (2019/20: EUR 973 million). The gross margin increased by 2.5% point to 58.5% (2019/20: 56.0%). Excluding one-time items, the Group's normalized gross margin for 2020/21 increased by 1%-point to 61% due to synergy realization and higher volumes.

Research and development

Total research and development costs incurred in 2021 amounted to EUR 142 million (2019/20: EUR 127 million). The higher investments in R&D were made to strengthen the product pipelines for the future and to maintain the competitive advantage of key platforms in the market. The proportion of spending relative to revenue was kept flat. Both reported and normalized R&D expenses represented 7% of total revenue. Total capitalized development costs amounted to EUR 81 million (2019/20: EUR 79 million), and expensed R&D costs ended at EUR 102 million (2019/20: EUR 84 million).

EURm	2020/21	2019/20
R&D expenses (P&L)	**102**	**84**
Amortization	(41)	(36)
Capitalization	81	79
R&D expenditures incurred	**142**	**127**

Selling and general administrative expenses

Total reported selling and general administrative expenses were EUR 997 million, or 48.6% as a percentage of revenue (2019/20: EUR 999 million and 57.5%). The lower ratio to sales was driven by synergy realization, cost management and supported by the higher revenue. Normalized selling and general administrative expenses were 40% as a percentage of revenue, lower by 3%-points on a comparable year-on-year basis.

Effects of normalization

Post-merger, one-time costs and gains incurred are normalized if they are unusual or non-recurring in nature. Normalized items are excluded from the reported EBIT and EBITDA to arrive at the underlying business results. The total normalization for the financial year 2020/21 amounted to EUR 51 million (2019/20: EUR 130 million) and was mainly driven by costs related to the merger and synergy-related cost of EUR 28 million, IPO and acquisition-related costs of EUR 13 million, and ERP implementation costs of EUR 13 million. The IPO cost was related to the preparation for the planned Hear.com listing.

Reported EBITDA and normalized EBITDA

Reported EBITDA came to EUR 413 million (2019/20: EUR 201 million), corresponding to a reported EBITDA margin for 2020/21 of 20.1% (2019/20: 11.6%), mainly driven by a higher gross profit for 2020/21 and efficiencies in sales and marketing expenses and general and administrative expenses, partly offset by investments in R&D.

Adjusting for normalization items, normalized EBITDA increased to EUR 464 million (2019/20: EUR 331 million), corresponding to an improvement in the normalized EBITDA margin of 3.6%-point to a level of 22.6% (2019/20: 19.0%).

EURm	2020/21	2019/20
Reported EBITDA	**413**	**201**
ERP IT transformation	13	18
Transformation projects	13	9
Merger and integration costs	15	36
IPO and acquisition-related costs	13	-
Others	(3)	67
Normalized EBITDA	**464**	**331**

Operating profit (EBIT)

Reported EBIT ended at EUR 109 million (2019/20: EUR -116 million), corresponding to a reported EBIT margin for 2020/21 of 5.3% (2019/20: -6.7%), mainly driven by a higher gross margin for 2020/21, as well as efficiencies in sales and marketing expenses and general and administrative expenses, partly offset by investments in R&D. The operating profit was moreover affected by amortizations of EUR 178 million (2019/20: EUR 190 million) related to the purchase price allocation from the merger.

Net financials
Net financial expenses amounted to EUR 190 million in 2020/21 (2019/20: EUR 183 million).

The net interest expenses were EUR 216 million, down from EUR 222 million in 2019/20. The net impact from exchange rate adjustments was negative by EUR 15 million, compared to a positive EUR 29 million in 2019/20.

Net result
Overall, the net income for the Group improved substantially to EUR -82 million (2019/20: EUR -243 million), mainly due to better gross profit on stronger sales achieved in financial year 2020/21, as well as a lower operating cost incurred compared to revenue. Other operating income as well as net finance expenses remained relatively stable, while income tax expenses increased by EUR 57 million as a result of better net profit.

Cash flow

Operating activities
Cash flows from operating activities increased by 65% to EUR 397 million (2019/20: EUR 240 million), mainly due to stronger earnings as well as improvement in net working capital and solid customer loan collections, partly offset by higher tax payments.

Investing activities
Cash flows from investing activities increased by 34% to EUR -180 million (2019/20: EUR -132 million) driven by higher capital expenditure to further enhance the Group's manufacturing capabilities as well as acquisitions. In the financial year, the Group made two strategic acquisitions as the Group took over My Hearing Centers to expand its retail footprint in the US and Koalys in Israel to enhance its capabilities in online diagnostics.

Financing activities
Cash flows from financing activities was an outflow of EUR 324 million (2019/20: Inflow of EUR 1 million), mainly due to interest payments and a decision to partly pay down outstanding debt.

Free cash flow
As a result of better EBITDA and net working capital changes, the Group's free cash flow position improved by EUR 146 million compared to 2019/20 to a level of EUR 262 million (2019/20: EUR 116 million), partially offset by the higher investments in 2020/21.

Balance sheet

Total assets
Current assets decreased to EUR 735 million (2019/20: EUR 754 million) mainly due to the decrease in cash and cash equivalents.

Non-current assets decreased to EUR 5,933 million (2019/20: EUR 6,057 million), largely due to depreciation and amortization of fixed assets, right-of-use assets and intangible assets. The Group also saw better net repayment of its customer loan portfolio.

Net working capital
Net working capital improved to EUR 225 million (2019/20: EUR 241 million), while net working capital as a percentage of sales was reduced substantially from 14% to 11%, as a result of improved accounts receivables relative to net sales and cash management on payments made to third party suppliers.

Net debt and liquidity
Net debt remained relatively stable. An increase in net debt from EUR 3,452 million to EUR 3,504 million resulted mainly from translation effect of USD term loan. Excluding acquisition and mandatory loan repayments, the Group generated positive liquidity of EUR 24 million.

Outlook for 2022

The attractive growth fundamentals of the hearing care market remain unchanged. WSA will continue to leverage its unique portfolio of differentiated product brands and attractive sales channels to strengthen its market penetration and expand access to hearing healthcare.

On that basis, we expect to deliver high single digit organic revenue growth in the financial year 2021-2022, with normalized EBITDA exceeding EUR 500 million. Completed acquisitions are expected to contribute with revenue growth of approximately 2% in addition to the organic growth.

Main assumptions behind this outlook are that:

- The pandemic may lead to mild fluctuations through the financial year in some geographical areas but will not fundamentally impact our results.
- Availability of components for hearing aids will remain tight during the year, but not lead to material disruption in our ability to serve our customers.
- Outlook is based on currency rates as of today. Earnings are sensitive to exchange rate fluctuations, not least in the USD.

ESG performance

Environmental performance

	Unit	Targets	FY20-21	FY19-20
Clean production				
Hazardous waste	kg		42,987	33,894
Hazardous waste sent for incineration (mass burn)	%		45%	34%
Hazardous waste sent for other disposal method	%		55%	66%
Non-hazardous waste	kg		676,305	549,208
Non-hazardous waste sent for recycling	%		60%	N/A
Water consumption	ton		32,362	24,947
Energy consumption				
Total energy consumption	MWh		50,411	61,051
Fuel consumption	MWh		16,415	23,434
Electricity, heating, and cooling consumption	MWh		33,996	37,617
Share of renewable electricity	%	100% (2025)	23%	16%

The volume of hazardous waste increased by 27%, which is mainly driven by the increase of production at our site in the Philippines. The volume of non-hazardous waste increased by 30%, which is driven by both the increase of production at our site in the Philippines and the inclusion of non-hazardous waste data from our site in China. Since the production process is not water intensive, the water consumption is mainly driven by the increased number of employees working in the office.

The total energy consumption decreased by 17%, mainly due to an increase of actual data collected from WSA retail sites, which led to more accurate extrapolation of energy consumption of 649 retail sites. Fuel consumption decreased 30%, driven by higher accuracy in retail consumption extrapolations, as natural gas was used in the previous reporting year to estimate heating consumption. The share of renewable electricity increased 7% as sites in Norway and Singapore have transitioned to renewables.

Accounting principles

Hazardous waste – The hazardous waste includes both solid and liquid hazardous waste generated in main production sites: Denmark, Poland, Singapore, China, and the Philippines. Hazardous wastes are chemical substances that are classified as hazardous based on the MSDS card information. The quantity of the hazardous waste is based on the forwarding notes to the authorized vendor.

Hazardous waste sent for incineration (mass burn) – The chemical substances incinerated or used as fuels. This includes solid hazardous waste (e.g., electronic/electrical parts containing hazardous substances).

Hazardous waste sent for other disposal method – Neutralization processes (disassembly, composting, distillation, and transformation) according to local regulations.

Non-hazardous waste – The non-hazardous waste includes defective hearing aids, packaging, and waste from production activities at main production sites. Depending on the type of the non-hazardous waste, the quantity is based on the forwarding notes to the authorized vendor or weight records kept by WSA. Total weight of certain types of non-hazardous waste in China, Singapore, and Poland are estimated based on samples. The quantity of the non-hazardous waste from the site in China has been included since FY20-21.

Water consumption – Overall usage based on water billing information or own counters at our main production sites: Denmark, Poland, Singapore, China, and the Philippines.

Total energy consumption – Total energy consumption includes fuel, electricity, district heating and cooling consumed on sites where WSA has operational control.

The energy consumption data covers more than 1,000 WSA sites, including more than 100 non-retail sites and over 900 retail shops. The consumption in 46% of the non-retail sites and 4% of the retail sites is based on energy bills. The consumption in 54% of the non retail sites and 96% of the retail sites is calculated based on site size etc.

Fuel consumption – This includes fuel consumption in on-site stationary combustion (e.g., heating boilers), and in process (e.g. back-up electricity generators), and company-owned or leased vehicles for business trips. The company fleet is comprised of vehicles owned or controlled by WSA that are used for transportation and business trips. The leased cars that are paid for by WSA but used by employees for commuting are not in scope. About 6% of the fleet consumption is extrapolated based on the previous year's consumption.

Electricity, heating, and cooling consumption – This includes electricity, district heating and cooling consumption.

Share of renewable electricity – This is calculated as renewable electricity consumption divided by total electricity consumption.

Environmental performance

	Unit	Targets	FY20-21	FY19-20
Greenhouse gas (GHG) emissions				
Scope 1 GHG emission	CO_2-eq t	Carbon-neutral (2025)	3,764	6,940
Scope 2 GHG emission (location-based)	CO_2-eq t	Carbon-neutral (2025)	12,066	13,335
Scope 2 GHG emission (market-based)	CO_2-eq t	Carbon-neutral (2025)	11,094	13,372
Total Scope 3 GHG emission	CO_2-eq t	Set science-based target across all scopes (2023)	383,900	463,400

GHG scope 1 emissions decreased by 46%, which is mainly driven by the higher accuracy in retail consumption extrapolations as natural gas was used in the previous reporting year to estimate heating consumption. GHG Scope 2 emissions decreased by 7%, which is mainly driven by increased share of renewable electricity.

Scope 3 emissions decreased by 17%, which is mainly driven by higher granularity in expenditure data used for calculating the emissions based on the Quantis tool and integration of life cycle assessment data, including actual emission footprint of electronic components used for hearing aid manufacturing.

Accounting principles

Greenhouse gas emissions – This GHG inventory was compiled in accordance with the WRI/WBCSD Greenhouse Gas (GHG) Protocol. The organizational boundary applied to consolidate WS Audiology's emissions was the operation control approach. No sites have been excluded from the inventory boundary over the reporting period FY20-21.

More than 1,000 WSA sites are in Scope based on the operation control approach. This includes more than 100 non-retail sites and over 900 retail shops. The emission from 43% of the non-retail sites and 4% of the retail sites is based on energy bills. The emission from 57% of the non retail sites and 96% of the retail sites is calculated based on site size etc.

Scope 1 GHG emission – Activity data and emissions include on-site stationary combustion of fossil-fuel burning equipment (e.g., heating boilers) or process-based emissions (e.g., back-up electricity generators), company-owned or leased vehicles for business trips. Fugitive emissions associated with the use of HVAC equipment are included here.

Scope 2 GHG emission (location-based) – Following the Scope 2 Guidance from the GHG Protocol, WSA uses the national or regional emission factors for indirect (Scope 2) emissions defined by the following methods in each relative geography where WSA operates:

- Department for Environment, Food & Rural Affairs (DEFRA) CO_2 Emissions from Fuel Combustion and Refrigerants
- For US sites: US EPA Emissions & Generation Resource Integrated Database (eGRID)
- For UK sites: Department for Environment, Food & Rural Affairs (DEFRA) conversion factors
- For remaining countries: International Energy Agency (IEA) Emission Factors database.

Scope 2 GHG emission (market based) – Based on the latest available emission factors, published by the electricity supplier(s), relating specifically to the carbon intensity of the electricity procured.

- Supplier-specific emission factors for the reporting year 2020-21 were collected, along with supporting evidence (such as Energy Attribute Certificates, supplier invoices, etc.) and checked against quality criteria as described in the GHG Protocol Standard requirements for Scope 2 reporting. Supplier-specific emission factors were collected from sites in Canada, Germany, Italy, the Netherlands and Switzerand. For the remaining sites, following GHG protocol hierarchy, residual mix or location-based emission factors were used according to availability.

Scope 3 GHG emission – The Scope 3 emission are calculated based on hearing aids life cycle assessment results, transportation logistics providers carbon emission reports, in combination with the Quantis Tool, which covers the company activities and expenditures that are not covered by Scope 1 and 2 emissions. WSA will continue detailing Scope 3 assessment in FY21-22.

Due to the nature of WSA's operation, only three greenhouse gases are considered to be released in significant quantifies for tracking: CO2, CH4, and N2O. Global warming potentials (GWPs) are taken from the Intergovernmental Panel on Climate Change (IPCC) IPCC Sixth Assessment Report (AR6) using 100-year values. For the current inventory the latest (AR6) values are used: CO2 GWP = 1, CH4 GWP = 27.9, N2O GWP = 273.

FY19-20 is the base year for GHG emission reporting and target setting.

Social performance

Creating positive impact

	Unit	Accumulative targets	Accumulative number by FY20-21	FY20-21	FY19-20
Awareness					
Additional people that become aware of hearing loss through Shoebox online and offline screening	Number	500 million (2030)	1.5 million	398,000	204,000
Accessibility					
People served with hearing devices	Number	20 million (2025)	7 million	3.1 million	2.2 million
Affordability					
People served with affordable hearing devices	Number	4 million (2025)	1.3 million	540,000	390,000
People served with hearing devices in China, India, South-east Asia, South America, East-ern Europe,	Number	6 million	2.3 million	1 million	700,000

Number of people whose hearing was tested via Shoebox online and offline hearing screening almost doubled this year compared to last year. This is driven by the continued traction of Shoebox Online, from both inside and outside of WSA.

Number of people served with hearing devices increased by 41%, 38% more people are served with affordable hearing devices, and 43% more people in emerging markets are served. This is driven by the overall WSA strategy of expanding awareness, access, and affordability.

Accounting principles

Awareness – Shoebox online and offline screening tools capture the number of screening tests completed. Each test is counted for one person. The accumulated number of people tested is counted since the launch of the Shoebox tool.

Accessibility – Number of people served is calculated based on hearing devices sales volume and binaural rate. The accumulated number of people served is counted since the inception of WSA in March 2019.

Affordable hearing devices – Number of people served with products of basic segment and (future) lower price points are considered as our affordable hearing devices. Basic segment is the entry-level segment in the global WS Audiology product portfolio. The number is calculated based on basic segment hearing devices sales volume and binaural rate. The accumulated number of people served with affordable hearing aids is counted since the inception of WSA in March 2019.

People

	Unit	Targets	FY20-21	FY19-20
Diversity and inclusion				
Gender on Board of Directors	Number of female	2 (2022)	2	1
Gender in Group Management Team	% of female	30% (2025)	15%	8%
Gender in Global Leadership Team	% of female	35-40% (2025)	27%	28%
Gender in managerial roles	% of female	45-50% (2025)	37%	38%
Gender among all employees	% of female		57%	57%
Unique nationality in Group Management Team	Number		10	9
Employee engagement				
Employee engagement	%	8.0 (2025)	7.2	65%
Talent attraction, development and retention				
Total employee turnover	%	12% (2025)	22%	18%
Total voluntary employee turnover	%	6% (2025)	14%	9%
Health and safety				
Recordable work-related injuries	Number	0 (target for every year)	11	10
Rate of recordable work-related injuries	%	0 (target for every year)	1.96	N/A
Fatalities	Number	0 (target for every year)	0	0

With Malou Aamund joining the Board of Directors of WSA, the number of female board members increases to two. We maintain our target of having two female members of the Board of Directors by 2022.

The number of females at Group Management level increased by 7%, and we are on the right path to reach our 2025 target. The number of females on Global Leadership Team and People Manager level decreased by 1% respectively. Our aim is to improve our share of women at these levels, and thus relevant processes and actions are currently being rolled out.

This year, the employee engagement survey is facilitated by Peakon. The result (7.2) is not directly comparable with last year's result (65%), which is based on the Great Place to Work survey. We will continue to use the Peakon employee engagement survey and we aim to reach a score of 8 by 2025.

Total employee turnover increased by 4%-points and voluntary employee turnover increased by 5%-points. This increase is mainly attributed to a higher attrition within our manufacturing and retail workforces. Specific actions have been taken to address these trends, including reviewing renumeration and incentives enhancements, and increased communication channels between employees and management teams. In addition, we have also introduced a series of developmental and career opportunities to allow employees to 'grow and bloom' in their WSA journey.

The number of recordable work-related injuries remains stable, despite the production and total hours worked increasing this year. We continue to apply high safety standards.

Accounting principles

Board of Directors – The highest governance body of WS Audiology.

Executive Board – Consists of Group CEO and Group CFO

Group Management Team – Consists of Group CEO, CXOs and SVPs.

Global Leadership Team – Consists of direct reports to CXOs of grade directors and above, Country GM/CEO/MD and Country CFOs.

Managerial roles – Consists of all managers with direct reports.

All employees – Consists of all employees, including operators, retail employees and white collar staff. Only employees with a permanent working contract are included.

Unique nationality in Group Management Team – The number of unique nationalities among all Group Management members.

Employee engagement – Employee engagement score is a computed score based on the key drivers of engagement defined by the selected engagement platform. Starting from FY20-21, the employee engagement survey was facilitated by Peakon and based on their methodology. The score scale is 0-10. In FY19-20, the employee engagement survey is facilitated by the Great Place to Work Institute and based on their methodology. The score scale was 0-100%. The survey was sent to 10% of WSA employees.

Total employee turnover – Total number of employees who leave WS Audiology within a 12-month period divided by total running average of employees. Total running average of employees is defined as the average of monthly headcount as at the last day of every month.

Total voluntary employee turnover – Total number of employees who leave WS Audiology within a 12-month period voluntarily divided by total running average of employees. Voluntary leavers are defined as employees who resign from WS Audiology.

Recordable work-related injuries – Data is consolidated from production sites in Denmark, Singapore, China, and Poland. Any work-related injury that results in any one of the following, is considered recordable: 1) Days away from work (lost day cases), 2) Restricted work or transfer to another job, and 3) Medical treatment beyond first aid, loss of consciousness, or diagnosis as a significant injury or illness by a physician or other licensed health care professional.

Rate of recordable work-related injuries – Data is consolidated from production sites in Denmark, Singapore, China, and Poland. Rate of recordable work-related injuries equals number of recordable work-related injuries divided by number of hours worked. The number of hours worked is recorded in the HR IT system.

Fatality – Number of victims of fatal accidents at work. Data is consolidated from the whole company.

Governance

	Unit	Targets	FY20-21	FY19-20
Suppliers' Code of Conduct and due diligence				
Share of high-risk suppliers audited for their social, environmental, and ethical management systems and performance within two years	%	100% (2022)	20%	8%
Suppliers audited for their social, environmental and ethical management systems and performance	Number	12 (2021)	5	3
Suppliers with major social, environmental, or ethical non-compliance	Number		4	0
Suppliers establish improvement plans to rectify non-compliance	Number		4	0
Business ethics and anti-corruption				
Substantiated breaches – corruption or bribery incident	Number		0	0

Due to COVID travel restrictions, we conducted Code of Conduct audit five suppliers, instead of 11 as originally planned. Since the audit is only effective if it is carried out in person, we must postpone the audits of the remaining suppliers to next year. This year, we invited third party auditors to conduct the audits. The audits cover the whole scope of our Code of Conduct for suppliers, which has a higher standard than the audit we performed previously by our internal team. Major findings were identified among 4 suppliers. The major findings are related to working hours and safety management. The suppliers have established improvement plans to close the non-compliances. We will follow up closely with these suppliers.

Accounting principles

Suppliers Code of Conduct and due diligence – Number of suppliers that are audited against WSA 's Code of Conduct. The scope of audit includes human rights, labor rights, environment, and anti-corruption.

Suppliers with major social, environmental, or ethical non-compliance – Based on the Code of Conduct audits, the suppliers with major non-compliances.

Suppliers establish improvement plans to rectify non-compliance – Suppliers with significant non-compliances are either terminated or put on improvement plans to rectify the non-compliances.

Substantiated breaches involving corruption or bribery incidents – Number of corruption or bribery incidents that are substantiated.

Certification

We have an integrated management system for quality, health and safety, and environment.

Site	FY20-21	FY19-20	FY18-19
China	ISO 14001 ISO45001	ISO 14001 OHSAS 18001	ISO 14001 OHSAS 18001
Singapore	Not certified	ISO 14001 OHSAS 18001	ISO 14001 OHSAS 18001
Poland	Not certified	ISO 14001 OHSAS 18001	ISO 14001 OHSAS 18001
Denmark	Not certified	Not certified	Not certified
The Philippines	ISO 14001	ISO 14001	ISO 14001

During FY20-21, we maintained the environment, health and safety management system according to ISO standards. However, we paused the ISO certification for sites in Singapore and Poland because we focused our resources on handling the COVID-19 situation to ensure the health and safety of our employees. All sites will be certified again in FY21-22.

Governance

There are

10

different nationalities among our 13 group management members

Corporate **governance**

Management structure

WS Audiology operates a two-tier management structure under which the company's shareholders elect the Board of Directors. The Board of Directors is responsible for outlining the overall vision, strategy and objectives of the WS Audiology Group.

The Board of Directors appoints and supervises an Executive Board consisting of the Group CEO and the Group CFO. The members of the Executive Board are part of the Group Management comprising 13 executives and headed by the Group CEO. The Group Management is responsible for pursuing the strategic direction set out by the Board of Directors and day-to-day management of the WS Audiology Group.

Our product portfolio strategy, remuneration and sustainability committees have been established by, and report to, the Board of Directors.

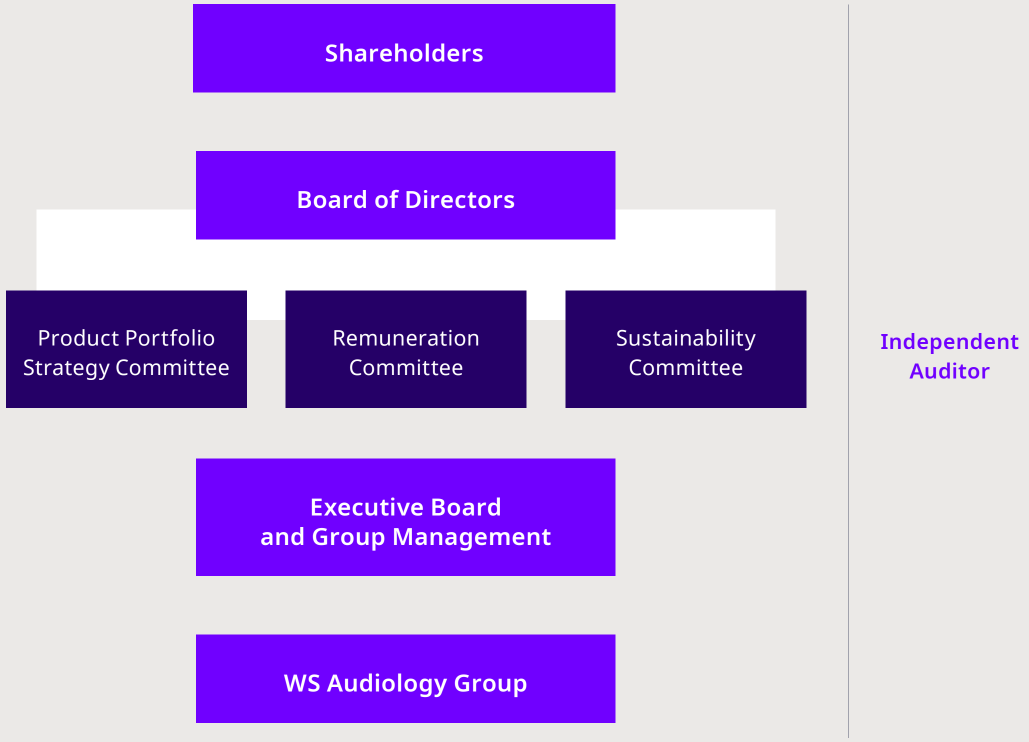
Board of Directors

The Board of Directors is comprised of 10 directors who are all elected by the shareholders in accordance with the company's Articles of Association. The directors are elected based on an overall assessment of their individual professional experience and competencies, as well as their contribution to ensuring an appropriate and diverse composition of the combined competencies of the Board of Directors.

The competencies required of the Board of Directors currently include knowledge of the global hearing healthcare sector and technological innovation, international commercial and management experience as well as strategy, M&A, risk management, IT, human resources, finance and accounting.

The Board of Directors holds regular board meetings to review strategic, financial, organizational and sustainability topics and their impacts, risks, and opportunities.

The Board of Directors was expanded on 1 March 2021 with the appointments of Malou Aamund and Adam Westermann.



Board of **Directors**

Chair
Marco Gadola
Swiss

Marco Gadola is a consultant, professional board member and senior advisor to EQT.

He served as CEO of the Straumann Group, the world-leading brand for confidence in esthetic dentistry, from 2013-2019 after working as CFO and regional CEO of APAC for Panalpina from 2008-2012.

Marco Gadola is currently Chair of DKSH Holding and Medartis as well as Vice-Chair of Calida Holding and MCH Group. He is a board member of Tally Weijl Holding, Thommen Group and AVAG Anlage und Verwaltungs AG.

Vice-Chair
Jan Tøpholm
Danish

Jan Tøpholm is a professional board member and Chair of T&W Medical, which is the Tøpholm and Westermann families' main investment vehicle and the majority shareholder in WS Audiology.

He is a co-owner of WS Audiology and currently active on the boards of several companies controlled by the families and has served as Chair of Widex in 2013-2021 and CEO of the company from 1985-2013.

Jan Tøpholm has also been a board member of A.P. Moller - Maersk from 2001-2014.

Malou Aamund
Danish

Malou Aamund has been Managing Director of Google Denmark since 2016, after working at Microsoft in leading positions from 2011-2016 including as COO and CMO of the Danish company and Business Group Leader of Microsoft Western Europe.

From 2007-2011, she was a Member of Parliament in Denmark, and prior to that she held management positions in IBM.

Malou Aamund is Chair of Thinkproject and the Board of Ecoinnovation, and she is a board member of KIRKBI, DSV and Navico.

Egbert van Acht
Dutch

Egbert van Acht is an independent investor and consultant serving as Executive Vice-Chair of The Clinic by Cleveland Clinic and advisor to scale-ups and start-ups in the global health domain.

He served in a range of leadership positions during his time with the Philips Group from 2002-2018, most recently as CEO of the Personal Health Business and Executive Vice President and member of the Group Executive Committee.

Prior to his tenure with Philips, he was a Marketing Director of Procter & Gamble from 1989-2002.

Marcus Brennecke
German

Marcus Brennecke is Partner and Co-Head of EQT Private Equity Advisory Team and has been with EQT since 2005, where he is a member of the Equity Partners Investment Committee, Chair of the Portfolio Review Committee and Head of the Industrial Network.

Prior to joining EQT, he worked at PE from 1994-2004 and Axel Springer Publishing Group from 1987-1994. He currently serves on the boards of Ottobock and Galderma.

Jes Munk Hansen
Danish

Jes Munk Hansen has served as CEO & President of TERMA Group, which provides mission critical solutions for the defense and aerospace industry, since 2019 after holding executive positions at OSRAM from 2013-2019, most recently as CEO of OSRAM USA and Head of OSRAM Global Sales Function.

Prior to that, he served as CEO & President of Grundfoss Holding's North American activities, among other things. Jes Munk Hansen is currently a board member of the Confederation of Danish Industry and Watts Water Technologies.

Board of **Directors** (continued)

Kasper Grundtvig Knokgaard

Danish

Kasper Grundtvig Knokgaard is Partner at EQT Partners and Global Head of EQT's Services Sector Team. He joined EQT in 2007 and has worked in the Copenhagen, New York and Munich offices.

Prior to joining EQT Partners, he worked with McKinsey & Co.

He is currently also on the board of Cast & Crew and PRO Unlimited.

Karen Prange

American

Karen Prange is a professional board member and senior advisor to EQT. She was CEO of Global Animal Health, Medical and Dental Surgical Group at Henry Schein and a member of the Executive Committee from 2016-2018 after working as Senior Vice President of Boston Scientific and President of the company's Urology & Women's Health division from 2012-2016.

Prior to that, Karen Prange held management positions at Johnson & Johnson and Cordis, among other things. She is currently a board member of ViewRay, AtriCure, Nevro and Cantel Medical.

Julian Tøpholm

Danish

Julian Tøpholm is a senior advisor at T&W Medical and a co-owner of WS Audiology. He has previously held senior positions at Widex A/S.

He is a board member of T&W Medical, which is the Tøpholm and Westermann families' main investment vehicle and the majority shareholder in WS Audiology.

Adam Westermann

Danish

Adam Westermann is Vice President Global Innovation in R&D at WS Audiology. He is also co-owner of WS Audiology

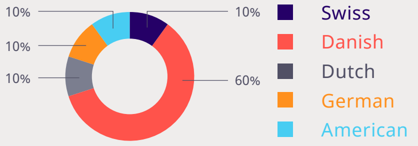
He has held various positions in R&D at Widex and WS Audiology since 2015 after working at the National Acoustics Laboratories in Australia as PhD candidate and postdoctoral researcher from 2011-2015.

Adam Westermann is a board member of T&W Medical, which is the Tøpholm and Westermann families' main investment vehicle and the majority shareholder in WS Audiology.

Diversity

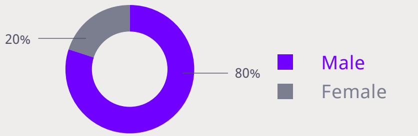
Nationality

Board members elected by shareholders



Gender

Board members elected by shareholders



Executive Board

Group CEO
Eric Bernard
French

A graduate from ESSEC business school and with a degree in Applied Mathematics and Social Sciences from University Paris Dauphine PSL, Eric Bernard started his career at the LVMH Group. He joined Essilor International in 1994 where he spent 25 years in country, regional and global leadership roles and was a member of its executive committee for nine years until joining WSA in June 2019. He lived in Japan, Singapore, the US, Australia and China and currently resides in Denmark.

Group CFO
Søren Westh Lonning
Danish

Søren Westh Lonning joined WS Audiology in 2020 from Chr. Hansen Holding, a leading and publicly traded global bioscience company, where he served in management positions, most recently as Group CFO. Prior to Chr. Hansen, he worked with McKinsey and in a private equity company. Søren Westh Lonning is a board member of Investering & Tryghed. On November 8 2021 Søren Westh Lonning stepped down to focus on his health and was replaced by Michael Tyroller.

Read full CVs at WSA.com

Group Management

Eric Bernard
Group CEO (French)

Søren Westh Lonning
Group CFO (Danish)
(financial year 2020/21)

Michael Tyroller
Interim Group CFO (German)
(from 8 November 2021)

Maarten Barmentlo
Chief Marketing Officer (Dutch)

Carsten Buhl
President Region EMEA, Latin America & Canada (Danish)

Roberto Di Fiore
Chief Operations Officer and President Region APAC (Italian)

Mary Doumtsi
Chief Retail Officer (Greek)

Thomas Hies
Chief Quality & Regulatory Officer (German)

Nicolai Jensen
Chief HR Officer (Danish)

Daniel Liberman
President Region US (American)

Roman Lychman
Chief IT Officer (Ukrainian)

Stefan Menzl
Chief R&D Officer (Swiss)

Jan-Peter Rekling
President Region Nordic (Danish)

Dawn Seah
Chief Legal Officer (Singaporean)

Risk management

WS Audiology continuously monitors the risk landscape to identify and prioritize key risk areas and take proactive mitigating actions to optimize business performance while balancing risk and returns.

Risk management is an integral part of our business, and we have internal controls governing processes and activities designed to achieve our business objectives.

Group Management is responsible for the day-to-day identification and management of risks, reviewing and shaping processes and activities in consultation with the Board of Directors. Regional and Local Management teams are also involved in the risk management of their entities and regularly provide updates to Group Management on risk developments.

WS Audiology's key risks and relevant mitigating efforts are described in more detail overleaf.

Risk	Description	Mitigation
Intellectual property	WS Audiology's intellectual property rights, particularly patents and trade secrets, play a significant role in the development and differentiation of our products. These proprietary rights are essential to the Group's business, and our ability to compete effectively with other companies in the market is greatly enhanced by the availability of any successful technology through licensing.	We obtain patent protection in key jurisdictions for patentable subject matter in the proprietary devices. We furthermore review third party patents and patent applications to develop an effective patent strategy, avoid infringement of third party patents, identify licensing opportunities and monitor patent claims of others.
Financial	We are exposed to various financial risks, including foreign currency exchange risk, credit risk, liquidity risk and interest rate risk. These risks derive from fluctuations in foreign currencies due to our international operations; customers' potential inability to pay their obligations in due time; our potential inability to meet financial liabilities towards suppliers and financial institutions; and WS Audiology's exposure to interest rate fluctuations. Please refer to notes 3.5, 3.8 and 4.2 in the Financial Statements for detailed information.	We mitigate 40-75% of our net currency exposure through 3-12 months' foreign exchange forward contracts managed by the Group treasury function and local management to alleviate the impact of adverse currency effects on earnings. Credit risk is monitored, and credit evaluations are performed for all customers above a certain threshold in accordance with WS Audiology's credit policy. We have credit enhancements such as personal guarantees and share pledges on customer loans in place to reduce credit risk, which was diversified as of September 30 2021. We have implemented effective working capital and cash management as well as short and long-term cash forecasts, and we maintain adequate access to short-term contingency credit lines. A portion of our interest rate risk is mitigated using an interest rate swap to convert floating interest rate to fixed interest rate.
IT	Our global operations and services provided to our customers rely on robust and secure IT infrastructure and systems, and our IT-related risk exposure derives from potential data leaks, unauthorized access to data and systems, denial of services attacks and disruption of IT infrastructure and systems. Such events could have a substantial negative financial impact on WS Audiology due to reputation loss and potential regulatory fines due to the failure to adequately protect data as well as disruption of internal operations and services provided to our customers.	We continuously strive to minimize risk by developing and deploying prevention, response and disaster recovery measures. We upgrade our technical competencies and process capabilities to mitigate the increasing cyber security threats and ensure employee awareness through recurrent information campaigns and mandatory trainings.
Compliance and legal	Compliance with applicable rules, legislation and company policies is crucial to WS Audiology's reputation, status with regulators and business prospects. As part of daily business, we regularly conduct business with government agencies, public officials and other politically exposed persons. Potential violation of rules, legislation or company policies relating to bribery, anti-competitive behaviors as well as involvement in legal disputes or regulatory proceedings may have a significant detrimental impact on Group financials that may not be adequately covered by insurance.	Our Code of Conduct and policies aim to prevent direct or indirect acts of bribery, anti-competitive behavior, money laundering, fraud, deception, and any other criminal or otherwise unacceptable conduct. We regularly conduct compliance trainings for relevant employees and complete legal reviews of key activities as well as internal audits to review and ensure compliance with relevant policies. We have introduced several reporting channels, including a web-based incident reporting system hosted by an independent third party to make it more accessible for employees and external stakeholders to anonymously report potential issues or concerns.

Risk	Description	Mitigation
Supply chain	Stable performance in deliveries and quality of our manufacturing and suppliers is key to ensuring strong business development. Any supply chain disruption may lead to shortages in customer deliveries, impacting business objectives and may entail quality issues, limited production output and delayed deliveries or unsatisfactory service to customers.	We engage closely with critical suppliers, conduct audits and identify alternative sourcing options to reduce the risk of material shortages and ensure a satisfactory quality and service level. WS Audiology's stock levels are designed based on supplier and component assessments to ensure continuous supply, and we are working with multiple freight forwarders to ensure available capacity and on-time deliveries.
Quality and regulatory	As a medical device company, we understand that product quality and safety must never be compromised as errors in our hearing aids or other devices could lead to significant and potentially lifelong damage to our consumers. Our business and products are subject to market conditions and medical product regulations governing national and private reimbursement levels; the supply of products and services to the public; and the development, testing, manufacturing, labeling, premarket clearance, approval, marketing, export and import of our products. Our business may therefore be affected by changes to regulations, and in particular, changes to the conditions for coverage, the way in which reimbursement is calculated, and the ability to obtain national health insurance coverage.	We have implemented ISO 13485 certified multi-site Quality Management System (QMS) to enable global governance and align local adaptations, ensuring efficient quality management throughout WS Audiology. In addition, our manufacturing sites in China, Denmark, Germany, the US, and Singapore have all successfully passed the US Food and Drug Administration (FDA) audit inspections since 2018. Our operations are fully certified under the European Medical Device Regulation (MDR EU 2017/745). We continuously monitor the regulatory landscape and adjust our management systems and manufacturing to accommodate relevant changes.
Health, safety and environment	It is of paramount importance to WS Audiology to provide safe and healthy working conditions for our employees, contractors and visitors while simultaneously ensuring that our product life cycle helps protect the natural environment and contributes to a sustainable future. Failure to realize these targets might endanger the health of our stakeholders or entail environmental incidents that could impose strict liability on WS Audiology.	WS Audiology is systematically eliminating hazards and reducing risks as emphasized in our Environmental, Health & Safety Policy. We have established a management system in accordance with OHSAS 18001 and ISO 140001 at our manufacturing sites in Singapore, China, and Poland – with Denmark to be added in the financial year 2021/22 – covering the design, production and distribution of hearing aids and their components. Risk assessment and mitigation is carried out as an important part of the management system. Our Product Related Environmental Protection (PREP) procedure has been implemented to ensure compliance with all legal environmental obligations such as ROHS and REACH, while safeguarding consumer health. We have conducted risk assessments on all parts and components delivered by suppliers, according to IEC EN 63000. Parts and components of high risk are tested by a third party to ensure substances of concern are not included in WS Audiology products.

Investor information

Ownership

WS Audiology is privately owned by T&W Medical A/S – the investment vehicle of families Tøpholm and Westermann – as well as funds under the management of EQT Private Equity. The owners possess comprehensive healthcare industry and technology insight as well as experience building global market leaders with significant value-creation opportunities.

On 6 January 2021 the Tøpholm and Westermann families (T&W Medical) acquired an additional 4% of the share capital of WS Audiology from EQT, bringing their shareholding of WS Audiology to 51%.

Debt and ratings

The WS Audiology Group has issued senior secured and 2nd lien loans in its holding company Auris Luxembourg II S.A., which is rated by Fitch, S&P and Moody's.

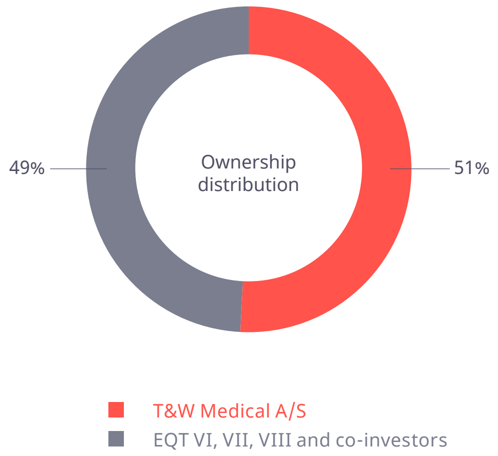
Investor Relations

It is WS Audiology's objective to provide information about matters deemed relevant to enable investors and rating agencies to assess the business and financial developments of the Group.

The Executive Board and the Investor Relations function handle relations with investors and rating agencies, host quarterly conference calls and participate in seminars and one-on-one meetings with investors and rating agencies.

Current ratings (as of Nov 2021)

Issuers	Fitch	S&P	Moody's
Auris Luxembourg II SA (Corporate Family/Issuer)	B- Stable Outlook	B- Stable Outlook	B3 Stable Outlook



Financial calendar

February 2022 Q1 interim results presentation 2021/22

May 2022 H1 interim results presentation 2021/22

August 2022 9M interim results presentation 2021/22

December 2022 Annual results presentation 2021/22

Investor Relations contact
Henning Klemmensen
Head of Group Treasury, Insurance & Investor Relations

Tel. +45 44 35 56 00
investor.relations@wsa.com

Statements

Untreated hearing loss increases the risk of developing dementia by

21%*

*Source: Hélène Amieva et al The Journals of Gerontology, Series A, January 2018

Statement by Management on the Annual Report

The Board of Directors and the Executive Management have today considered and approved the Annual Report of WS Audiology A/S for the financial year ended September 30 2021.

The Annual Report is presented in accordance with the International Financial Reporting Standards, which have been adopted by the EU and disclosure requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's assets, liabilities and financial position at September 30, 2021 and of their financial performance and cash flows for the financial year October 1, 2020 to September 30, 2021.

We also find that the Management commentary provides a fair statement of developments in the activities and financial situation of the Group and the Parent, financial results for the period, the general financial position of the Group and the Parent, and a description of conditions referred to therein.

We recommend that the Annual Report be approved at the Annual General Meeting.

Lynge, December 9 2021

Executive Board:

Eric Alain Bernard
Chief Executive Officer

Søren Westh Lonning
Group CFO

Board of Directors:

Marco Gadola
Chair

Jan Tøpholm
Vice-Chair

Adam Westermann

Egbertus Adrianus Johannes van Acht

Jes Carøe Munk Hansen

Julian Tøpholm

Karen Naomi Prange

Kasper Grundtvig Knokgaard

Malou Aamund

Marcus Eckart Friedrich Karl Brennecke

Independent auditor's report

To the shareholders of WS Audiology A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of WS Audiology A/S for the financial year October 1 2020 to September 30 2021, page 68-121, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the parent. The consolidated financial statements and the parent 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.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the parent's financial position at September 30 2021 and of the results of their operations and cash flows for the financial year October 1 2020 to September 30 2021 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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.

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 and parent financial state-

ments 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, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

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

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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.

Copenhagen, December 9 2021

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Kirsten Aaskov Mikkelsen

Kirsten Aaskov Mikkelsen
State-Authorized Public Accountant
Identification No. (MNE) mne21358

Nikolaj Thomsen
State-Authorized Public Accountant
Identification No. (MNE) mne33276

Independent auditor's assurance report

To the Management and stakeholders of WS Audiology A/S

We have reviewed WS Audiology's Sustainability Report 2020/21 as a part of the Annual Report, covering global activities from October 1 2020 to September 30 2021, to provide limited assurance that:

- The ESG performance data on pages 45-51 in the report have been stated in accordance with the criteria defined by WS Audiology's accounting principles.
- The report has been prepared in accordance with the Global Reporting Initiative (GRI) Reporting Standards (Core Level) on pages 122-130.
- The report has been prepared in accordance with the requirements of the UN Global Compact Communication on Progress Policy.

We express a conclusion providing limited assurance.

Management's responsibility

The Management of WS Audiology is responsible for collecting, analysing, aggregating and presenting the information in the report, ensuring that data is free from material misstatement, whether due to fraud or error. WS Audiology's non-financial accounting principles contain Management's defined reporting scope for each data type. The criteria for the accounting principles can be found on pages 45-51 of the report.

Auditor's responsibility

Our responsibility is to express a limited assurance conclusion on the ESG performance data on pages 45-51 in the report. Furthermore, our responsibility is to review whether WS Audiology has aligned its reporting with the Global Reporting Initiative (GRI) Reporting Standards Core Level and the UN Global Compact Communication on Progress Policy. We have conducted our work in accordance with ISAE 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information, and additional requirements under Danish audit regulations to obtain limited assurance about our conclusion.

Deloitte Statsautoriseret Revisionspartnerselskab is subject to the International Standard on Quality Control (ISQC) 1 and, accordingly, applies a comprehensive quality control system, including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by FSR-Danish Auditors, which are based on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Considering the risk of material misstatement, we planned and performed our work to obtain all information and explanations necessary to support our conclusion.

We performed our review from September 2021 to November 2021. Our work has included interviews with key functions in WS Audiology, inquiries regarding procedures and methods to ensure that selected ESG data and information have been incorporated in accordance with the accounting principles. We have assessed processes, systems and controls for gathering, consolidating and aggregating ESG data at Group level, and we have performed analytical review procedures and tested ESG data prepared at Group level against underlying documentation. We have reviewed the reported data (some measured, some calculated and some estimated) as well as evaluated and given feedback on the reliability and validity of the underlying sources, especially of estimated data. We have evaluated the overall presentation of the Report, including the consistency of information. Finally, we have reviewed the report for adherence to the requirements of the UN Global Compact Communication on Progress Policy, and we have reviewed the report for adherence to the GRI principles for defining report content and ensuring report quality as well as the GRI Standards disclosure requirements.

We have not performed site visits, nor have we performed any assurance procedures on economic or financial data or on certain data models supplied to WS Audiology (e.g. for Scope 3 emissions) or on accumulated historical data or forward-looking statements such as targets and expectations. Consequently, we draw no conclusion on these statements.

Conclusion
Based on our work, nothing has come to our attention causing us not to believe that:

- The ESG performance data subject to our review have been stated in accordance with the criteria defined in the accounting principles. Certain environmental data are based on estimates, as stated in the report, and the company is working towards reducing the amount of estimated data in future reports.

- The report has been prepared in accordance with the Global Reporting Initiative (GRI) Reporting Standards (Core Level).

- The report has been prepared in accordance with the requirements of the UN Global Compact Communication on Progress Policy.

Copenhagen, December 9 2021

Deloitte Statsautoriseret Revisionspartnerselskab
Business Registration No. 33 96 35 56

Nikolaj Thomsen
State-Authorized Public Accountant
Identification No. (MNE) mne33276

Helena Barton
Partner, ESG and Lead Reviewer

Financial statements

1.6 billion
people impaired with hearing loss worldwide

of whom

430 million
people with disabling hearing loss

... of whom 15-20% of people currently use hearing aid devices

Contents

Consolidated Financial Statements

Notes to the Consolidated Financial Statements

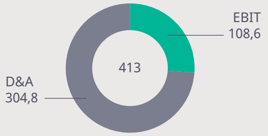
Income Statement

EURm	Note	30 Sept. 2021	30 Sept. 2020
Revenue	2.1	2,053.2	1,738.4
Cost of goods sold		(850.8)	(765.9)
Gross profit		**1,202.4**	**972.5**
Research and development costs	3.1	(102.4)	(84.4)
Selling and general administration expenses		(997.0)	(999.1)
Other operating income/(costs), net		5.4	(1.6)
Share of profit/(loss) in associates, net of tax	5.6	0.2	(3.0)
Operating profit/(loss)		**108.6**	**(115.6)**
Interest income	4.4	5.7	2.5
Interest expenses	4.4	(222.1)	(224.2)
Other financials, net	4.4	26.4	38.4
Loss before tax		**(81.4)**	**(298.9)**
Income taxes	2.3	(0.5)	56.2
Loss for the year		**(81.9)**	**(242.7)**
Attributable to:			
Non-controlling interests		5.2	(0.4)
Shareholders of WS Audiology A/S		(87.1)	(242.3)

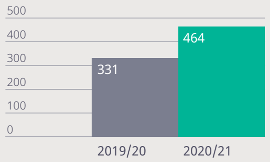
Statement of Comprehensive Income

EURm	Note	30 Sept. 2021	30 Sept. 2020
Loss for the year		**(81.9)**	**(242.7)**
Items that will not be reclassified to profit or loss:			
Actuarial gains/(losses)	5.4	8.1	(2.8)
Tax on items that will not subsequently be reclassified to the income statement	2.3	(2.5)	0.8
Capital gains tax on sale of a subsidiary	2.3	(6.7)	-
Items that may be reclassified subsequently to profit or loss:			
Change in fair value gains/(losses) of cash flow hedge		1.6	(0.1)
Tax on items that have been or may subsequently be reclassified to the income statement	2.3	(0.3)	1.7
Foreign currency translation differences		15.9	(20.4)
Other comprehensive income/(loss) for the year, net of tax		**16.1**	**(20.8)**
Total comprehensive loss for the year		**(65.8)**	**(263.5)**
Attributable to			
Non-controlling interests		5.0	(1.8)
Shareholders of WS Audiology A/S		(70.8)	(261.7)

Split of EBITDA
EURm



Normalized EBITDA
EURm



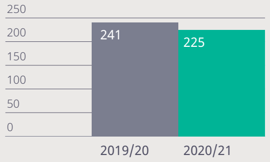
Balance Sheet

EURm	Note	30 Sept. 2021	30 Sept. 2020
Assets			
Goodwill	3.1	3,559.3	3,495.5
Other intangible assets	3.1	1,866.8	1,973.9
Property, plant and equipment	3.2	145.4	146.0
Right-of-use assets	3.4	205.8	231.6
Investments in associates	5.6	4.2	4.0
Deferred tax assets	2.3	80.1	112.5
Trade receivables	3.8	0.1	0.9
Customer loans	3.5	54.0	80.3
Other assets	3.6	17.6	12.7
Total non-current assets		**5,933.3**	**6,057.4**
Inventories	3.7	168.4	141.1
Trade receivables	3.8	288.1	284.9
Current income tax receivables		34.4	4.0
Customer loans	3.5	17.2	20.8
Other assets	3.6	82.0	54.6
Cash and cash equivalents		144.5	248.5
Total current assets		**734.6**	**753.9**
Total assets		**6,667.9**	**6,811.3**

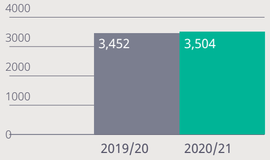
Customer loans have been separately presented as a financial statement line item, while *"Other assets"* and *"Other financial assets"* and *"Other liabilities"* and *"Other financial liabilities"* have been combined into *"Other assets"* and *"Other liabilities"* respectively, to better reflect the disclosures required for readers of the financial statements.

EURm	Note	30 Sept. 2021	30 Sept. 2020
Equity and Liabilities			
Share capital	4.1	100.0	100.0
Other reserves		2,029.0	2,017.7
Accumulated losses		(485.2)	(397.0)
Total equity attributable to the shareholders of WS Audiology A/S		**1,643.8**	**1,720.7**
Non-controlling interests		57.4	49.5
Total equity		**1,701.2**	**1,770.2**
Long-term debts	4.3	3,523.9	3,502.4
Lease liabilities	4.3	182.5	207.7
Pension obligations	5.4	17.1	23.8
Provisions	3.10	29.6	24.6
Deferred tax liabilities	2.3	369.0	400.7
Other liabilities	3.9	128.7	161.4
Total non-current liabilities		**4,250.8**	**4,320.6**
Current liabilities			
Short-term debts	4.3	124.7	198.3
Lease liabilities	4.3	40.7	40.3
Trade payables		231.7	185.5
Current income tax liabilities		28.6	30.1
Provisions	3.10	60.1	57.8
Other liabilities	3.9	230.1	208.5
Total current liabilities		**715.9**	**720.5**
Total equity and liabilities		**6,667.9**	**6,811.3**

Net working capital
EURm



Net Interest Bearing Debt
EURm

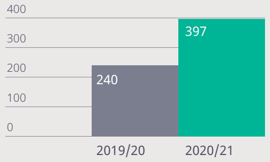


Statement of Cash Flows

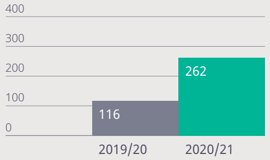
EURm	Note	30 Sept. 2021	30 Sept. 2020
Operating activities			
Loss for the year		**(81.9)**	**(242.7)**
Depreciation, amortization and impairment	3.3	304.8	317.3
Income tax expense, net	2.3	0.5	(56.2)
Interest expense, net		215.8	221.7
Gain/(loss) on sales and disposals of intangibles, plant and equipment and right-of-use assets		(0.5)	3.1
(Reversal of impairment)/Impairment loss on right-of-use assets	3.4	(0.4)	2.7
Share of (profit)/loss in associates		(0.2)	3.0
Other non-cash adjustments	5.7	22.5	(33.9)
Cash flow from operating activities before changes in working capital		**460.6**	**215.0**
Change in inventories		(21.7)	(38.5)
Change in trade and other receivables		2.1	22.2
Change in trade payables		40.0	(0.1)
Change in customer loans		13.7	(31.4)
Change in other assets and other liabilities		(56.2)	81.4
Change in provisions		(4.3)	12.3
Cash flow from operating activities before financial items and tax		**434.2**	**260.9**
Financial income received		3.5	2.8
Income taxes paid, net		(40.6)	(24.1)
Cash flow from operating activities		**397.1**	**239.6**

EURm	Note	30 Sept. 2021	30 Sept. 2020
Investing activities			
Acquisition of companies/operations, net of cash acquired		(46.1)	(5.8)
Investments in intangible assets and property, plant and equipment		(140.7)	(131.5)
Proceeds from disposal of intangible assets and property, plant and equipment		6.7	5.2
Cash flow used in investing activities		**(180.1)**	**(132.1)**
Cash flow from operating and investing activities		**217.0**	**107.5**
Financing activities			
Increase in capital reserve and issuance of shares		–	50.0
Transaction costs paid for issuance of long-term debt	4.3	–	(2.8)
Proceeds from long-term and short-term debt	4.3	82.8	280.0
Repayment of long-term and short-term debt	4.3	(166.9)	(99.2)
Other transactions with non-controlling interests		2.8	(1.2)
Financial expenses paid	4.3	(190.1)	(173.3)
Cash flows relating to lease liabilities	4.3	(51.4)	(48.7)
Change in other short-term debt and other financing activities		(1.5)	(3.4)
Cash flow from financing activities		**(324.3)**	**1.4**
Net cash flow		**(107.3)**	**108.9**
Cash and cash equivalents, beginning of year		248.5	142.7
Adjustment foreign currency, cash and cash equivalents		3.3	(3.1)
Cash and cash equivalents, end of year		**144.5**	**248.5**

Operating cash flows
EURm



Free Cash Flows
EURm



Statement of Changes in Equity

EURm	Share capital	Capital Reserve	Other reserve	Foreign exchange adjustments	Hedging reserve	Accumulated losses	Equity of share-holders in WS Audiology A/S	Non-controlling interests	Total equity
Equity at 30 September 2020	**100.0**	**3,885.5**	**(1,837.9)**	**(28.8)**	**(1.1)**	**(397.0)**	**1,720.7**	**49.5**	**1,770.2**
Loss for the year	–	–	–	–	–	(87.1)	(87.1)	5.2	(81.9)
Actuarial gains	–	–	–	–	–	8.1	8.1	–	8.1
Adjustment of cash flow hedges	–	–	–	–	1.6	–	1.6	–	1.6
Foreign exchange adjustment, etc.	–	–	–	16.1	–	–	16.1	(0.2)	15.9
Tax relating to other comprehensive income	–	–	–	(0.2)	(0.1)	(9.2)	(9.5)	–	(9.5)
Total comprehensive income for the year	**-**	**-**	**-**	**15.9**	**1.5**	**(88.2)**	**(70.8)**	**5.0**	**(65.8)**
Increase in capital reserve	–	–	(3.2)	–	–	–	(3.2)	–	(3.2)
Other transactions with non-controlling interests	–	–	(2.9)	–	–	–	(2.9)	2.9	–
Equity at 30 September 2021	**100.0**	**3,885.5**	**(1,844.0)**	**(12.9)**	**0.4**	**(485.2)**	**1,643.8**	**57.4**	**1,701.2**

Statement of Changes in Equity (cont'd)

EURm	Share capital	Capital Reserve	Other reserve	Foreign exchange adjustments	Hedging reserve	Accumulated losses	Equity of share-holders in WS Audiology A/S	Non-controlling interests	Total equity
Equity at 30 September 2019	**100.0**	**3,835.5**	**(1,840.2)**	**(11.4)**	**(1.1)**	**(152.7)**	**1,930.1**	**52.3**	**1,982.4**
Loss for the year	–	–	–	–	–	(242.3)	(242.3)	(0.4)	(242.7)
Actuarial losses	–	–	–	–	–	(2.8)	(2.8)	–	(2.8)
Adjustment of cash flow hedges	–	–	–	–	(0.1)	–	(0.1)	–	(0.1)
Foreign exchange adjustment, etc.	–	–	–	(19.0)	–	–	(19.0)	(1.4)	(20.4)
Tax relating to other comprehensive income	–	–	–	1.6	0.1	0.8	2.5	–	2.5
Total comprehensive income for the year	**–**	**–**	**–**	**(17.4)**	**–**	**(244.3)**	**(261.7)**	**(1.8)**	**(263.5)**
Issuance of new shares	*	–	–	–	–	–	*	–	*
Increase in capital reserve	–	50	–	–	–	–	50	–	50
Other transactions with non-controlling interests	–	–	2.3	–	–	–	2.3	(1.0)	1.3
Equity at 30 September 2020	**100.0**	**3,885.5**	**(1,837.9)**	**(28.8)**	**(1.1)**	**(397.0)**	**1,720.7**	**49.5**	**1,770.2**

* Amount less than EUR 0.1 mil

Description of reserves:
- Capital reserve relates to deemed contribution by the shareholders in relation to the reverse acquisition.
- Other reserve comprises:
  - the difference between the consideration paid, in the form of acquiring the shares of the Sivantos Group (ref. Note 1) and the net equity of the subsidiaries acquired.
  - the elimination of the investment in the Widex Group (ref. Note 1)
  - the reserve under the scope of IFRS 2 (Note 5.1)

Notes

1 Basis of preparation

The consolidated financial statements for the Group and separate parent financial statements for WS Audiology A/S have been prepared in accordance with IFRS as adopted by the European Union (EU) and further requirements in the Danish Financial Statements Act.

The consolidated financial statements and separate parent financial statements are presented in Euros (EUR) which is the functional currency of WS Audiology A/S. All values are rounded to the nearest million (EUR) with one decimal, except where indicated otherwise.

The Group's general accounting policies are described in Note 1.1 General accounting policies below. In addition to this, specific accounting policies are described in each of the individual notes to the consolidated financial statements. The accounting policies set out below and, in each note, have been used consistently in respect of the financial year and the comparative figures.

1.1 General accounting policies

Basis of consolidation
The consolidated financial statements comprise the financial statements of WS Audiology A/S (the parent company) and subsidiaries, which are entities controlled by WS Audiology A/S, prepared in accordance with Group policies. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are listed in note 5.11.

The consolidated financial statements are prepared by combining items of a uniform nature and subsequently eliminating intercompany transactions, internal shareholdings and balances and unrealized intercompany gains or losses. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences and until the date on which control ceases.

The accounting items of subsidiaries are recognized 100% in the consolidated financial statements. Non-controlling interest's share of subsidiaries' profit or loss for the year and of equity are included in the Group's profit or loss and equity, but are disclosed separately.

Acquisitions or disposals on non-controlling interests in subsidiaries, which does not result in obtaining or losing control of such subsidiaries, are treated as an equity transaction in the consolidated financial statements, and any difference between the consideration and the carrying amount of the non-controlling interest is allocated to the Parent's share of the equity.

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, as well as any related non-controlling interests and other components of equity. Any interest retained in the former subsidiary is measured at fair value when control is lost. Any resulting gain or loss is recognized in profit or loss.

Translation of foreign currency
A functional currency is determined for each or the reporting entities in the Group. The functional currency is the primary currency used for the reporting entity's operations. Transactions denominated in other than the functional currency are translated into the functional currency at the exchange rates at the transaction date. Foreign exchange differences between the exchange rate at the transaction date and at the date of payment are recognized in other financials, net.

The Group has significant activities in EUR and has raised significant debt in EUR. Therefore, the functional currency of WS Audiology A/S and the presentation currency of the WS Audiology Group is determined to be EUR.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the transaction date.

Foreign exchange differences are generally recognized in other financials, net in the income statement. However, the following foreign exchange differences are recognized in other comprehensive income ("OCI"):

- Qualifying cash flow hedges to the extent that the hedges are effective
- Foreign exchange adjustment of balances with foreign entities that are considered part of the net investment in the entity

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into EUR at the exchange rates at the reporting date. The income statements and statement of cash flows of foreign operations are translated into EUR at average exchange rates for the period, unless such average exchange rates are unrepresentative of the exchange rates prevailing at the transaction dates, in which case the transaction date exchange rates are applied.

Foreign exchange differences arising on translation of the opening balance of equity of foreign entities at the exchange rate at the reporting date and on translation of the income statement from the average exchange rate to the exchange rate at the reporting date are recognised on other comprehensive income and attributed to a separate translation reserve in equity, except to the extent that the translation difference is allocated to non-controlling interests.

On complete or partial disposal of a foreign entity such that control, significant influence or joint control is lost, or on repayment of balances that constitute part of the net investment in the foreign entity, the share of the cumulative amount of the exchange differences recognized in other comprehensive income relating to that foreign entity is recognized in the income statement as part of the gain or loss on disposal. When the Group disposes of part of its interest in a subsidiary but retains control, the relevant portion of the cumulative amount is reattributed to non-controlling interest. On partial disposal of an associate or joint venture while retaining significant influence or joint control, the relevant portion of the cumulative amount is reclassified to the income statement.

Statement of cash flows
The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the profit or loss for the period adjusted for non-cash operating items, changes in working capital and income taxes paid.

Notes

1.1 General accounting policies (cont'd)

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc. of intangible assets and property, plant and equipment. Cash flows from acquired enterprises are recognised in the cash flow statement from the acquisition date. Cash flows from disposed enterprises are recognized up until the disposal date.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, repayment of interest-bearing debt (principal and interest), lease liabilities, acquisition and disposal of treasury shares and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk.

Cash flows cannot be derived directly from the statement of financial position and income statement.

Applying materiality

The consolidated financial statements are a result of processing large numbers of transactions and aggregating those transactions into classes according to their nature or function. The transactions are presented in classes of similar items in the consolidated financial statements. If a line item is not individually material, it is aggregated with other items of a similar nature in the consolidated financial statements or in the notes.

There are substantial disclosure requirements throughout IFRS. Management provides specific disclosures required by IFRS unless the information is not applicable or considered immaterial to the economic decision-making of the users of these financial statements.

1.2 Significant accounting estimates and judgements

In preparation of the consolidated financial statements, Management makes various accounting estimates and judgements that form the basis of presentation, recognition and measurement of the Group's assets, liabilities, income and expenses. The key accounting estimates identified are those that have a significant risk of resulting in a material adjustment to the carrying amounts of assets or liabilities within the next financial year.

The application of the Group's accounting policies may require Management to make judgements that can have a significant effect on the amounts recognized in the consolidated financial statements. Management judgement is required in particular when assessing the substance of transactions that have a complicated structure or legal form.

The accounting estimates and judgements made are based on historical experience and other factors that Management assesses to be reliable, but that, by nature, are associated with uncertainty and unpredictability and may therefore prove incomplete or incorrect.

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

Principal accounting policies	Key accounting	Note	Estimation risk
Income tax and deferred income taxes	Judgement and estimate of deferred tax assets and uncertain tax positions	2.3	Medium
Intangible assets	Judgement of determination of useful lives of intangible asset	3.1	Medium
Depreciation, amortization and impairment	Estimates used in impairment testing	3.3	High
Financial instruments	Judgement and estimate for expected credit losses for customer loans	3.5	Medium
Provisions	Estimates over the measurement of provisions	3.11	Medium
Share-based payment	Judgement and estimate of share-based payments	5.3	Medium

1.3 Adoption of new and amended IFRS

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 October 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards

The Group has adopted the amendments included in *Amendments to References to the Conceptual Framework in IFRS Standards* for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate

Notes

that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Standard which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.

Amendments to IFRS 3 Definition of a business

The Group has adopted the amendments to IFRS 3 for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

The amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after 1 October 2020.

Amendments to IAS 1 and IAS 8 Definition of material

The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition.

The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'.

The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet:

IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment—Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts—Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments,IFRS 16 Leases, and IAS 41 Agriculture
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IFRS 9/IAS 39 and IFRS 7	Interest Rate Benchmark Reform

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

2 Results of the year

2.1 Revenue

EURm	30 Sept. 2021	30 Sept. 2020
Revenue by geographic region:		
EMEA-LA-CA	900.0	715.9
US	817.8	716.4
Asia-Pacific	335.4	306.1
Total	**2,053.2**	**1,738.4**
Hereof US	817.8	716.4
Hereof Germany	284.8	227.9
Hereof Others	950.6	794.1
Total	**2,053.2**	**1,738.4**

Revenue is predominantly recognized at a point in time, and revenue recognized over time is not significant. Revenues are attributed to countries on the basis of the customer's location. The Region "EMEA-LA-CA" consists of Europe, the Middle East, Africa, Canada and Latin-America. The Region "US" is the United States of America. The Region "Asia-Pacific" consists of Asia, Australia and the Pacific region.

Consolidated revenue mainly derives from sale of goods and is broken down by the selling entity. No individual customer accounts for 10% or more of the total revenue. The Group considers its operations to constitute a single operating segment.

Notes

2.1 Revenue (cont'd)

Contract liabilities

The Group has recognised the following liabilities related to contracts with customers:

EURm	30 Sept. 2021	30 Sept. 2020
Customer prepayments	9.4	10.2
Deferred revenue	31.2	25.4
Volume discounts	45.9	40.0
Right of returns	23.8	26.6
Total	**110.3**	**102.2**

Significant changes in the contract liabilities balances during the year are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Contract liabilities		
Opening balance at 1 October 2020	**102.2**	**84.0**
Foreign currency translation adjustments	(5.5)	(3.2)
Revenue recognized that was included in the contract liability from prior year and current year balance	(43.1)	(37.4)
Advances received during the year	51.0	57.6
Others	**5.7**	**1.2**
Total	**110.3**	**102.2**

§ Accounting policies

Revenue from sale of products is recognized when the Group has transferred control of products sold to the buyer and it is probable that the Group will collect the consideration to which it is entitled for transferring the products. Control of the products is transferred at a point in time, typically on delivery.

Revenue is measured at the fair value of the consideration received or receivable net of discounts, VAT and other duties.

Contracts with customers sometimes include multiple promises that constitute separate performance obligations, and to which a portion of the transaction price needs to be allocated. The total transaction price in the contract is allocated to separate performance obligation based on the relative stand-alone selling prices of each such performance obligation. Each separate performance obligation is recognized when control is transferred to the customer.

When products are sold with a right of return, a refund liability and a corresponding adjustment to revenue is recognized for those products expected to be returned. 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. To the extent that the Group will be able to recover the cost of returned products, when the customers exercise their right to return, a separate right to returned products asset and a reduction in cost of sales is recognized.

Discounts, rebates, and sales incentives to customers

The Group pays various discounts, rebates and sales incentives to customers including trade discounts and volume rebates. Furthermore, customer discounts include the difference between the present value and the nominal amount of loans to customers at below market interest rates, cf. Note 3.5 Customer loans.

Discounts, rebates, and sales incentives to customers are deducted from revenue and are measured using either the expected value method or the most likely amount method depending on which method better predicts the amount of consideration to which the Group will be entitled net of discounts, rebates and sales incentives.

Estimates of the number of returns of products under customers right of return are based on the right of return policies and practices, accumulated historical experience, sales trends and the timing of returns from the original transaction date when applicable. Where new products are sold or products are sold to new markets, for which sufficient historical experience does not exist, refund liability and revenue to be recognised are based on estimated demand and acceptance rate for well-established products with similar market characteristics. If such similar product or market characteristics do not exist, recognition of revenue is postponed until there is evidence of consumption of the products by the customer, or when the right of return has expired.

Discounts, rebates and sales incentives are estimated and accrued when the related revenue is recognised. Such estimates require the use of judgement, as all conditions are not known at the time of the sale, e.g. the number of units sold to a given customer or the expected utilization of loyalty programmes. Liabilities in respect of sales discounts, rebates and loyalty programmes are adjusted, as the Group gain better information on the likelihood that they will be realized and the value at which they are expected to be realized.

The accrual against revenue of discounts from issue of customer loans at off-market terms (cf. Note 3.5 Customer loans) is based on the customers total committed purchases of products throughout the term of the customer loan, and is recognized as a discount for each product sold.

Extended warranties

The Group offers customers the option to separately purchase extended warranties for inventories sold. The extended warranty is a distinct service to the customer. Under IFRS 15, the Group accounts for a service-type warranty as a separate performance obligation to which the Group allocates a portion of the transaction price when the warranty is bundled together with the sale of inventories. The portion of the transaction price allocated to the service-type warranty is initially recorded as a contract liability and recognised as revenue on a straight-line basis over the period the warranty services are provided. Revenue is recognized when the customer receives the warranty coverage and loss and damage as part of the purchase of the hearing aid.

The standard warranty period for hearing aids varies across territories, typically between 12 and 36 months, in some cases up to 60 months. The extended warranty covers periods beyond the standard warranty period or standard warranty terms. Payment terms vary significantly across territories.

Notes

2.2 Staff costs

EURm	30 Sept. 2021	30 Sept. 2020
Wages, salaries and remuneration	614.9	561.0
Statutory social welfare contributions	67.7	61.8
Expenses relating to pension plans and long-term employee benefits	17.1	17.4
Total	**699.7**	**640.2**
Included in:		
Cost of goods sold	110.5	107.2
Research and development costs	88.3	80.2
Selling and general administration expenses	500.9	452.8
Total	**699.7**	**640.2**
Average number of full-time employees	11,441	10,791

For information regarding remuneration of the Board of Directors, Executive Management and other Key Management Personnel, please refer to Note 5.2 Remuneration of Key Management personnel.

§ Accounting policies

Wages, salaries, social security contributions, annual leave and sick leave, bonuses and non-monetary benefits are recognized in the year in which the associated services are rendered by employees of the Group. Where the Group provides long-term employee benefits, the costs are accrued to match the rendering of the services by the employees concerned.

2.3 Income taxes

Income taxes consists of the following:

EURm	30 Sept. 2021	30 Sept. 2020
Current tax for the year	(4.5)	(30.6)
Deferred tax for the year	9.8	83.8
Effect of change in income tax rates	(0.8)	(2.4)
Withholding tax	(1.0)	(0.7)
Adjustment to current tax with respect to prior years	3.6	4.3
Adjustment to deferred tax with respect to prior years	(7.6)	1.8
Total	**(0.5)**	**56.2**

Income tax expense differs from the amounts computed by applying the statutory Denmark income tax rate of 22% (2020: 22%) as follows:

Reconciliation of effective tax rate	30 Sept. 2021	30 Sept. 2020
Expected income tax benefit	17.9	65.8
Non-deductible expenses	(24.7)	(19.4)
Non-taxable income	2.3	10.3
Adjustment of tax with respect to prior years	(4.0)	6.1
Changes in unrecognized deferred tax assets and temporary differences	(27.2)	(20.2)
Effect of change in income tax rates	(0.8)	(2.4)
Effect of tax rates in foreign jurisdictions	10.9	6.8
Tax incentives	26.5	7.7
Withholding tax	(1.0)	(0.7)
Others, net	(0.4)	2.2
Total	**(0.5)**	**56.2**
Tax relating to other comprehensive income		
Actuarial gains	2.5	(0.8)
Adjustment of cash flow hedges	0.1	(0.1)
Foreign exchange adjustments, etc.	0.2	(1.6)
Gain on sale of a subsidiary	6.7	-
Total	**9.5**	**(2.5)**

Notes

2.3 Income taxes (cont'd)

Deferred tax

EURm	30 Sept. 2021	30 Sept. 2020
Opening deferred tax, net	**(288.2)**	**(374.0)**
Foreign currency translation adjustments	0.6	0.3
Changes in deferred tax assets/(liabilities)	8.2	83.8
Additions relating to acquisitions	–	(0.2)
Adjustment of deferred tax, prior years	(7.6)	1.8
Impact of changes in corporate tax rates	0.8	(2.4)
Deferred tax relating to changes in equity, net	(2.7)	2.5
Closing deferred tax, net	**(288.9)**	**(288.2)**
Deferred tax recognized in the balance sheet		
Deferred tax assets	80.1	112.5
Deferred tax liabilities	(369.0)	(400.7)
Deferred tax, net	**(288.9)**	**(288.2)**

Breakdown of the Group's temporary differences and changes

EURm	Tax effect of temporary differences at 1 October 2020	Foreign currency translation adjustments	Recognized in loss for the year	Recognized in other comprehensive income	Tax effect of temporary differences at 30 Sept. 2021
Other assets	17.0	–	0.7	–	**17.7**
Intangible assets	(405.6)	(0.4)	18.1	–	**(387.9)**
Property, plant and equipment	(4.0)	–	(6.2)	–	**(10.2)**
Right–of–use assets	(51.9)	(0.2)	11.0	–	**(41.1)**
Inventories	22.7	0.1	4.0	–	**26.8**
Receivables	2.8	–	(2.8)	–	**–**
Pension plans and similar commitments	(1.8)	–	0.3	(2.4)	**(3.9)**
Provisions	11.7	0.2	(1.1)	–	**10.8**
Other liabilities	9.6	0.3	(0.9)	–	**9.0**
Lease liabilities	54.0	0.1	(8.2)	–	**45.9**
Tax loss and credit carry–forward	48.3	0.2	(13.1)	–	**35.4**
Others	9.0	0.3	(0.4)	(0.3)	**8.6**
Total	**(288.2)**	**0.6**	**1.4**	**(2.7)**	**(288.9)**

Notes

2.3 Income taxes (cont'd)

Breakdown of the Group's temporary differences and changes (cont'd)

EURm	Tax effect of temporary differences at 1 October 2019	Foreign currency translation adjustments	Acquisition of subsidiaries	Recognized in loss for the year	Recognized in other comprehensive income	Tax effect of temporary differences at 30 Sept. 2020
Other assets	17.2	–	–	(0.2)	–	**17.0**
Intangible assets	(457.5)	3.7	(0.2)	48.4	–	**(405.6)**
Property, plant and equipment	(4.6)	0.7	–	(0.1)	–	**(4.0)**
Right-of-use assets	–	3.1	–	(55.0)	–	**(51.9)**
Inventories	20.5	(0.3)	–	2.5	–	**22.7**
Receivables	(8.3)	(0.4)	–	11.5	–	**2.8**
Pension plans and similar commitments	(2.4)	(0.1)	–	(0.1)	0.8	**(1.8)**
Provisions	12.5	(0.3)	–	(0.5)	–	**11.7**
Other liabilities	2.4	(1.8)	–	9.0	–	**9.6**
Lease liabilities	–	(3.2)	–	57.2	–	**54.0**
Tax loss and credit carry-forward	44.8	(1.3)	–	4.8	–	**48.3**
Others	1.4	0.2	–	5.7	1.7	**9.0**
Total	**(374.0)**	**0.3**	**(0.2)**	**83.2**	**2.5**	**(288.2)**

The tax loss carry-forward (gross amount) of EUR 130.0 million (2020: EUR 193.0 million) includes tax losses of EUR 3.5 million (2020: EUR 8.2 million) that can be carried forward for 5 to 30 years. The remaining tax loss have no expiry date.

Unrecognized deferred tax assets

Unrecognized tax assets are based on the Management's expectation about the future taxable profits during the periods in which those temporary differences and tax loss carry forwards become deductible. Management considers the expected reversal of deferred tax liabilities and projected future taxable income in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, it is probable the Group will realize the benefits of these deductible differences.

Deferred tax assets have not been recognized with respect to the following items (gross amounts):

EURm	30 Sept. 2021	30 Sept. 2020
Capital losses carry forwards	0.1	–
Tax losses carry forwards	365.2	321.1
Total unrecognized tax carry forwards	**365.3**	**321.1**

Unrecognized deferred tax liabilities

The Group has not recognized deferred tax liabilities for income taxes or foreign withholding taxes on the cumulative earnings of subsidiaries of EUR 4.1 million (2020: EUR 3.6 million) because the earnings are intended to be permanently reinvested in the subsidiaries.

Notes

2.3 Income taxes (cont'd)

§ Accounting policies

Income tax comprises current tax and changes in deferred tax for the year, including changes as a result of changes in tax rates. The tax expense for the year is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity.

WS Audiology A/S is jointly taxed with all Danish subsidiaries, Danish parent entities exercising control over WS Audiology A/S (T&W Medical A/S) and any Danish subsidiaries of such parent entities. The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. The jointly taxed companies are taxed under the on-account tax scheme.

Current tax liabilities or assets are measured using the tax rates and tax laws that have been enacted or substantively enacted in each jurisdiction by the end of the reporting period.

Deferred tax is measured using the balance sheet liability method and comprises all temporary differences between the carrying amount and tax base of assets and liabilities. Deferred tax is not recognized for taxable or deductible temporary differences:

- arising from the initial recognition of goodwill
- on the initial recognition of assets and liabilities in a transaction that is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit
- associated with investments in subsidiaries, branches, associates and joint arrangements to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

If amortization of goodwill is deductible for tax purposes, a deferred tax liability is recognized on temporary differences arising after initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantially enacted at the reporting date.

Deferred tax assets and tax liabilities are offset if the entity has a legally enforceable right to offset current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets or to realise the assets and settle the liabilities simultaneously.

Significant judgements and accounting estimates

The Group operates in a large number of tax jurisdictions where tax legislation can be highly complex and subject to interpretation. Significant judgement and estimates are required in determining the worldwide accrual for income taxes, deferred tax assets and liabilities and uncertain tax positions.

Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised. This judgement is made annually and based on budgets and business plans, including planned commercial initiatives, for the coming five years unless a longer period in certain situations (e.g. for start-up businesses) is warranted. Currently, a longer period than five years has not been applied in any of the jurisdictions in which the Group operates.

In the course of conducting business globally, tax and transfer pricing disputes with tax authorities may occur. Management judgement is applied to assess the possible outcome of such disputes. The “most probable outcome” method is used when determining whether to recognize any amounts related to such uncertain tax position. If it is probable that a tax adjustment will be required, the amount of such adjustment is measured at the most likely amount or the expected value, whichever method better predict the resolution of the uncertain tax position.

Notes

3 Operating assets and liabilities

3.1 Intangible assets

EURm	Goodwill	Development projects	Customer relationships	Trademarks, patents, and similar rights	Core patented technology and intellectual property	Software	Total
Cost at 1 October 2020	**3,495.5**	**210.2**	**1,396.8**	**175.1**	**839.7**	**122.3**	**6,239.6**
Foreign exchange adjustments	5.8	2.8	3.3	0.4	0.1	1.9	**14.3**
Additions from business combinations	59.3	–	–	7.6	3.6	–	**70.5**
Additions	–	81.0	–	0.6	–	17.4	**99.0**
Disposals	(1.3)	(4.5)	(0.1)	–	–	(23.5)	**(29.4)-**
Cost at 30 September 2021	**3,559.3**	**289.5**	**1,400.0**	**183.7**	**843.4**	**118.1**	**6,394.0**
Accumulated amortization at 1 October 2020	**–**	**(65.2)**	**(237.6)**	**(87.6)**	**(309.1)**	**(70.7)**	**(770.2)**
Foreign exchange adjustments	–	(1.6)	(1.9)	(0.2)	–	(1.1)	**(4.8)**
Amortization	–	(36.8)	(104.9)	(6.6)	(51.2)	(21.5)	**(221.0)**
Disposals	–	4.5	–	–	–	23.6	**28.1**
Accumulated amortization at 30 September 2021	**–**	**(99.1)**	**(344.4)**	**(94.4)**	**(360.3)**	**(69.7)**	**(967.9)**
Carrying amount at 30 September 2021	**3,559.3**	**190.4**	**1,055.6**	**89.3**	**483.1**	**48.4**	**5,426.1**

Notes

3.1 Intangible assets (cont'd)

EURm	Goodwill	Development projects	Customer relationships	Trademarks, patents, and similar rights	Core patented technology and intellectual property	Software	Total
Cost at 1 October 2019, previously stated	**3,492.8**	**148.7**	**2,488.9**	**–**	**–**	**66.2**	**6,196.6**
Reclassification of intangible assets*	–	–	(1,059.7)	175.1	839.7	44.9	–
Cost at 1 October 2019	**3,492.8**	**148.7**	**1,429.2**	**175.1**	**839.7**	**111.1**	**6,196.6**
Foreign exchange adjustments	(9.5)	(9.2)	(18.8)	–	–	(4.2)	**(41.7)**
Additions from business combinations	5.1	–	0.4	–	–	–	**5.5**
Additions	–	79.1	1.1	–	–	16.5	**96.7**
Disposals	–	(8.4)	(4.1)	–	–	(3.3)	**(15.8)**
Transfers	7.1	–	(11.0)	–	–	2.2	**(1.7)**
Cost at 30 September 2020	**3,495.5**	**210.2**	**1,396.8**	**175.1**	**839.7**	**122.3**	**6,239.6**
Accumulated amortization at 1 October 2019, previously stated	**0.1**	**(45.8)**	**(481.7)**	**–**	**–**	**(37.9)**	**(565.3)**
Reclassification of intangible assets*	–	–	420.6	(87.6)	(309.1)	(23.9)	–
Accumulated amortization at 1 October 2019	**0.1**	**(45.8)**	**(61.1)**	**(87.6)**	**(309.1)**	**(61.8)**	**(565.3)**
Foreign exchange adjustments	(0.1)	3.8	4.6	–	–	2.4	**10.7**
Amortization	–	(31.5)	(184.8)	–	–	(15.7)	**(232.0)**
Disposals	–	8.3	3.7	–	–	2.7	**14.7**
Transfers	–	–	–	–	–	1.7	**1.7**
Accumulated amortization at 30 September 2020	**–**	**(65.2)**	**(237.6)**	**(87.6)**	**(309.1)**	**(70.7)**	**(770.2)**
Carrying amount at 30 September 2020	**3,495.5**	**145.0**	**1,159.2**	**87.5**	**530.6**	**51.6**	**5,469.4**

* *Customer relationships have been further disaggregated into various classes of intangible assets such as trademarks, patents and similar rights and core patented technology and intellectual property*

Development costs

EURm	30 Sept. 2021	30 Sept. 2020
Research and development cost incurred	142.5	127.6
Development costs capitalized as development projects	(81.0)	(79.1)
Depreciation of operating assets etc., used for development purposes	4.4	3.7
Amortization and impairment of capitalized development projects	36.5	32.2
Total expensed development costs	**102.4**	**84.4**

Please refer to Note 5.1 for further information about increases in goodwill related to the business combinations.

Impairment losses recognized
There were no impairment losses recognized on goodwill at 30 September 2021 and 30 September 2020.

Notes

3.1 Intangible assets (cont'd)

§ **Accounting policies**

Goodwill

On initial recognition, goodwill is recognized and measured at cost. Subsequently goodwill is measured at cost less accumulated impairment losses.

Goodwill is not amortized but is tested for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash generating units (CGUs) expected to benefit from synergies of the business combination, and that represent the lowest level at which the goodwill is monitored for internal management purposes. The lowest level at which the goodwill is tested for impairment is at the level of operating segments before aggregation according to IFRS 8 Operating Segments.

CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the CGU may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the CGU, the impairment loss is allocated first to reduce the carrying amount of goodwill allocated to the CGU and then to the other assets of the CGU on the basis of the carrying amount of each asset in the CGU. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Other intangible assets

Other intangible assets include development projects, acquired intellectual property, trademarks, patents and licenses, acquired customer contracts and relationships, and software.

Development projects that are clearly defined and identifiable, where the technical feasibility of completion, availability of adequate resources to complete, existence of potential future market can be demonstrated, and where Management has the intent to manufacture, market or apply the product or process in question are recognized as intangible assets. Other development costs are recognized as costs in the income statement as incurred. The costs of development projects comprise all directly attributable costs including wages, salaries, costs to external consultants, rent, materials and services and other costs.

Intangible assets other than goodwill are measured at cost less accumulated amortization and impairment losses. Amortization is provided on a straight-line basis over the expected useful lives of the assets to their estimated residual value if any.

The estimated useful lives are as follows:

Completed development projects	3 years
Patents and rights	3 - 10 years
Customer relationships acquired	2 - 10 years
Customer contracts	15 - 20 years
Trademarks	20 years
Acquired intellectual property	8 - 12 years
Software	3 - 10 years

The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Internal development expenditure is capitalized only if it meets the recognition criteria of IAS 38 Intangible Assets. Where regulatory and other uncertainties are such that the criteria are not met, the expenditure is charged to profit or loss.

Where, however, recognition criteria are met, intangible assets are capitalized and amortized on a straight-line basis over their useful economic lives from product launch, of which judgement is required.

Costs incurred on development projects are recognized as an intangible asset when the following criteria are met:

- It is technically feasible to complete the product so that it will be available for use;
- Management intends to complete the product and use it;
- The product can be used;
- It can be demonstrated how the product will generate probable future economic benefits;
- Adequate technical, financial and other resources to complete development and use the product are available;
- The expenditure attributable to the product during its development can be reliably measured.

The Group has defined milestones for various phases of the development of new products, from the commencement of the project to successful realization and subsequently product launch. The criteria as required by IAS 38 for the recognition of development costs, have been adapted within the work processes of the first milestone, to ensure that all criteria have been met for development cost to be capitalized.

Identification of cash generating units

Management has determined that WS Audiology only has one operating segment in accordance with IFRS 8, which is related to developing, producing and selling of hearing aids, and the entire value chain from development to sale of hearing aids to end customer is integrated and interrelated. Management has assessed that the goodwill acquired relates to the entire combined value chain and monitors goodwill at group level.

Determination of useful lives

Management applies judgements in determination of the useful lives of intangible assets.

For patents, licenses, acquired intellectual property and other intangible assets arising from contractual or other legal rights, the useful life is the shorter of the period of the contractual or legal rights and the economic useful life.

For acquired customer relationships, the useful life is based on normal attrition/churn rates within the hearing aid business in the market in question, with a maximum of 10 years, except in exceptional situations, where a longer useful life can be justified. The useful life for customer contracts is based on the contractual term including expected extensions of the term.

Notes

3.2 Property, plant and equipment

EURm	Land and buildings and leasehold improvements	Plant and machinery	Other plant, fixtures and operating equipment	Assets under construction	Total
Cost at 1 October 2020	**127.5**	**116.0**	**114.4**	**9.3**	**367.2**
Foreign exchange adjustments	2.2	1.7	2.5	0.2	**6.6**
Additions from business combinations	0.3	0.1	0.2	–	**0.6**
Additions	6.6	9.5	15.3	10.3	**41.7**
Disposals	(8.3)	(2.9)	(6.8)	(0.9)	**(18.9)**
Transfers	(0.2)	2.6	2.0	(7.5)	**(3.1)**
Cost at 30 September 2021	**128.1**	**127.0**	**127.6**	**11.4**	**394.1**
Accumulated depreciation at 1 October 2020	(60.0)	(83.4)	(77.8)	–	**(221.2)**
Foreign exchange adjustments	(1.0)	(1.0)	(2.0)	–	**(4.0)**
Depreciation	(11.1)	(11.6)	(16.8)	–	**(39.5)**
Disposals	5.3	2.4	5.2	–	**12.9**
Transfers	0.6	1.0	1.5	–	**3.1**
Accumulated depreciation at 30 September 2021	**(66.2)**	**(92.6)**	**(89.9)**	**–**	**(248.7)**
Carrying amount at 30 September 2021	**61.9**	**34.4**	**37.7**	**11.4**	**145.4**

EURm	Land and buildings and leasehold improvements	Plant and machinery	Other plant, fixtures and operating equipment	Assets under construction	Total
Cost at 1 October 2019	**108.7**	**116.1**	**140.2**	**10.8**	**375.8**
Foreign exchange adjustments	(8.4)	(3.3)	(9.3)	(0.5)	(21.5)
Additions from business combinations	0.8	0.2	0.1	–	1.1
Additions	7.4	8.5	15.7	3.2	34.8
Disposals	(6.0)	(5.4)	(6.1)	(4.2)	(21.7)
Transfers	26.2	–	(26.2)	–	–
Disposal of subsidiaries	(1.2)	(0.1)	–	–	(1.3)
Cost at 30 September 2020	**127.5**	**116.0**	**114.4**	**9.3**	**367.2**
Accumulated depreciation at 1 October 2019	(41.2)	(78.7)	(90.6)	(1.1)	(211.6)
Foreign exchange adjustments	4.2	2.1	7.2	–	13.5
Additions from business combinations	(0.4)	(0.1)	(0.1)	–	(0.6)
Depreciation	(10.4)	(11.0)	(18.1)	–	(39.5)
Disposals	3.4	4.3	8.3	–	16.0
Transfers	(16.6)	–	15.5	1.1	–
Disposal of subsidiaries	1.0	–	–	–	1.0
Accumulated depreciation at 30 September 2020	**(60.0)**	**(83.4)**	**(77.8)**	**-**	**(221.2)**
Carrying amount at 30 September 2020	**67.5**	**32.6**	**36.6**	**9.3**	**146.0**

The Group has contractual commitments for purchases of property, plant and equipment amounting to EUR 6.7 million as of 30 September 2021 (30 September 2020: EUR 4.6 million).

Notes

3.2 Property, plant and equipment (cont'd)

§ Accounting policies

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and costs directly attributable to bringing the asset to its location and condition necessary for its intended use. In addition, the initial estimate of the costs related to dismantling and removing the asset and restoring the site on which the asset is located are added to the cost, if relevant. Where individual components of an item of property, plant and equipment, that is material, have different useful lives, they are accounted for as separate items, and depreciated separately.

Depreciation is recognized on a straight-line basis over the expected useful lives of property, plant and equipment, taking into account the expected residual value after the end of the useful life. The expected useful lives are as follows:

- Factory and office buildings 20 - 50 years
- Technical machinery & equipment 4 - 10 years
- Other fixtures and fittings, tools and equipment, furniture etc 3 - 5 years

Land is not depreciated.

Estimated useful lives and residual values are reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued. When changing the expected useful lives or the expected residual value, the effect on the depreciation is recognised prospectively as a change in accounting estimates.

Depreciation is recognized in the income statement as production costs, development costs, distribution costs and administrative expenses.

3.3 Depreciation, amortization and impairment

EURm	30 Sept. 2021	30 Sept. 2020
Depreciation of property, plant, equipment, right-of-use assets recognized in the income statement as follows:		
Cost of goods sold	22.7	20.2
Research and development costs	3.6	5.1
Selling, general and administrative expenses	57.5	60.0
Total	**83.8**	**85.3**
Amortization of intangible assets recognized in the income statement is as follows:		
Cost of goods sold	46.2	48.5
Research and development costs	37.3	32.2
Selling, general and administrative expenses	137.5	151.3
Total	**221.0**	**232.0**

Significant judgements and accounting estimates

Impairment test – Goodwill

The recoverable amount of the CGU was tested on the basis of the higher of value in use and fair value less costs to sell. The value in use was determined on the basis of a discounted cash flow model, while the fair value less cost to sell was determined mainly by computing the Enterprise Value ("EV").

The EV was estimated as of 30 September 2021 by taking the market capitalization of a comparable peer group, adjusted for the most updated balance sheet numbers of interest-bearing debt and other liabilities with the carrying amounts. The estimated EV was then compared with the respective consensus EBITDA to derive multiple, taking into account an illiquidity discount and control premium.

The Group applied the EV/EBITDA multiple to the adjusted consensus EBITDA of WS Audiology; the carrying amount of the CGU was determined to be lower than its recoverable amount and the Group has therefore no impairment loss to be recognized.

Key assumptions used in the determination of the fair value less costs to sell are consensus EBITDA for the comparable companies as well as for WS Audiology, where adjustments for one-time cost as described in the management commentary were factored in. Furthermore, in using the market based EV/EBITDA multiple models, the Group has applied relevant illiquidity discounts and control premiums to reflect the ownership structure of WS Audiology. The adjusted consensus EBITDA is based on Management's best estimates and most recent financial budgets for the coming year as approved by the Board of Directors. All the above inputs are level 3 input factors according to the fair value hierarchy.

Management has not identified any reasonably possible changes in the above key assumptions that could cause the carrying amount to exceed the recoverable amount.

Notes

3.3 Depreciation, amortization and impairment (cont'd)

§ **Accounting policies**

Impairment

Goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, e.g. development projects in progress, are not subject to amortization, but are tested for impairment at least annually, irrespective of whether there is any indication that they may be impaired.

Other intangible assets, which are subject to amortization, and property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If assets do not generate cash flows that are largely independent of those from other assets or groups of assets, the impairment test is performed at the level of the CGU to which the asset belong.

Recoverability of assets is measured by comparing the carrying amount of the asset or CGU with the recoverable amount, which is the higher of the asset's or CGU's value in use and its fair value less costs to sell.

If the carrying amount of an asset, or of the CGU to which the asset belong, is higher than its recoverable amount, the carrying amount is reduced to the recoverable amount, and an impairment loss is recognized in the income statement.

Impairment of intangible assets, other than goodwill, and impairment of property, plant and equipment is reversed only to the extent of changes in the assumptions and estimates underlying the impairment calculation. Impairment is only reversed to the extent that the asset's new carrying amount does not exceed the carrying amount of the asset after amortization had the asset not been impaired.

3.4 Right-of-use assets/Lease liabilities

Right-of-use assets:

EURm	Buildings and retail shops	Vehicle fleet	Other plant, fixtures and operating equipment	Total
Cost at 1 October 2020	**268.5**	**7.3**	**1.2**	**277.0**
Foreign currency translation adjustments	2.1	–	–	**2.1**
Additions during the year	25.1	2.7	–	**27.8**
Disposals	(18.0)	(0.9)	–	**(18.9)**
Transfers	(2.6)	–	–	**(2.6)**
Cost at 30 September 2021	**275.1**	**9.1**	**1.2**	**285.4**
Accumulated depreciation and impairment at 1 October 2020	**(42.6)**	**(2.6)**	**(0.2)**	**(45.4)**
Foreign currency translation adjustments	(0.7)	0.1	–	**(0.6)**
Transfers	2.6	–	–	**2.6**
Depreciation	(41.2)	(2.9)	(0.2)	**(44.3)**
Disposals	6.8	0.9	–	**7.7**
Reversal of impairment	0.4	–	–	**0.4**
Accumulated depreciation and impairment at 30 September 2021	**(74.7)**	**(4.5)**	**(0.4)**	**(79.6)**
Carrying amount at 30 September 2021	**200.4**	**4.6**	**0.8**	**205.8**

EURm	Buildings and retail shops	Vehicle fleet	Other plant, fixtures and operating equipment	Total
Cost at 1 October 2019				
Effect of adoption of IFRS 16	**256.6**	**6.2**	**0.4**	**263.2**
Foreign currency translation adjustments	(6.7)	(0.1)	–	**(6.8)**
Additions during the year	20.4	1.5	0.8	**22.7**
Disposals	(2.8)	(0.3)	–	**(3.1)**
Transfers	1.0	–	–	**1.0**
Cost at 30 September 2020	**268.5**	**7.3**	**1.2**	**277.0**
Accumulated depreciation and impairment at 1 October 2019	**–**	**–**	**–**	**–**
Foreign currency translation adjustments	1.0	–	–	**1.0**
Transfers	0.5	–	–	**0.5**
Depreciation	(42.9)	(2.7)	(0.2)	**(45.8)**
Disposals	1.5	0.1	–	**1.6**
Impairment	(2.7)	–	–	**(2.7)**
Accumulated depreciation and impairment at 30 September 2020	**(42.6)**	**(2.6)**	**(0.2)**	**(45.4)**
Carrying amount at 30 September 2020	**225.9**	**4.7**	**1.0**	**231.6**

Notes

3.4 Right-of-use assets/Lease liabilities (cont'd)

Other disclosures relating to ROU assets/lease liabilities are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Interest expense on lease liabilities	(10.0)	(11.1)
Lease expense not capitalized in lease liabilities:		
Lease expense – short-term leases and low value assets	(6.7)	(6.3)
Total cash outflow for all leases	**(51.4)**	**(48.7)**

The maturity analysis of the lease liabilities is included in Note 4.2 Financial risks and financial instruments/liquidity risk.

§ **Accounting policies**

When the Group is the lessee:
At the inception of the contract, the Group assesses if the contract contains a lease. A contract contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Reassessment is only required when the terms and conditions of the contract are changed.

Right-of-use assets
The Group recognized a right-of-use asset and lease liability at the date which the underlying asset is available for use. Right-of-use assets are measured at cost which comprises the initial measurement of lease liabilities adjusted for any lease payments made at or before the commencement date and lease incentive received. Any initial direct costs that would not have been incurred if the lease had not been obtained are added to the carrying amount of the right-of-use assets.

These right-of-use assets are subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term.

Lease liabilities
The initial measurement of lease liability is measured at the present value of the lease payments discounted using the implicit rate in the lease if the rate can be readily determined. If that rate cannot be readily determined, the incremental borrowing rate is used.

Lease payments include the following:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivables;
- Variable lease payments that are based on an index or rate, initially measured using the index or rate at the commencement date;
- Amounts expected to be payable under residual value guarantees;
- The exercise price of a purchase option if it is reasonably certain to exercise the option; and
- Payment of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

For contracts that contain both lease and non-lease components, the Group allocates the consideration to each lease component on the basis of the relative stand-alone price of the lease and non-lease component. The Group has elected to not separate lease and non-lease component for property leases and account for these as one single lease component.

Lease liability is measured at amortized cost using the effective interest method. Lease liability is remeasured when:

- There is a change in future lease payments arising from changes in an index or rate;
- There is a change in the Group's assessment of whether it will exercise an extension option; or
- There is a modification in the scope or the consideration of the lease that was not part of the original term.

Lease liability is remeasured with a corresponding adjustment to the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short term and low value leases
The Group has elected to not recognize right-of-use assets and lease liabilities for short-term leases that have lease terms of 12 months or less and low value leases, except for leased asset subject to sublease arrangements. Lease payments relating to these leases are expensed to profit or loss on a straight-line basis over the lease term.

Notes

3.5 Customer loans

Customer loans are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Non-current	54.0	80.3
Current	17.2	20.8
Total	**71.2**	**101.1**

The below table shows the carrying amount of customer loans by categories representing Management's credit risk assessment (*credit risk rating grades*) and gross carrying amounts.

Group internal credit rating	Expected credit loss (ECL) rate	Basis for recognition of expected credit loss	Gross carrying amount (EURm)
30 September 2021:			
Performing	8%	12-month expected credit loss	62.3
Underperforming	39%	Lifetime expected credit losses	22.5
Write-off	100%	Assets derecognized through the income statement	10.9
Total customer loans at 30 September 2021			**95.7**
30 September 2020:			
Performing	9%	12-month expected credit loss	94.4
Underperforming	42%	Lifetime expected credit losses	25.9
Write-off	100%	Assets derecognized through the income statement	13.6
Total customer loans at 30 September 2020			**133.9**

The 12-month and lifetime expected credit losses (ECL) have developed as follows:

EURm	Performing (12-month ECL)	Under–performing (Lifetime ECL)	Credit impaired (Lifetime ECL)	Total
Opening loss allowance at 1 October 2020	8.2	11.0	13.6	**32.8**
Write-off for the year	–	–	(4.2)	**(4.2)**
Foreign currency translation differences	–	0.3	0.6	**0.9**
Impairment loss/ (Net reversal) for the year	(3.4)	(2.5)	0.9	**(5.0)**
Closing loss allowance at 30 September 2021 (calculated under IFRS 9)	**4.8**	**8.8**	**10.9**	**24.5**
Opening loss allowance at 1 October 2019	3.3	6.5	–	**9.8**
Foreign currency translation differences	(0.3)	(0.4)	(0.5)	**(1.2)**
Impairment loss for the year	5.2	4.9	14.1	**24.2**
Closing loss allowance at 30 September 2020 (calculated under IFRS 9)	**8.2**	**11.0**	**13.6**	**32.8**

The following significant changes in gross carrying amount of customer loans contributed to changes in the loss allowance:

- New customer loans of EUR 10.3 million were issued in the year ended 30 September 2021 (EUR 15.1 million were issued in the year ended 30 September 2020);
- Customer loans with a gross carrying amount of EUR 0.5 million (2020: EUR 17.9 million) went from performing to underperforming during the year ended 30 September 2021;
- Customer loans with a gross carrying amount of EUR 2.0 million were repaid in the year ended 30 September 2021 (EUR 13.8 million were repaid in the year ended 30 September 2020).

Management has put a special focus on situations where the COVID-19 situation has rendered additional financial pressure on already low performing customers which is reflected in the evaluation of credit risks and the basis of expected credit losses applied. As such, adjustments to the loan allowances were made where deemed necessary, including instances where enforcement activities are still undergoing, which is evaluated on a case-by-case basis.

§ Accounting policies

Customer loans

Customer loans are initially recognized at fair value less transaction costs and subsequently measured at amortized cost less loss allowance or impairment losses. Any difference between the nominal value and the fair value of the loans at initial recognition is treated as a prepaid discount on future sales to the customer, and is recognized in the income statement as a reduction of revenue as and when the customer purchases goods from the Group.

The fair value of customer loans at initial recognition is measured at the present value of future repayments of the loan discounted at a market interest rate corresponding to the money market rate based on the expected maturity of the loan with the addition of a risk premium. The effective interest on customer loans is recognized as interest income in the income statement over the term of the loans.

A loss allowance is recognized at initial recognition and subsequently based on 12-months expected credit losses, unless a significant increase has arisen since the initial recognition of the loan, in which case the loss allowance is based on lifetime expected credit losses.

Customer loans are written off when all possible options have been exhausted and there is no reasonable expectation of recovery.

Notes

3.5 Customer loans (cont'd)

Significant judgements and accounting estimates

Customer loans

The Group grants sales related financing in the form of loans to some of its customers. These customer loan arrangements are complex, cover several aspects of the customer relationship and may vary from agreement to agreement.

Management has determined that off-market terms, if any, represent a prepayment of discounts on future sales to the customer.

Significant accounting estimates are involved in determination of the expected maturity of the loans, as repayments may to some extent be aligned with the customers purchases of goods, and also in determining a market-based discount rate for each customer loan. Management estimates are based on current market condition at the time of issuing the loan as well as historical sales information and e.g. market penetration rates for loans to customers without substantial history with the Group.

The Group's assessment of credit risk associated with customer loans and prepaid discounts primarily involves consideration of the economic environment in which the customer operates, historic loss rates for customer loans, and the actual repayments on the loans compared to the repayment plan agreed when the loans were issued, along with any new significant developments across the macroeconomic landscape, such as COVID-19.

For customer loans performing in all material respect, and for which no other indications of increase in credit risk exist, the expected credit loss on the customer loan and related prepaid discount is measured at 12-month expected credit loss. For customer loans that are underperforming compared to the repayment plan agreed when the loans were issued, or for which there are other indications of increase in credit risk, the expected credit loss is measured at lifetime expected credit loss.

Loss rates are based on actual credit loss experience over the past years, and considered any forward-looking elements such as new significant developments, such as COVID-19. These rates are multiplied by factors to reflect possible differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

The calculation of 12-month expected credit losses on performing customer loans are based on a weighted average of historical annual losses on customers. Payment plans are agreed with customers when issuing loans to them. The credit risk of loans to customers is considered to have increased significantly since initial recognition when the loan is no longer assessed to be performing under the Group's risk assessment model.

Based on the above, the customer loans and related prepaid discount are categorized as either performing, non-performing or credit impaired.

3.6 Other assets

Other non-current assets are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Prepaid assets	0.9	0.6
Asset for deferred compensation plan	3.4	–
Others	13.3	12.1
Total	**17.6**	**12.7**

Other current assets are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Prepaid assets	18.6	16.2
Loans receivables from third parties	0.7	0.9
Derivative financial instruments	1.5	2.0
Miscellaneous tax receivables	31.6	15.0
Others	29.6	20.5
Total	**82.0**	**54.6**

§ **Accounting policies**

Other assets

Other assets are recognized initially at fair value less directly attributable transactions costs. Subsequently, they are measured at amortized cost using the effective interest method less impairment. A loss allowance is recognized at initial recognition and subsequently based on 12-months expected credit losses, unless a significant increase has arisen since the initial recognition of the loans and receivables, in which case the loss allowance is based on lifetime expected credit losses.

Notes

3.7 Inventories

EURm	30 Sept. 2021	30 Sept. 2020
Raw materials and purchased components	69.8	62.1
Work in progress	20.5	12.3
Right to returned goods	12.6	11.7
Finished goods and goods for resale	65.5	55.0
Total	**168.4**	**141.1**
Write-downs, provisions for obsolescence etc. included in the above	(38.2)	(30.6)

Included in the income statement under production costs:

EURm	30 Sept. 2021	30 Sept. 2020
Write-downs of inventories for the year	(7.6)	(6.9)
Cost of goods sold during the year	(789.7)	(563.2)
Total	**(797.3)**	**(570.1)**

§ **Accounting policies**

Inventories are measured at the lower of cost and net realizable value, cost being generally determined on the basis of a weighted average method. Cost comprise raw materials, consumables, direct labour and indirect production overheads. Indirect production overheads comprise indirect supplies, wages, and salaries, amortization of brands and software, as well as maintenance and depreciation of machinery, plant and equipment used for production.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.8 Trade receivables

EURm	Current not due	1-30 days past due	31-60 days past due	61-90 days past due	91-180 days past due	More than 181 days past due	Total
30 September 2021							
Gross carrying amount – trade receivables	245.8	25.5	14.0	7.5	14.9	38.8	**346.5**
Sales rebates	(30.8)	–	–	–	–	–	**(30.8)**
Specific loss allowance at 30 September 2021 (expected credit loss model)	(2.9)	(0.6)	(0.5)	(0.5)	(3.2)	(17.0)	**(24.7)**
General loss allowance at 30 September 2021 (expected credit loss model)	(1.0)	(0.2)	(0.2)	(0.2)	(0.3)	(0.9)	**(2.8)**
Trade receivables at 30 September 2021	**211.1**	**24.7**	**13.3**	**6.8**	**11.4**	**20.9**	**288.2**
Expected loss rate	**-0.4%**	**-0.8%**	**-1.4%**	**-2.7%**	**-2.0%**	**-2.2%**	**-0.8%**
30 September 2020							
Gross carrying amount – trade receivables	238.1	26.9	14.7	10.2	16.2	35.0	**341.1**
Sales rebates	(26.3)	–	–	–	–	–	**(26.3)**
General loss allowance at 30 September 2020 (expected credit loss model)	(5.9)	(0.9)	(0.5)	(0.4)	(4.0)	(17.3)	**(29.0)**
Trade receivables at 30 September 2020	**205.9**	**26.0**	**14.2**	**9.8**	**12.2**	**17.7**	**285.8**
Expected loss rate	**-2.5%**	**-3.3%**	**-3.4%**	**-3.9%**	**-24.7%**	**-49.4%**	**-8.5%**

Notes

3.8 Trade receivables (cont'd)

The below table shows the movement in lifetime expected credit losses that has been recognized for trade receivables and contract assets in accordance with the simplified approach set out in IFRS 9.

EURm	Collectively assessed	Individually assessed (credit impaired)	Total
Opening loss allowance at 1 October 2020	**(4.2)**	**(24.8)**	**(29.0)**
Net remeasurement of loss allowance	2.1	0.5	**2.6**
Amounts written off	0.1	–	**0.1**
Other changes	(0.9)	(0.3)	**(1.2)**
Closing loss allowance at 30 September 2021	**(2.9)**	**(24.6)**	**(27.5)**
Opening loss allowance at 1 October 2019	**(11.9)**	**(15.0)**	**(26.9)**
Net remeasurement of loss allowance	6.6	(10.3)	**(3.7)**
Amounts written off	0.2	–	**0.2**
Other changes	0.9	0.5	**1.4**
Closing loss allowance at 30 September 2020	**(4.2)**	**(24.8)**	**(29.0)**

Receivables acquired in business combinations are recognized in the consolidated financial statements at fair value at the date of acquisition, which in most cases equals the carrying amounts net of loss allowance. Expected credit losses related to receivables acquired in business combinations are therefore only included in the above to the extent that the loss allowance for the receivables has increased compared to the acquisition date.

§ Accounting policies

Trade receivables and contract assets are measured at amortized cost less allowance for lifetime expected credit losses.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due. For trade receivables and contract assets that are considered credit impaired, the expected credit loss is determined individually.

Trade receivables and contract assets are written off when all possible options have been exhausted and there is no reasonable expectation of recovery.

Significant judgements and accounting estimates

The Group has historically suffered insignificant credit losses on trade receivables and contract assets.

Loss allowance is calculated using a provision matrix that incorporates an ageing factor, geographical risk and specific customer knowledge. The provision matrix is based on historical credit losses incurred within relevant time bands of days past due adjusted for a forward-looking element.

3.9 Other liabilities

Other non-current liabilities are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Derivative financial instruments	53.0	96.8
Deferred revenue	23.8	20.2
Employee related liabilities	4.3	4.9
Liability under MPP scheme	41.8	35.7
Others	5.8	3.8
Total	**128.7**	**161.4**

Other current liabilities are as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Bonuses and discounts to customers	11.4	15.8
Customers with net credit balances	5.1	1.9
Customer prepayment	9.4	10.2
Deferred revenue	11.4	8.1
Derivative financial instruments	1.2	2.4
Employee related liabilities	75.6	56.3
Payroll and social security taxes	46.1	54.7
Sales tax and other tax liabilities	27.6	17.9
Earnout provision	20.9	17.4
Others	21.4	23.8
Total	**230.1**	**208.5**

Notes

3.9 Other liabilities (cont'd)

Earnout provision from business combinations relates to components of the purchase price for which the payments depend on the achievement of defined performance measures. For additional information related to business combinations in the period, refer to Note 5.1.

§ Accounting policies

Financial liabilities are measured initially at fair value less transaction costs and subsequently at amortized cost using the effective interest rate method.

The Group bifurcates embedded derivatives at initial recognition when they are not closely related to the respective host contract. Bifurcated derivatives are measured at fair value through profit or loss.

Other liabilities are measured at amortized cost.

3.10 Provisions

EURm	Warranties	Right of returns	Asset retirement obligation	Other	Total
Provision at 1 October 2020	**46.3**	**26.4**	**4.8**	**4.9**	**82.4**
Foreign exchange adjustments	1.1	0.4	0.1	(0.1)	**1.5**
Additions	15.6	0.5	0.5	5.8	**22.4**
Usages	(11.8)	(3.5)	–	–	**(15.3)**
Reversals	(1.1)	–	–	–	**(1.1)**
Reclassifications	–	–	(0.2)	–	**(0.2)**
Accretion and effect of changes in discount rates	(0.1)	–	0.1	–	**–**
Provision at 30 September 2021	**50.0**	**23.8**	**5.3**	**10.6**	**89.7**
Which is presented in the consolidated balance sheet as					
Non-current liabilities	23.6	0.1	5.2	0.7	**29.6**
Current liabilities	26.4	23.7	0.1	9.9	**60.1**
Provision at 30 September 2021	**50.0**	**23.8**	**5.3**	**10.6**	**89.7**
Provision at 1 October 2019	**48.0**	**24.6**	**2.5**	**1.1**	**76.2**
Foreign exchange adjustments	(3.3)	(1.0)	(0.2)	(0.1)	**(4.6)**
Additions	16.4	5.4	2.2	2.7	**26.7**
Usages	(12.9)	(2.1)	–	–	**(15.0)**
Reversals	(0.7)	–	–	–	**(0.7)**
Reclassifications	(1.5)	(0.5)	0.3	1.2	**(0.5)**
Accretion and effect of changes in discount rates	0.3	–	–	–	**0.3**
Provision at 30 September 2020	**46.3**	**26.4**	**4.8**	**4.9**	**82.4**
Which is presented in the consolidated balance sheet as					
Non-current liabilities	19.3	0.1	4.8	0.4	**24.6**
Current liabilities	27.0	26.3	–	4.5	**57.8**
Provision at 30 September 2020	**46.3**	**26.4**	**4.8**	**4.9**	**82.4**

Notes

3.10 Provisions (cont'd)

The Group's provisions are generally expected to result in cash outflow during the next one to ten years.

Right of return relates to products sold for which customers have the right to return the products at their own discretion within a specified period. Based on historical data, return rates are calculated and provisions are recorded to cover the expected cost.

The warranty provision represents Management's best estimate of the Group's liability under assurance type warranties granted on hearing aids sold. The warranty period of regular assurance type warranties differ depending on jurisdiction and range between 1 to 3 years.

Asset retirement obligation relates to the Group's obligations to restore rented premises to the certain standards upon the expiry of the lease contracts including removal of leasehold improvements and other assets from the premises.

§ Accounting policies

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect is material, provisions are measured at present value by discounting the expected future cash flows expected to settle the liability at a pre-tax rate that reflects current market assessment of the time value of money.

Significant judgements and accounting estimates

Significant estimates are involved in the determination of provisions related to warranty costs, right of return, legal proceedings. Due to the technological features of the Group's products, the Group incurs a substantial amount of warranty costs and the determination of future warranty costs related to products sold is based on historic results as well as estimated product defects.

In some jurisdictions, the Group sells extended warranties to customers and/or provide other service-type warranties in addition to regular assurance-type warranties. Such warranties are treated as separate performance obligations in the contracts with the customers and are recognised as contract liabilities and not provisions. In determining whether a warranty is an assurance type warranty or a service type warranty, Management considers factors such as whether the warranty is required by law, the length of the warranty coverage period and the nature of the tasks that the entity promises to perform in case of product defects. Generally, warranties covering periods after 3 years from the sale of the hearing aid are considered to be service-type warranties and treated as separate performance obligations.

The Group is from time to time subject to legal disputes and regulatory proceedings in several jurisdictions. Such proceedings may result in criminal or civil sanctions, penalties, damage claims and other claims against the Group. Regulatory and legal proceedings as well as government investigations often involve complex legal issues and are subject to substantial uncertainties. Accordingly, Management exercises considerable judgement in determining whether there is a present obligation as a result of a past event, whether it is more likely than not that an outflow of economic resources will be required and the estimated amount of such outflow. Management considers the input of external counsels on each case, as well as known outcomes in case law. Although, Management believes that the total provisions for legal proceedings are adequate based on currently available information, there can be no assurance that there will not be any changes in facts or circumstances, or that any future lawsuits, claims, proceedings or investigations will not be material.

4 Capital structure and financing items

4.1 Outstanding shares

	Outstanding shares (mil)	Total number of shares (mil)	Nominal value of outstanding shares EURm
Number/value of shares at 30 September 2020 and 2021	100.0	100.0	100.0
Number/value of shares at 1 October 2019	100.0	100.0	100.0
Issuance of new shares	*	*	*
Number/value of shares at 30 September 2020	100.0	100.0	100.0

*Amount less than 0.1 million

All shares are fully issued and paid up. The share capital was nominally EUR 100,000,100 divided into a corresponding number of 100,000,100 (2020: EUR 100,000,100 divided into a corresponding number of 100,000,100). There are no restrictions on the negotiability or voting rights of the shares.

Notes

4.1 Outstanding shares (cont'd)

Capital structure

The Group's ambition is to maintain access to a strong capital base and with a high degree of investor, creditor and market confidence to support the strategic development of the Group. To support this ambition, the Group has obtained a credit rating from the three rating agencies Moody's, Standard & Poor and Fitch Ratings.

The capital structure of the Group consists of net debt (short-term and long-term borrowings disclosed in Note 4.2 after deducting cash and cash equivalents) and equity of the Group (comprising issued capital, reserves, retained earnings and non-controlling interests).

The Group raised debt in 2019 to finance the establishment of the Group through the merger of Sivantos and Widex. In June 2020, the Group raised an additional Sidecar loan of EUR 100.0 million with a backup guarantee from the Danish Export Credit Foundation (EKF) as contingency working capital in the face of COVID-19. The Group's debt is shown in table below:

Debt	Interest rate
FY 2021	
Sidecar loan 100.0 million	Euribor + 4.5%
Facility B1 EUR 1,962.5 million	Euribor + 4.0%
Facility B2 USD 1,204.3 million	USD Libor + 3.75%
2nd Lien loan 525.0 million	Euribor + 6.75%
Revolving facility EUR 90.5 million	Euribor + 2.75%
FY 2020	
Sidecar loan 100.0 million	Euribor + 4.5%
Facility B1 EUR 1,962.5 million	Euribor + 4.0%
Facility B2 USD 1,216.7million	USD Libor + 3.75%
2nd Lien loan 525.0m	Euribor + 6.75%
Revolving facility EUR 166.5 million	Euribor + 2.75%

If Euribor or Libor is less than zero, the rate shall be deemed as zero.

The Senior Secured Term Loans are secured by a pledge of the shares of major subsidiaries as well as pledge of assets of major subsidiaries and are subject to a loan covenant. The Group has complied with to the loan covenants of the Senior Facilities Agreement.

§ Accounting policies

Proposed dividend is recognized as a liability at the date when it is adopted at the Annual General Meeting (declaration date). The dividend recommended by the Board of Directors, and therefore expected to be paid for the year, is disclosed in the notes.

4.2 Financial risks and financial instruments

Financial risk management

The Group is exposed to several financial risks arising from its operating, investing and financial activities, including foreign exchange risk, interest rate risk, liquidity risk and credit risk.

Liquidity risk, foreign exchange risk and interest rate risk are managed by Group Treasury while customer credit risk is managed by the individual business units and affiliates. The Group uses financial instruments only to mitigate financial risks. The objective, policies and processes for managing the risk exposure to these items are further explained in the following sections.

Credit risk

Credit risk is defined as an unexpected loss in cash and earnings if the customer is unable to pay its obligations in due time. The Group may incur losses if the credit quality of its customers deteriorates or if they default on their payment obligations to the Group. The Group's exposure to credit risk arises primarily from trade and other receivables including loans to customers.

The Group has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. This includes the review of individual receivables and of individual customer creditworthiness on a case-by-case basis as well as the review of current economic trends, the analysis of historical bad debts on a portfolio basis, and the consideration of country credit ratings. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets. However, the Group has credit enhancements such as personal guarantees and share pledges related to customer loan. Assessment of the credit risk related to customers is further described in Note 3.5 Customer loans and Note 3.8 Trade receivables.

There were no significant concentrations of credit risk at 30 September 2021 and 30 September 2020.

The maximum exposure to credit risk of financial assets is represented by their carrying amount. Concerning trade receivables and other receivables, as well as loans or receivables included in line item 'Other financial assets' that are neither impaired nor past due, there were no indications as of 30 September 2021 (30 September 2020: Nil), that defaults in payment obligations will occur.

Notes

4.2 Financial risks and financial instruments (cont'd)

Liquidity risk

Liquidity risk results from the Group's potential inability to meet its financial liabilities, in particular paying suppliers and servicing interest-bearing debt.

The Group finances itself from its operating cash flow and through access to EUR 260 million of committed Revolving Credit Facility provided by a group of banks – of which EUR 93.5 million has been carved out as ancillary facilities.

The Group had cash and cash equivalents of EUR 144.5 million as of 30 September 2021 (30 September 2020: EUR 248.5 million). In addition, the Group has access to EUR 157.2 million (30 September 2020: EUR 87.2 million) available Revolving Credit Facility as of 30 September 2021. With its strong operating cash flow, the Group expects to be able to meet all of its present and future obligations arising from operational cash needs.

In addition to having implemented effective working capital and cash management, the Group has implemented short-term and medium term-liquidity forecasts. Group Treasury monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

The Group maintains an in-house banking and cash pool setup. A significant part of cash balances from affiliates is pooled centrally with Group Treasury to secure an effective liquidity management and use of funds within the Group.

The following table reflects all contractually fixed payoffs for settlement, repayments and interest resulting from recognized financial liabilities. It includes expected net cash outflows from derivative financial liabilities that were in place at 30 September 2021 and 30 September 2020. Such expected net cash outflows are undiscounted net cash outflows for the respective upcoming financial years, based on the earliest date on which the Group could be required to pay. Cash outflows for financial liabilities (including interest) without fixed amount or timing are based on the conditions existing at 30 September 2021 and 30 September 2020.

EURm	Less than 1 year	Between 1-5 years	More than 5 years	Total
30 September 2021				
Interest-bearing debt	254.3	3,680.8	542.6	**4,477.7**
Lease liabilities	44.9	98.9	113.1	**256.9**
Trade payables	231.7	–	–	**231.7**
Other financial liabilities	181.9	47.0	–	**228.9**
Total non-derivative financial liabilities	**712.8**	**3,826.7**	**655.7**	**5,195.2**
Derivative financial liabilities	**1.2**	**53.0**	**–**	**54.2**
30 September 2020				
Interest-bearing debt	174.7	954.2	3,603.3	**4,732.2**
Lease liabilities	43.4	126.0	113.4	**282.8**
Trade payables	185.5	–	–	**185.5**
Other financial liabilities	37.9	0.8	–	**38.7**
Total non-derivative financial liabilities	**441.5**	**1,081.0**	**3,716.7**	**5,239.2**
Derivative financial liabilities	**2.4**	**96.8**	**–**	**99.2**

The risk implied from the values in the table above reflects the one-sided scenario of cash outflows only. Obligations under trade payables and other financial liabilities mainly originate from the financing of assets used in the Group's ongoing operations such as property, plant and equipment, and investments in working capital such as inventories and trade receivables. These assets are considered in the Group's overall liquidity risk management.

Foreign currency risk

Transaction risk and foreign currency exchange rate risk management

The Group has cash flow in foreign currencies due to its international operations and USD denominated debt which exposes the Group to fluctuations in exchange rates. Foreign currency exchange rate fluctuations may create unwanted and unpredictable earnings and cash flow volatility. The Group manufactures and distributes most of its products at its headquarters in Singapore and Denmark. The products are sold to its regional affiliates and as a general principle invoiced in the currency of the buying entities.

The main contributors to the Group's foreign exchange risk is USD, JPY, GBP, AUD, CAD and SGD. The WSA Group's foreign exchange risk hedging policy is to reduce the Group currency exposure mainly through employment of foreign exchange forward contracts to mitigate the Group's major risks from adverse FX movements' impact on consolidated earnings for 3-12 months rolling forward.

The foreign currency risk is centrally managed by Group Treasury. The policy for the Group is to maintain an adequate hedging level of between 40% and 75% of the net foreign currency exposure. Group Treasury is not allowed to undertake any financial transactions in foreign currencies of a speculative nature. Cash flow hedge accounting shall be applied to the extent possible to mitigate negative impacts of adverse development from foreign exchange risk on the consolidated operating result of the Group.

Notes

4.2 Financial risks and financial instruments (cont'd)

Cash flow hedges of foreign currency risk
Hedging instruments:

30 Sept. 2021	Average exchange rate	Notional value: Foreign currency	Notional value: Functional currency (EUR)	Carrying amount of hedging instruments – Assets	Carrying amount of hedging instruments – Liabilities
	Rate	mil	EURm	EURm	EURm
Sell AUD					
< 3 months	1.6	(8.0)	5.0	*	–
3-12 months	1.6	(30.4)	19.0	0.2	–
Sell CAD					
< 3 months	1.5	(3.0)	2.0	–	*
3-12 months	1.5	(3.0)	2.0	–	*
Sell GBP					
< 3 months	0.87	(5.2)	6.0	–	(0.1)
3-12 months	0.87	(19.5)	22.5	–	*
Sell JPY					
< 3 months	128.0	(1,920.3)	15.0	0.2	–
3-12 months	130.8	(3,924.1)	30.0	–	(0.2)
Buy SGD					
< 3 months	1.6	32.1	(20.0)	0.3	–
3-12 months	1.6	32.3	(20.0)	0.4	–
				1.1	**(0.3)**

30 Sept. 2020	Average exchange rate	Notional value: Foreign currency	Notional value: Functional currency (EUR)	Carrying amount of hedging instruments – Assets	Carrying amount of hedging instruments – Liabilities
	Rate	mil	EURm	EURm	EURm
Sell AUD					
< 6 months	1.7	(20.1)	12.0	–	(0.2)
Sell CAD					
< 3 months	1.5	(7.6)	5.0	0.1	–
Sell GBP					
< 3 months	0.9	(10.6)	12.0	0.4	–
Sell JPY					
< 3 months	121.4	(3,641.5)	30.0	0.6	–
3-6 months	124.0	(1,240.4)	10.0	–	–
Buy SGD					
< 3 months	1.6	86.0	(55.0)	–	(1.5)
3-6 months	1.6	40.2	(25.0)	–	(0.1)
Sell USD					
< 3 months	1.2	(21.3)	18.0	–	(0.1)
				1.1	**(1.9)**

*Amount less than EUR 0.1 mil

Hedged Items
The hedged items are forecast transactions denominated in foreign currencies. The ineffective portions of these hedges are insignificant.

The following table provides a reconciliation of components of equity and analysis of OCI items, gross of tax, resulting from cash flow hedge accounting:

EURm	30 Sept. 2021	30 Sept. 2020
Movement during the year		
Foreign currency risk – current period hedging gains recognized in other comprehensive income	(1.7)	1.0
Amount reclassified to profit/(loss) – due to hedged item affecting profit/(loss)	0.1	(1.0)
	(1.6)	-

Translation risk and effects of foreign currency translation
Most of the Group's entities are located outside the EUR zone. Since the Group's reporting currency is EUR, the financial statements of foreign operations are translated into EUR for the preparation of the consolidated financial statements. To consider the effects of foreign currency translation in the risk management, the general assumption is that investments in foreign operations are permanent and that reinvestment is continuous. Effects from foreign currency exchange rate fluctuations on the translation of net assets amounts into EUR are reflected in the Group's consolidated statement of changes in equity. The Group does not hedge net investments in foreign operations.

Notes

4.2 Financial risks and financial instruments (cont'd)

Sensitivity analysis for foreign currency risk

The following table demonstrates the approximate effect on the Group's Total comprehensive income statement (financial items) in response to fluctuation of the currencies other than the Group's reporting currency EUR. This analysis assumes that all other variables, in particular interest rates, remain constant.

EURm	Profit/(Loss)	Other comprehensive income	Total comprehensive income
30 September 2021			
USD +5%	(48.2)	-	(48.2)
CAD +5%	1.6	-	1.6
CNY +5%	(0.9)	-	(0.9)
AUD +5%	0.8	-	0.8
30 September 2020			
USD +5%	(47.3)	-	(47.3)
CAD +5%	4.5	-	4.5
AUD +5%	1.0	-	1.0
GBP +5%	(0.6)	-	(0.6)

Interest rate risk

At 30 September 2021, the Group's long-term debt consists of secured term loans of EUR 2,062.5 million and USD 1,204.3 million as well as 2nd lien term loan of EUR 525 million with a floating interest rate of which 72% have been swapped into fixed interest rate. The Group did not apply hedge accounting in relation to these interest rate swaps.

At 30 September 2020, the Group's long-term debt consists of secured term loans of EUR 2,062.5 million and USD 1,216.7 million as well as 2nd lien term loan of EUR 525 million with a floating interest rate of which 72% have been swapped into fixed interest rate. The Group did not apply hedge accounting in relation to these interest rate swaps.

Specification of net interest-bearing debt

EURm	30 Sept. 2021	30 Sept. 2020
Cash and cash equivalents	144.5	248.5
Bank loans, non-current liabilities	(3,523.9)	(3,502.4)
Bank loans, current liabilities	(124.7)	(198.3)
Total net interest-bearing debt	**(3,504.1)**	**(3,452.2)**

Interest rate sensitivity analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the reporting date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole year. A 1% per cent increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

At 30 September 2021, if interest rates had been 1 per cent higher and all other variables were held constant, the Group's loss for the year ended 30 September 2021 would increase by EUR 2.9 million (2020: EUR 3.1 million). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

§ Accounting policies

Derivative financial instruments, including hedge accounting

The Group uses various financial instruments to reduce the impact of foreign exchange and interest rates on financial results. The derivative financial instruments are used to manage the exposure to market risk. Treasury enters into derivative contracts in accordance with Group policies. Financial instruments used include e.g. foreign currency exchange contracts, interest rate swaps, interest rate floors and redemption options (the latter two being bifurcated embedded derivatives).

All derivative financial instruments are recognized initially and subsequently at fair value. Any attributable transaction costs are recognized in the income statement in other financial income, net as incurred.

On initial recognition, Management determines if the derivative financial instrument qualifies for hedge accounting and if so, designates the instrument as a hedging instrument in a fair value hedge, cash flow hedge or hedge of net investment respectively.

Cash flow hedges

For cash flow hedges, the portion of the fair value adjustments on the hedging instrument that is an effective hedge is recognized in other comprehensive income and accumulated in a separate reserve in equity. The cumulative fair value adjustments of these contracts are transferred from reserve in equity and recycled to the income statement through other comprehensive income when the hedged transaction is recognized in the income statement. However, when the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the transfer from the reserve in equity is recognized directly in the initial cost or other carrying amount of the asset or liability without recycling through other comprehensive income.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in the reserve within equity at that time remains in the reserve and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss existing in the reserve is immediately transferred to the income statement as a recycling through other comprehensive income and recognized in other financial income, net.

Notes

4.2 Financial risks and financial instruments (cont'd)

Categories of financial assets and financial liabilities and fair value hierarchy

The below table shows the categories of financial assets and financial liabilities, their carrying amounts and their levels in the fair value hierarchy.
It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

EURm		Carrying Amount						Fair Value			
30 September 2021	Notes	Financial assets measured at fair value through profit and loss	Financial assets used as hedging instruments	Financial assets measured at amortized cost	Financial liabilities at amortized costs	Financial liabilities measured at fair value through profit and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through P&L											
Forward exchange contracts (designated as hedging instruments)	3.6	–	1.5	–	–	–	1.5	–	1.5	–	**1.5**
		–	**1.5**	**–**	**–**	**–**	**1.5**				
Financial assets measured at amortized cost											
Trade receivables*	3.8	–	–	288.2	–	–	288.2	–	–	–	**–**
Customer loans*	3.5	–	–	71.2	–	–	71.2	–	–	–	**–**
Other assets*	3.6	–	–	43.6	–	–	43.6	–	–	–	**–**
Cash and cash equivalents*		–	–	144.5	–	–	144.5	–	–	–	**–**
		–	**–**	**547.5**	**–**	**–**	**547.5**				
Financial liabilities measured at fair value through P&L											
Forward exchange contracts (designated as hedging instruments)	3.9	–	–	–	–	0.4	0.4	–	0.4	–	**0.4**
Forward exchange contracts (not designated as hedging instruments)	3.9	–	–	–	–	0.8	0.8	–	0.8	–	**0.8**
Interest rate swaps	3.9	–	–	–	–	7.4	7.4	–	7.4	–	**7.4**
Redemption call option and interest rate floors	3.9	–	–	–	–	45.6	45.6	–	–	45.6	**45.6**
		–	**–**	**–**	**–**	**54.2**	**54.2**				
Financial liabilities measured at amortized cost											
Trade payables *		–	–	–	231.7	–	231.7	–	–	–	**–**
Other liabilities*	3.9	–	–	–	232.2	–	232.2	–	–	–	**–**
Loans under Senior Facilities Agreement and other short-term debt	4.3	–	–	–	3,648.6	–	3,648.6	1.3	3,647.3	–	**3,648.6**
		–	**–**	**–**	**4,112.5**	**–**	**4,112.5**				

Notes

4.2 Financial risks and financial instruments (cont'd)

EURm		Carrying Amount						Fair Value			
30 September 2020	Notes	Financial assets measured at fair value through profit and loss	Financial assets used as hedging instruments	Financial assets measured at amortized cost	Financial liabilities at amortized costs	Financial liabilities measured at fair value through profit and loss	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through P&L											
Forward exchange contracts (designated as hedging instruments)	3.6	–	2.0	–	–	–	2.0	–	2.0	–	2.0
		–	**2.0**	**–**	**–**	**–**	**–**				
Financial assets measured at amortized cost											
Trade receivables*	3.8	–	–	285.7	–	–	285.7	–	–	–	–
Customer loans*	3.5	–	–	101.1	–	–	101.1	–	–	–	–
Other assets*	3.6	–	–	33.5	–	–	33.5	–	–	–	–
Cash and cash equivalents*		–	–	248.5	–	–	248.5	–	–	–	–
		–	**–**	**668.8**	**–**	**–**	**668.8**				
Financial liabilities measured at fair value through P&L											
Forward exchange contracts (designated as hedging instruments)	3.9	–	–	–	–	2.3	2.3	–	2.3	–	2.3
Forward exchange contracts (not designated as hedging instruments)	3.9	–	–	–	–	0.1	0.1	–	0.1	–	0.1
Interest rate swaps	3.9	–	–	–	–	29.6	29.6	–	29.6	–	29.6
Redemption call option and interest rate floors	3.9	–	–	–	–	67.2	67.2	–	–	67.2	67.2
		–	**–**	**–**	**–**	**99.2**	**99.2**				
Financial liabilities measured at amortized cost											
Trade payables *		–	–	–	185.5	–	185.5	–	–	–	–
Other liabilities*	3.9	–	–	–	214.3	–	214.3	–	–	–	–
Loans under Senior Facilities Agreement and other short-term debt	4.3	–	–	–	3,700.7	–	3,700.7	1.3	3,699.4	–	3,700.7
		–	**–**	**–**	**4,100.5**	**–**	**4,100.5**				

* The Group has not disclosed the fair values for financial instruments such as short-term trade receivables and payables, because their carrying amounts are a reasonable approximation of fair value.

Notes

4.2 Financial risks and financial instruments (cont'd)

The fair values of cash and cash equivalents, trade and other receivables and trade payables with a remaining term of up to twelve months, other current financial liabilities and borrowings under revolving credit facilities are approximately equal to their carrying amount, mainly due to the short-term maturities of these instruments.

Treasury enters into derivative contracts in accordance with Group policies. The exact calculation of fair values of derivative financial instruments depends on the specific type of instrument.

- Forward currency contracts – the fair value of foreign currency exchange contracts is based on forward exchange rates.
- Interest rate swap contracts – the fair value is based on discounted cash flows of fixed leg and floating legs.
- Interest rate floors – the fair value is based on discounted cash flows of floorlets.
- Loan repayment call option – the fair value is based on backward induction method calculated from valuation model.

The Group select valuation methods based on market's best practice. Market data required in the valuation model is extracted from third party financial data provider Bloomberg.

The levels of the fair value hierarchy and its application to financial assets and financial liabilities are described below:

Level 1: Quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3: Valuations methods, with significant inputs not being based on observable market data.

Type	Valuation technique	Significant unobservable inputs	Sensitivity of fair value to significant unobservable inputs
FX contracts	The fair value of the **exchange rate contracts is based on forward exchange rates (level 2)**	Not applicable	Not applicable
Interest rate swaps	The fair value of interest rate swaps are **determined using discounted cash flows of fixed leg and net present value of floating leg based on forward rate curve, and can be categorized as level 2 (observable inputs) in the fair value hierarchy**	Not applicable	Not applicable
Interest rate floors	The fair value of **interest rate floors is based on discounted cash flows or floorlets for intrinsic and option pricing models with implied volatility for time value component (level 3 unobservable inputs)**	Implied volatility	Higher implied volatility will lead to higher fair value and vice versa. Change in implied volatility will not result in significant financial impact 2021: 40.5 bps 2020: 41.2 bps
Loan repayment call option	Backward induction method where total **remaining cash flows are calculated at each prepayment date. the prepayment gain is then calculated based on the probability of a credit rating improved at future repayment date (level 3 unobservable data)**	1-year migration matrix	The higher the probability of an increase in credit quality, the higher the value of prepayment option

The following table shows the reconciliation of Level 3 fair value measurements of the loan repayment call option and interest rate floors:

EURm	30 Sept. 2021	30 Sept. 2020
Carrying amount 1 October	(67.2)	(69.8)
Additions	–	(0.9)
Others	–	0.1
Total gains or losses:		
– Recognized in profit or loss	21.6	3.4
Carrying amount 30 September	**(45.6)**	**(67.2)**

Offsetting, master netting agreements and similar arrangements

The Group enters into derivative transactions under International Swaps and Derivatives Association (ISDA) master netting agreements/FX Payment Netting Agreements. In general, under such agreements the amounts owed by each counterparty on a single day in respect of all transactions outstanding in the same currency are aggregated into a single net amount that is payable by one party to the other. In certain circumstances – e.g. when a credit event such as a default occurs – all outstanding transactions under the agreement are terminated, the termination value is assessed and only a single net amount is payable in settlement of all transactions.

Notes

4.2 Financial risks and financial instruments (cont'd)

EURm	30 Sept. 2021	30 Sept. 2020
Counterparty A: Goldman Sachs		
Derivative assets	0.6	1.5
Derivative liabilities	(0.7)	(0.5)
Net amount	**(0.1)**	**1.0**
Counterparty B: Standard Chartered Bank		
Derivative assets	0.7	0.4
Derivative liabilities	(0.3)	(1.6)
Net amount	**0.4**	**(1.2)**
Counterparty C: Jyske Bank		
Derivative assets	0.1	–
Derivative liabilities	(0.2)	–
Net amount	**(0.1)**	**–**
Counterparty D: Crédit Industriel et Commercial Bank		
Derivative assets	–	0.1
Derivative liabilities	–	(0.3)
Net amount	**–**	**(0.2)**

4.3 Liabilities from financing activities

EURm	Loans and borrowings	Other short-term debt	Derivatives relating to financing agreements	Interest rate swap	Lease liabilities	Others	Total
Liabilities at 1 October 2020	**3,699.4**	**1.3**	**67.2**	**29.6**	**248.0**	**–**	**4,045.5**
Proceeds from loans and borrowings	50.0	32.8	–	–	–	–	**82.8**
Interest paid	(160.8)	(0.1)	–	(22.0)	–	(7.3)	**(190.2)**
Repayment of borrowings	(136.4)	(30.5)	–	–	–	–	**(166.9)**
Payment of lease liabilities	–	–	–	–	(51.4)	–	**(51.4)**
Others	–	–	–	–	–	(1.6)	**(1.6)**
Total changes from financing cash flows	**(247.2)**	**2.2**	**–**	**(22.0)**	**(51.4)**	**(8.9)**	**(327.3)**
Accrued loan interest	161.0	–	–	–	–	–	161.0
Amortization of transaction costs	20.8	–	–	–	–	–	20.8
Other changes	10.8	0.3	(21.6)	(0.2)	26.6	8.9	24.8
Liabilities at 30 September 2021	**3,644.8**	**3.8**	**45.6**	**7.4**	**223.2**	**–**	**3,924.8**
Liabilities at 1 October 2019	**3,559.4**	**0.2**	**69.8**	**29.5**	**–**	**–**	**3,658.9**
Proceeds from loans and borrowings	189.5	90.5	–	–	–	–	**280.0**
Transaction costs related to loans and borrowings	(2.1)	–	–	–	–	(0.7)	**(2.8)**
Interest paid	(152.0)	(0.1)	–	(15.7)	–	(5.5)	**(173.3)**
Repayment of borrowings	(11.0)	(88.2)	–	–	–	–	**(99.2)**
Payment of lease liabilities	–	–	–	–	(48.7)	–	**(48.7)**
Others	–	–	–	–	–	(1.3)	**(1.3)**
Total changes from financing cash flows	**24.4**	**2.2**	**–**	**(15.7)**	**(48.7)**	**(7.5)**	**(45.3)**
Other changes	115.6	(1.1)	(2.6)	15.8	26.8	7.5	**162.0**
Effect of adoption of IFRS 16	–	–	–	–	269.9	–	**269.9**
Liabilities at 30 September 2020	**3,699.4**	**1.3**	**67.2**	**29.6**	**248.0**	**–**	**4,045.5**

§ Accounting policies

Financial liabilities, other than derivatives, are initially recognized at fair value less transaction costs, and subsequently measured at amortized cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the liability.

Notes

4.4 Financial income and expenses

EURm	30 Sept. 2021	30 Sept. 2020
Interest income	0.8	0.1
Interest income customer loans	2.5	1.5
Other interest income	2.4	0.9
Total interest income	**5.7**	**2.5**
Interest expenses	(221.2)	(223.9)
Interest expense from pension plans	(0.3)	(0.3)
Other interest expenses	(0.6)	–
Total interest expenses	**(222.1)**	**(224.2)**
Other financials, net		
Foreign exchange differences	(15.1)	28.9
Change in fair value of derivatives relating to financing arrangements	21.6	3.4
Change in fair value of derivative financial instruments, not designated hedging instruments	21.4	8.5
Others	(1.5)	(2.4)
Total other financial expenses, net	**26.4**	**38.4**

Interest income and interest expense includes those generated from financial assets and financial liabilities not measured at fair value through profit or loss.

§ Accounting policies

Financial income and expenses comprise interest income and expenses, gains and losses on securities, exchange rate adjustments on receivables, payables and transactions denominated in foreign currencies, credit card fees, amortization and impairment of financial assets other than trade receivables and contract assets and liabilities, gains and losses on derivative financial instruments not designated as hedging instruments etc.

Interest income and expenses on financial assets and liabilities measured at amortized cost is recognized using the effective interest method. Other financial income and expenses are recognized on an accrual basis in the period to which they relate.

4.5 Government grants

For the financial year ended 2021, various subsidiaries of the Group received government grants for wage subsidy schemes, training grants or in lieu of the negative business impact caused by the COVID-19 pandemic. The total grant amount received by the Group recorded within other income in profit or loss is EUR 8.7 million (2020: EUR 21.5 million), mainly attributing to a training grant received from the Economic Development Board of Singapore.

§ Accounting policies

Grants from the government are recognized as a receivable at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grant receivables are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis. Government grants relating to expenses are shown separately as other income.

5 Other disclosures

5.1 Business combinations

The Group had completed various acquisitions druing the year. The acqustions are meant to increase the Group's footprint in various regions and expand its technological capabilities.

Acquisition of Auralcare Hearing Centers of America, LLC – 30 June 2021

On 30 June 2021, the Group through its subsidiary, My Hearing Centers LLC (also known as “MHC”), acquired certain assets and liabilities of Auralcare Hearing Centers of America, LLC (also known as “Auralcare”). Auralcare has brand and operations in USA which is well known in their markets with over 110 locations and its retail footprint is complimentary to HearUSA’s business.

Notes

5.1 Business combinations (cont'd)

The amounts recognized in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below.

EURm	Auralcare	Others
Assets acquired:		
Other intangible assets	7.6	3.6
Property, plant and equipment	–	0.6
Other non-current financial assets	0.1	–
Inventories	0.4	0.5
Trade and other receivables	4.6	1.2
Other current assets	0.3	0.1
Cash and cash equivalent	4.2	1.0
Total assets acquired at the date of acquisition	**17.2**	**7.0**
Liabilities assumed at the date of acquisition:		
Trade payables	(20.5)	(2.2)
Other current liabilities	(1.3)	(0.6)
Total liabilities assumed at the date of the acquisition	**(21.8)**	**(2.8)**
Net (liabilities)/assets acquired	**(4.6)**	**4.2**
Goodwill	40.7	18.6
Total consideration	**36.1**	**22.8**
Fair value of contingent consideration and deferred payments	(1.3)	(6.3)
Cash and cash equivalents acquired	(4.2)	(1.0)
Total cash consideration paid	**30.6**	**15.5**

The fair value of the financial assets includes trade receivables with a fair value of EUR 5.4 million. The best estimate at acquisition date of the trade receivables not to be collected is EUR 0.8 million.

The Group had conducted a Purchase Price Allocation exercise to identify any identifiable assets. The Group has identified trademarks and covenants not to compete as identifiable assets, which were valued using the income approach methods. The residual amounts were allocated to goodwill of EUR 40.7million which includes an assembled workforce. None of the goodwill is expected to be deductible for income tax purposes.

An amount of EUR 1.3 million was held back in the contingency that unforeseen liabilities from events existing pre-acquisition are required to be paid. The amount will be paid twelve months from closing date.

The Group incurred acquisition-related cost of EUR 0.8 million in financial year 2021 for legal fees and due diligence services. These costs have been included as part of profit or loss when incurred.

Share of revenue and profit from the acquisitions:

EURm	30 Sept. 2021
The share of revenue and profit/(loss) for the year from the acquisition date:	
Revenue	15.5
EBIT	0.2
Profit for the year	0.2
The share of revenue and profit/(loss) if acquisitions had taken place at 1 October 2020 :	
Revenue	48.8
EBIT	0.8
Profit for the year	0.7

Notes

5.1 Business combinations (cont'd)

§ Accounting policies

Newly acquired or newly established enterprises are recognized 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. 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 costs to sell. Restructuring costs are solely recognized 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.

Goodwill is measured at the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interests in the acquiree (if any) over the net of acquisition date fair values of the identifiable assets and liabilities and contingent liabilities. Goodwill is not amortized but tested at least annually for impairment. The first impairment test is performed within the end of the acquisition year.

The consideration transferred consists of the fair value of the consideration paid for the enterprise. If the final consideration is conditional upon one or more future events, the consideration will be recognized at the fair value on acquisition. Any subsequent adjustment of contingent consideration is recognized 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 recognized directly in the income statement when incurred.

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 will be 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.

Non-controlling interests are measured at the transaction date at either fair value or at its proportionate share of the fair value of identified net assets, determined on a transaction-by-transaction basis.

When a business combination is achieved in stages, the Group's previously held interests in the acquired business are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in the income statement. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to the income statement, where such treatment would be appropriate if that interest were disposed of.

Goodwill and fair value adjustments in connection with the acquisition of a foreign operation with a functional currency other than the Group's presentation currency (EUR) are treated as assets and liabilities belonging to the foreign entity and translated into the foreign operations functional currency at the exchange rate at the transaction date.

Acquisition or sale of equity interests without gaining or losing control of an entity is accounted for as equity transactions.

Significant judgements and accounting estimates

Brands and trademarks

The value of brands and trademarks acquired and their useful lives are based on the brands' and trademarks' market position, expected long-term developments in the relevant markets and profitability. Management determines the useful life for each brand and trademark based on its relative local, regional and global market strength, market share, and the current and planned marketing efforts that are helping to maintain and increase the value of the brand or trademark.

When the value of a well-established brand or trademark is expected to be maintained for an indefinite period in the relevant markets, and these markets are expected to be profitable for a long period, the useful life of the brand or trademark is determined to be indefinite.

The fair value of brands and trademarks is based on the relief from royalty method, under which the value is calculated from expected future cash flows for the brands and trademarks. Cash flows are based on key assumptions about expected useful life, royalty rate, growth rate and tax effects. A post-tax discount rate that reflects the risk-free interest rate with the addition of a risk premium associated with the particular brand is used to discount the expected future cash flows.

Customer relationships

Customer relationships are valued based on the multi-period excess earnings method. Cash flows related to the customer relationships are based on the forecasted revenues from existing customers, reduced by the expected future churn. Profits generated from those revenues are typically adjusted for saved selling costs, given that in most cases part of the selling costs relates solely to acquiring new customers. Profits are then netted of taxes and reduced by charges on contributory asset, which are required to generate those profits. Cash flows calculated in this way are discounted and adjusted for tax amortization benefit.

Contingent consideration

Business combinations may include contingent considerations, e.g. when the Group acquires audiology chains or shops. Such contingent considerations are usually additional payments to the previous owners, when certain events occur or certain financial results are achieved. The measurement of contingent consideration at fair value at the transaction date inherently involve significant estimates. In making these estimates, Management considers sales run rates of the acquired business.

Notes

5.2 Remuneration of Key Management Personnel

EURm	Short-term benefits	Termination benefits	Total
1 October 2020 – 30 September 2021			
Executive Management	3.8	–	3.8
Board of Directors	0.5	–	**0.5**
Total	**4.3**	**–**	**4.3**
1 October 2019 – 30 September 2020			
Executive Management	3.7	–	**3.7**
Board of Directors	0.5	–	**0.5**
Total	**4.2**	**–**	**4.2**

The Executive Management and the Board of Directors hold some ordinary and preference shares in NH Lux ManCo SCSp. Please refer to Note 5.3 for details of this program. The shares held by the Executive Management and the Board of Directors are less than 5% and insignificant.

5.3 Management Participation Program liability

The Group has in place a Management Participation Program ("MPP") - Certain members of management (the "MPP Participants") may acquire a minority partnership interest in NH Lux ManCo SCSp ("NHSCSp"), which is controlled by North Harbour Lux TopCo S.a.r.l. ("TopCo"), a holding entity that is fully consolidated within WS Audiology, therefore indirectly having an ownership interest in the intermediate Group.

The fair value of the equity instruments on acquisition date is equivalent to the cost. The redemption price is based on the leaver status at the time of redemption.

The MPP participants acquired ordinary shares, which rank pari passu in all respects, as well as preference shares. The reacquisition of the ownership interests by TopCo is triggered upon the termination of employment of MPP Participants; a liability in this regard is included in other non-current liabilities, with reference to Note 3.9.

MPP Liability	Number of shares (mil)
Outstanding at 1 October 2020	35.7
Additions	3.8
Disposals	(1.4)
Others	(1.0)
Outstanding at 30 September 2021	**37.1**
Outstanding at 1 October 2019	38.1
Additions	11.0
Disposals	(14.4)
Others	1.0
Outstanding at 30 September 2020	**35.7**

§ Accounting policies

The accounting for the shares purchased by management (at fair value, represented by 'interests' in NHSCSp) as part of the North Harbour MPP scheme falls within the scope of IFRS 2 as a cash-based arrangement. A liability is recognized reflecting the fair value of the Group's intention to acquire the 'interests'.

Significant judgements and accounting estimates

The terms of the North Harbour MPP scheme include references to "good" and "bad" leavers, which impact the return to be received by MPP plan participants. The determination of the fair value of the liability under the MPP scheme is most significantly impacted by the estimation of future good vs. bad leavers, and the determination of the fair value of the shares, with reference to the fair value of the Group, and is consistent with the overall approach applied in the evaluation of goodwill impairment testing as discussed in Note 3.3.

5.4 Pension obligations

Post-employment benefits provided by the Group are organized primarily through defined contribution plans as well as defined benefit plans which cover almost all of the Group's domestic employees and many of the Group's foreign employees. Post-employment defined benefit plans include to the major extent pension benefits.

Defined benefit plans

General principles are determined in a corporate pension policy. That means inter alia that the Group regularly reviews the design of its post-employment defined benefit plans. In order to reduce Group's exposure to certain risks associated with defined benefit plans, such as longevity, inflation, effects of compensation increase, the Group regularly review and continuously improves the design of its post-employment defined benefit plans. The benefits of the defined benefit plan open to new entrants are based predominantly on contributions made by the Group and are still affected by longevity, inflation adjustments and compensation increases, but only to a lesser extent. The major pension plans are funded with assets in segregated pension entities.

The existing defined benefit plans cover approximately as of 30 September 2021 – 3,488 participants, including 2,365 active employees, 703 former employees with vested rights and 420 retirees and surviving dependents (2020: 3,539 participants, including 2,429 active employees, 716 former employees with vested rights and 394 retirees and surviving dependents). Individual benefits are generally based on eligible compensation levels and/or ranking within the Group's hierarchy and years of service. The characteristics of the defined benefit plans and the risks associated with them vary depending on legal, financial and economic requirements in each country. For the major defined benefit plans of the Group the characteristics and risks are as follows:

Germany:

In Germany, the Group provides pension benefits through the cash-balance plan BSAV (Beitragsorientierte Siemens Altersversorgung), frozen legacy plans and deferred compensation plans. Active employees in Germany participate in the BSAV introduced in financial 2004. A legacy pension plan (Altzusage) has been transformed into BSAV.

These benefits are predominantly based on contributions made by the Group and returns earned on such contributions, subject to a minimum return guaran-

Notes

5.4 Pension obligations (cont’d)

teed. In general, the BSAV is fully funded from the Group's perspective. Sivantos GmbH has set up a CTA (Contractual Trust Arrangement) in order to take precautions of financing all of its BSAV pension obligations, including the Group. Individual benefits under the frozen legacy plans are based on eligible compensation levels or ranking within the Group's hierarchy and years of service. In connection with the implementation of the BSAV, benefits provided under the frozen legacy plans were modified to substantially eliminate the effects of compensation increases by freezing the accretion of benefits under the majority of these plans. However, these frozen plans still expose the Group to actuarial risks such as investment risk, interest rate risk and longevity risk. Furthermore, deferred compensation plans are offered which are funded via a CTA. In Germany no legal or regulatory minimum funding requirements apply. The Trust which is legally separate manages its plan assets as trustee in accordance with the respective trust agreements.

U.S.:
The assets under these pension plans are administered by the Group and are, therefore, the sole responsibility of the Group. The assets are not separately identifiable; instead the companies had a common right to the trusts' assets. One major defined benefit plan, the Sivantos Pension Plan, is frozen to new entrants and accretion of new benefits. Employees hired prior to April 1, 2006 participate in the Sivantos Pension Plan. Most of the defined benefit plan participants' benefits are calculated using a cash balance formula; although a small group of participants are eligible for a benefit based on a final average pay formula. This frozen defined benefit plan exposes the Group to actuarial risks such as investment risk, interest rate risk and longevity risk.

The defined benefit plan assets are held in a Master Trust. The Group, as the sponsoring employer, has delegated investment oversight of the plans' assets to the Investment Committee. The Investment Committee members have a fiduciary duty to act solely in the best interests of the beneficiaries according to the trust agreement and U.S. law. The Committee has established an Investment Policy Statement which articulates the goals and objectives of the plans' investment management, including diversifying the assets of the Master Trust with the intention of appropriately addressing concentration risks. The trustee of the Master Trust acts only by direction of the Investment Committee. It is responsible for the safekeeping of the trust, but generally has no decision-making authority over the plan assets. The legal and regulatory framework for the plans is based on the applicable U.S. legislation Employee Retirement Income Security Act (ERISA). Based on this legislation a funding valuation is prepared annually. There is a regulatory requirement to maintain a minimum funding level of 80% in the defined benefit plans in order to avoid benefit restrictions.

The amounts included in the Group's Consolidated Balance Sheet arising from its pension obligations at 30 September are as follows:

EURm	Defined benefit obligation	Fair value of plan assets	Total
30 September 2021			
Germany	(63.3)	59.9	**(3.4)**
U.S.	(39.5)	33.7	**(5.8)**
Others	(7.9)	3.4	**(4.5)**
Total	**(110.7)**	**97.0**	**(13.7)**
30 September 2020			
Germany	(63.5)	53.9	**(9.6)**
U.S.	(41.8)	31.1	**(10.7)**
Others	(5.3)	1.8	**(3.5)**
Total	**(110.6)**	**86.8**	**(23.8)**

The following table show the total defined benefit cost that was recognized in profit or loss account and other comprehensive income at the end of the reporting period.

EURm	30 Sept. 2021	30 Sept. 2020
Current service cost	2.7	2.7
Net interest expenses	0.3	0.3
Liability administration expenses	0.2	0.3
Defined benefit costs recognized in the income statement	**3.2**	**3.3**
Costs recognized in income statement items:		
Return on plan assets (excluding amounts included in net interest expense and net interest income)	(6.3)	(0.1)
Remeasurement (gains)/losses on defined benefit obligations	(2.1)	2.8
Foreign currency translation effects	0.3	(0.2)
Remeasurements of defined benefit plans recognized in the Statement of Comprehensive Income	**(8.1)**	**2.5**
Change in defined benefit obligations:		
Defined benefit obligation at beginning of year	110.6	109.6
Current service cost	2.7	2.7
Interest expense	1.3	1.5
Contributions paid	(0.1)	0.1
Net accumulated actuarial (gains)/losses	(2.1)	2.8
Benefits paid	(3.0)	(3.3)
Foreign currency effects	1.3	(2.8)
Defined benefit obligation at 30 September	**110.7**	**110.6**

Notes

5.4 Pension obligations (cont'd)

EURm	30 Sept. 2021	30 Sept. 2020
Change in plan assets:		
Fair value of plan assets at beginning of year	86.8	89.8
Interest income	1.0	1.2
Remeasurement gains (Return on plan assets excluding amounts included in net interest income and net interest expense)	6.3	0.1
Contributions paid	0.6	0.3
Benefits paid	(1.5)	(1.7)
Employer contributions	2.6	(0.1)
Liability administration costs	(0.2)	(0.3)
Foreign currency effects	1.4	(2.5)
Fair value of plan assets at 30 September	**97.0**	**86.8**
Plan assets comprise of the following:		
Investment funds	95.6	85.1
Cash and cash equivalents	1.4	1.7
Total	**97.0**	**86.8**
Quoted	95.6	85.1
Unquoted	1.4	1.7
Total	**97.0**	**86.8**

The Group has reported EUR 3.4 million of asset for deferred compensation plan under Note 3.6, which is used to fund the pension obligations.

Actuarial assumptions

Assumed discount rates, compensation increase rates, pension progression rates and mortality rates used in calculating the DBO vary according to the economic and other conditions of the country in which the retirement plans are situated.

The mortality tables used for the actuarial valuation of the DBO were as follows (most significant countries):

Germany	Heubeck Richttafeln 2005G (modified)
U.S.	RP-2014 Employee and Healthy Annuitant Tables projected with Scale MP-2015 for all years

The DBO was only significantly affected by other financial assumptions in Germany and U.S. For Germany, the long-term rate of compensation increase and the pension increase rate were constant on average in financial year 2021 and 2020. For U.S., the DBO was mainly affected by the discount rate as the plan is frozen to new entrants and accretion of new benefits.

The DBO is also affected by assumed future inflation rates. The effect of inflation is recognized within the assumptions above where applicable.

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

EURm	30 Sept. 2021	30 Sept. 2020
Germany		
Discount rate	0.85%	0.63%
Future salary growth	2.25%	2.25%
Expected return on assets	1.75%	1.75%
Expected pension progression	1.75%	1.75%
U.S.		
Discount rate	2.39%	2.80%
Future salary growth	N/A	N/A
Expected return on assets	2.39%	2.80%
Expected pension progression	3.00%	3.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables. The current longevities underlying the values of the defined benefit obligation at the reporting date were as follows:

EURm	30 Sept. 2021	30 Sept. 2020
Germany		
Longevity at age 55 for current pensioners		
Males	20.0	20.3
Females	24.0	23.8
Longevity at age 55 for current pensioners with 10% reduction in mortality rates		
Males	21.0	21.2
Females	25.0	24.6
U.S.		
Longevity at age 55 for current pensioners		
Males	28.6	28.8
Females	31.1	31.3
Longevity at age 55 for current pensioners with 10% reduction in mortality rates		
Males	29.6	29.9
Females	32.0	32.3

The weighted-average duration of the defined benefit obligation was 11.2 years at 30 September 2021 (2020: 13.6 years).

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

Notes

5.4 Pension obligations (cont'd)

Sensitivity analysis

As the significant part of the DBO results from the German and U.S. entities, the sensitivity analysis were as follows:

30 September 2021

EURm	0.5% increase	0.5% decrease
Germany		
Discount rate	(3.6)	4.1
Rate of pension progression	2.5	(2.3)
	-1 year	+1 year
Life expectancy	(1.7)	1.9
U.S.	**0.5% increase**	**0.5% decrease**
Discount rate	(1.8)	1.9

30 September 2020

EURm	0.5% increase	0.5% decrease
Germany		
Discount rate	(4.1)	5.3
Rate of pension progression	2.7	(2.5)
	-1 year	+1 year
Life expectancy	(1.7)	2.0
U.S.	**0.5% increase**	**0.5% decrease**
Discount rate	(2.0)	2.2

The Company expects to pay EUR 7.0 million (2020: EUR 6.7 million) in contributions to its defined benefit plans in the upcoming financial year.

Defined contribution plan

The amount recognised as an expense for defined contribution plans at 30 September 2021 was EUR 10.2 million (2020: EUR 9.9 million).

§ Accounting policies

Defined contribution plans

The Group operates a number of defined contribution plans around the World. These plans are externally funded in entities, e.g. insurance entities, that are legally separate from the Group. Contributions to defined contribution plans are recognized in the income statement in the year to which they relate.

Defined benefit plans

The Group also operates defined benefit plans in a few jurisdictions, primarily in Germany and the USA.

The liability and costs for the year for defined benefit plans are determined using the projected unit credit method. This reflects services rendered by employees to the valuation dates and is based on actuarial assumptions regarding future compensation and benefit increases, mortality, expected return on plan assets and discount rates. Discount rates are based on average market yields of high-quality corporate bonds in the country and/or currency in which the pension liabilities are expected to be settled.

Current service cost, past service cost and settlements for post-employment benefits as well as other administration costs which are unrelated to the management of plan assets are recognized in the income statement and allocated among functional costs, following the functional area of the corresponding profit and cost centre. Administration costs which are related to the management of plan assets and taxes directly linked to the return on plan assets and payable by the plan itself are included in the return on plan assets and are recognized in other comprehensive income.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized in other comprehensive income in the period in which they arise. Past service costs are recognised immediately in the income statement.

For unfunded plans, the Group recognizes a post-employment liability as non-current liability. For funded plans, the Group offsets the fair value of plan assets with the benefit obligations, and recognizes the net amount, after adjustments for effects related to any asset ceiling, as a non-current liability or other current assets.

5.5 Contingent assets and liabilities

Guarantees

The Group has issued corporate guarantees, mainly to the business partners, outstanding for an amount of EUR 101.2 million at 30 September 2021 (2020: EUR 100.8 million). None of the outstanding guarantees are likely to be drawn, hence no provisions have been made.

Outstanding Lawsuits and disputes

The Group is, from time to time, subject to legal disputes in connection with its business activities. In the light of the number of legal disputes and proceedings in which the Group is involved, it cannot be ruled out that some of these proceedings could result in rulings against the Group. Although the Group maintains liability insurance in its non-amounts the Group considers consistent with industry practice, it may not be fully insured against all potential damages that may arise out of any claims to which the Group may be party in the ordinary course of the Group's business. At this time, however the Group does not expect any significant negative effects on the Group's financial position or finance and earnings situation resulting from legal disputes.

The Group seeks to make adequate provisions for any legal disputes and proceedings, and assesses the likely outcome in which the Group is involved.

Notes

5.6 Associates

EURm	Investments in associates	Receivables from associates
Balance at 30 September 2020	**4.0**	**3.2**
Share of post-acquisition retained earnings and translation differences	0.2	–
Carrying amount at 30 September 2021	**4.2**	**3.2**
Balance at 1 October 2019	**7.4**	**2.2**
Share of post-acquisition retained earnings	(3.4)	1.0
Carrying amount at 30 September 2020	4.0	3.2

Included in the investment in associates is a customer loan to an associate of EUR 1.7 million. The investment was fully impaired in 2019/20 as Management had assessed that there are difficulties recovering the loan.

The Group's investments in associates are not individually material.

Please refer to Note 5.10 for a list of associates.

§ **Accounting policies**

Associates are those entities in which the Group has significant influence but not control or joint control over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control over the financial and operating policies, and where the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in associates and joint ventures are accounted for using the equity method. This entails that the investments are initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture calculated in accordance with the Group's accounting policies. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in such associate or joint venture, the Group discontinues recognizing its share of future losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

5.7 Non-cash adjustments

EURm	30 Sept. 2021	30 Sept. 2020
Unrealized loss/(gain) on foreign currency translation	18.5	(36.3)
Others	4.0	2.4
Total	**22.5**	**(33.9)**

Significant non-cash transaction – for the period 1 October 2020 – 30 September 2021

For the financial year ended 30 September 2021, there were no significant non-cash transaction.

Significant non-cash transaction – for the period 1 October 2019– 30 September 2020

For the financial year ended 30 September 2020, there were significant additions of ROU assets of EUR 22.7 million.

Prior to the establishment of the Group, a number of non-cash transactions occurred in Widex A/S (these consolidated financial statements are a continuation of the consolidated financial statements of Widex A/S Group as explained in Note 1) to align the capital and financing in the Widex Group and the Sivantos Group. These transactions include:

- Declaration of dividends to parent entity of Widex A/S of EUR 227.7 million;
- Partial settlement of payables to parent entity (existing loans from parent entity and dividend declared) through receipt of loan from Auris III of EUR 344.1 million;
- Settlement of remaining payables to parent entity through receipt of capital contribution from parent entity of EUR 41.1 million;

5.8 Fees to auditors appointed at the annual general meeting

EURm	Deloitte	Others
1 October 2020 – 30 September 2021		
Audit fees	0.9	0.1
Other assurance related services	0.9	1.6
Tax services	1.5	1.6
Other services	0.1	1.2
Total	**3.4**	**4.5**
1 October 2019 – 30 September 2020		
Audit fees	0.7	–
Other assurance related services	1.0	0.4
Tax services	0.6	1.8
Other services	0.1	–
Total	**2.4**	**2.2**

Notes

5.9 Related parties

Related parties include North Harbour VIII S.à.r.l., North Harbour VII S.à.r.l., Auris Luxembourg I S.A.,T&W Medical A/S, as well as transactions with associates.

Other related parties in the summary below include those entities controlled by T&W Medical A/S.

Transactions with related parties
In addition to the related party disclosure that is disclosed elsewhere in the financial statements, the following significant transactions between the Group and its related parties took place at terms agreed during the financial year:

EURm	30 Sept. 2021	30 Sept. 2020
Transactions with associates		
– Sales of goods and services	9.5	8.1
Other related parties		
– Purchase of goods and services	(7.2)	(9.3)
Total transactions with related parties	**2.3**	**(1.2)**

At 30 September 2021, the outstanding balances with the associates are EUR 5.7 million (2020: EUR 3.2 million).

Transactions with related individuals
The Group's Executive management is defined as those persons, who are responsible for the Group's worldwide operating business, based on their function within the Group or the interests of WS Audiology A/S and registered directors in the parent company. In financial years 2020/21 and 2019/20, there were no significant, material or major transactions between the Group and members of the Executive Management and Board of Directors, other than their remuneration and transactions towards the participation program. For information about remuneration to Executive management and Board of Directors refer to Note 5.2.

5.10 Companies in the WS Audiology A/S Group

List of the Group's companies included in the Consolidated Financial Statements:

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
WS Audiology A/S	**Denmark**	**100**	**100**
North Harbour Topco S.à.r.l.	Luxembourg	99	99
North Harbour Midco S.à.r.l.	Luxembourg	100	100
Auris Luxembourg II S.A.	Luxembourg	100	100
Auris Luxembourg III S.à.r.l.	Luxembourg	100	100
Widex A/S	Denmark	100	100
Sivantos Holding Singapore Pte. Ltd.	Singapore	100	100
Hear.com N.V.	Netherlands	100	-
Subsidiaries of Widex A/S			
EMEA-LA			
Bloomhearing ApS	Denmark	100	100
Investment DK ApS	Denmark	100	100
WS Audiology Benelux BV	Netherlands	100	100
Widex UK Ltd.	UK	100	100
Widex DK A/S	Denmark	100	100
Coselgi DK ApS	Denmark	100	100
SAS Clermont Distribution	France	98	98
SAS Pavillon de l'audition	France	100	100
Widex S.A.S	France	100	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Widex A/S			
EMEA-LA (cont'd)			
Bloom Hearing Specialists Ltd.	UK	100	100
Aberdeen Hearing Services Ltd. (*under liquidation*)	UK	100	100
Bonavox Limited	Ireland	100	100
Widex Chile SpA	Chile	100	100
Widex Uruguay	Uruguay	51	51
COW-Audición en Alta Definición S.A. de C.V	Mexico	99	99
Widex Argentina S.A	Argentina	51	51
Centro Auditivo Widex Brasitom Ltda	Brazil	100	100
Communicare Aparelhos Auditivos Ltda	Brazil	100	100
RAR Comercio e Servicos em Aparelhos Auditivos Ltda	Brazil	100	-
WS Audiology Solucuoes Auditiva Ltd.[2]	Brazil	100	100
Bloom Hörakustik AG	Switzerland	100	100
WS Audiology Switzerland AG (*formerly Widex Hörgeräte AG*)[3]	Switzerland	100	100
Widex Hörgeräte GmbH	Germany	100	100
Widex AB	Sweden	100	100
Hörselhuset Aktiebolag	Sweden	100	100
Widex Biocord AB	Sweden	100	100
Widex OOO LLC (*dormant*)[4]	Russia	100	100
Widex Norge AS	Norway	100	100
Widex-Reabilitacão Auditiva Lda.	Portugal	100	100

Notes

5.10 Companies in the WS Audiology A/S Group (cont'd)

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Widex A/S			
EMEA-LA (cont'd)			
WSA Portugal S.A. (*formerly Coselgi Portugal S.A.*)	Portugal	100	100
WSA Rus LLC (*formerly Widex Service OOO LLC*)[4]	Russia	100	100
Widex Akustik OY	Finland	100	100
Widex Lines s.r.o	Czech Republic	100	100
Widex Poland Sp. Z.o.o	Poland	60	60
Widex South Africa Pty. Ltd.[6]	South Africa	-	100
Widex Eesti OÜ (*liquidated*)	Estonia	-	100
Widex Tibbi ve Teknik Chihazlar San.ve Tic. AŞ	Turkey	100	100
Widex Trading d.o.o Ljubljana	Slovenia	60	60
Slušni Aparati d.o.o. Widex Ljubljana	Slovenia	84	84
Widex-H Kft	Hungary	100	100
Audiofon Kft	Hungary	100	100
Myprojects Kft	Hungary	100	-
Widex Italia s.r.l.	Italy	100	100
Widex-Slovton Slovakia	Slovakia	100	100
Widex Slušni Aparati d.o.o.	Bosnia	60	60
ReOton Ltd	Ukraine	100	100
Koalys Technologies Ltd	Israel	100	-
Shoebox France SARL	France	100	-
Koalys Poland Sp z.oo	Poland	100	-
Widex Regional Operation Center EMEA	Poland	100	-

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Widex A/S			
Asia-Pacific			
Widex Hearing Aid Sdn Bhd	Malaysia	100	100
Widex Singapore Pte Ltd	Singapore	100	100
Bloom Hearing Co. Ltd.	Japan	100	100
Widex Co. Ltd.	Japan	100	100
Widex Hearing Aid (Shanghai) Co. Ltd.	China	100	100
Widex Korea Ltd.1	South Korea	-	100
Widex India Private Ltd.	India	100	100
Widex New Zealand Ltd.	New Zealand	100	100
Widex Australia Pty. Ltd.[7]	Australia	-	100
Active Hearing Pty. Ltd.	Australia	100	100
Hearclear Audiology Pty. Ltd.	Australia	100	100
Bloom Hearing Ltd.	New Zealand	100	100
Widex Hong Kong Hearing & Speech Centre Ltd.	Hong Kong	100	100
Starry Hearing & Speech Centre Ltd.	Hong Kong	65	65
North America			
Widex Canada Ltd.[5]	Canada	-	100
TW Group Canada Ltd.	Canada	100	100
Lifestyle Hearing Corporation Inc.	Canada	100	100
Lifestyle Hearing Corporation USA Inc.	USA	100	100
Widex USA Inc.	USA	100	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Lifestyle Hearing Corporation Inc.			
North America			
Lifestyle Hearing Network Inc.	Canada	100	100
Helix Hearing Inc.	Canada	100	100
Hearcanada Inc.	Canada	100	100
Helix Service Corporation Inc.	Canada	100	100
Manji Nicholaou Audiology Inc.	Canada	100	100
Subsidiaries of Lifestyle Hearing Corporation USA Inc.			
North America			
Audiology Management Group Inc.	USA	100	100
Helix Hearing Care (California) Inc.	USA	100	100
Lifestyle Hearing Professionals LLC	USA	100	100
New Asheville Audiology Services PLLC	USA	100	100
Helix Hearing Care (Ohio) LLC.	USA	-	100
Helix Hearing Care (Texas) LLC	USA	100	100
Helix Hearing Care (Florida) LLC	USA	100	100
Physician Audiology Services Inc.	USA	-	100
Hearing Center of Browards Inc.	USA	100	100
Randa Nashour-Shousher LLC	USA	100	51
My Hearing Centers LLC	USA	100	-
Hear Again Hearing Auds LLC.	USA	60	60
Helix Hearing Care Naples LLC	USA	60	60
The Hearing Center of ENTA LLC	USA	60	60
Medical Hearing Systems LLC	USA	70	70
PAS Development LLC	USA	55	55

Notes

5.10 Companies in the WS Audiology A/S Group (cont'd)

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Other equity investments			
HIMSA A/S	Denmark	25	25
HIMSA II a/s	Denmark	20	17
HIMSA II K/S	Denmark	17	23
HIMP A/S	Denmark	13	9
K/S HIMPP	Denmark	9	10
Sound Advice Hearing Ltd.	UK	49	49
D Med Hearing Company	Thailand	38	38
Widex Columbia SAS	Columbia	30	20
Hear-Mart Holdings LLC.	USA	49	49
Audiology Associates of Westchester LLC	USA	49	49
Smartcare LLC	USA	10	10
Widex Servicios Technico S.A.	Spain	30	30
Widex Audifonos S.A.	Spain	30	30
Instituto Auditivo Widex C.A.	Venezuela	30	44
Widex Macau Hearing & Speech Centre Ltd.	Macau	49	49
Subsidiary of Sivantos Holding Singapore Pte. Ltd.			
Sivantos Pte. Ltd.	Singapore	100	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Sivantos Pte. Ltd.			
EMEA-LA			
Sivantos Holding Germany GmbH	Germany	100	100
Sivantos A/S	Denmark	100	100
Oorwerk B.V.	Netherlands	100	100
Oorwerk den Haag B.V.	Netherlands	100	100
Hoortechnish Centrum Schagen B.V	Netherlands	100	100
Sivantos Isitme Cihazlari Sanayi Ve Ticaret A.S.	Turkey	100	100
Sivantos Soluções Auditivas Ltda.[2]	Brazil	-	100
Sivantos Europe GmbH	Germany	100	100
Sivantos NewCo GmbH	Germany	100	-
Bloom Hörakustik GmbH	Austria	100	100
WS Audiology Spain S.A. (*formerly AS IBERICA Soluciones Auditivas S.L.U.*)	Spain	100	100
Sivantos (RUS) LLC (*dormant*)[4]	Russia	100	100
Biotone Technologie SAS	France	100	100
North America			
WS Audiology Mexico S.A. de C.V.	Mexico	100	-
Asia-Pacific			
Sivantos K.K.	Japan	100	100
Hearing Express K.K. (formerly audibene K.K.)	Japan	100	100
WS Audiology Korea Limited (*formerly Sivantos Limited*)[1]	Korea	100	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Sivantos Holding Germany GmbH			
Sivantos GmbH	Germany	100	100
Subsidiaries of Sivantos GmbH			
EMEA-LA			
AS-AUDIO SERVICE GmbH	Germany	100	100
Signia GmbH	Germany	100	100
Sivantos Kft.	Hungary	100	100
Sivantos AG[3]	Switzerland	-	100
Sivantos AS	Norway	100	100
Sivantos s.r.o	Czech Republic	100	100
Sivantos Sp. z o.o.	Poland	100	100
Sivantos S.r.l	Italy	100	100
Sivantos S.A.S.	France	100	100
Sivantos Limited	UK	100	100
WS Audiology South Africa Pty Ltd (*formerly Sivantos (Pty) Ltd*)[6]	South-Africa	100	100

Notes

5.10 Companies in the WS Audiology A/S Group (cont'd)

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Subsidiaries of Sivantos GmbH			
North America			
Sivantos, Inc.	USA	100	100
Audiology Distribution, LLC	USA	100	100
HearX West, LLC	USA	50	50
HearX West, Inc.	USA	100	100
HearUSA IPA, Inc.	USA	100	100
WS Audiology Canada Inc (*formerly Sivantos Inc.*)[5]	Canada	100	100
Shoebox, Inc.	Canada	100	100
TruHearing, Inc.	USA	100	100
TruHearing IPA LLC	USA	100	100
Hearing Care Solutions, Inc	USA	100	100
Harmony Hearing Services LLC	USA	100	100
MEDPlus Health Solutions LLC	USA	100	100
Clearwater Clinical Inc	USA	-	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Asia-Pacific			
Sivantos (Suzhou) Co. Ltd.	China	100	100
Sivantos India Pvt. Ltd	India	100	100
WS Audiology ANZ Pty Ltd (*formerly Sivantos Pty Ltd*)[7]	Australia	100	100
Subsidiaries of Sivantos NewCo GmbH			
audibene GmbH	Germany	100	100
audibene GmbH	Switzerland	100	100
Audiocare Hearing Experts Malaysia Sdn. Bhd.	Malaysia	100	100
audibene B.V.	Netherlands	100	100
Ihre Hörgeräte Beratung GmbH	Germany	100	100
Hear.com – Simply Good Hearing Inc	Canada	100	100
Hearing Experts (Thailand) Co. Ltd. (*under liquidation*)	Thailand	100	100

Company	Country	30 Sept. 2021 Equity Interest %	30 Sept. 2020 Equity Interest %
Other equity investments			
Koden Co., Ltd.	Japan	43	43
Kikoeno Soudanshitsu Co., Ltd.	Japan	50	50
Kanto Hochouki Co., Ltd.	Japan	25	25
RAR Comercio e Servicos em Aparelhos Auditivos Ltda	Brazil	-	20
PR Comercio e Servicos em Aparelhos Auditivos Ltd	Brazil	-	20
WS Audiology Mexico S.A. de C.V.	Mexico	100	-
Subsidiaries of Hear.com N.V.			
Hear.com Korea Limited	Korea	100	100
Soundrise Hearing Solutions Private Limited	India	100	100
hear.com USA Parent LLC	USA	100	-
hear.com, LLC	USA	100	100

1 Widex Korea Ltd was merged into WS Audiology Korea Limited during 2020/21.
2 Sivantos Soluções Auditivas Ltda was merged into WS Audiology Solucuoes Auditiva Ltd. during 2020/21.
3 Sivantos AG was merged into WS Audiology Switzerland during 2020/21
4 Sivantos (RUS) LLC and Widex OOO LLC merged their assets and liabilities into WSA RUS LLC during 2020/21
5 Widex Canada Ltd was merged into WS Audiology Canada Inc during 2020/21
6 Widex South Africa Pty. Ltd. was merged into WS Audiology South Africa Pty Ltd during 2020/21
7 Widex Australia Pty. Ltd. was merged into WS Audiology ANZ Pty Ltd during 2020/21

Notes

5.11 Significant events after the balance sheet date

On 22 September 2021, the Group entered into a Sales and Purchase agreement to purchase 51% interests in 4 companies, namely Hangzhou V Hearing, Hangzhou Miaoyin Medical Equipment, Suzhou Fenbei and Zhejiang Longkang. The Group has not consolidated the results of these entities as control of these entities have not passed over from the sellers to the Group as of 30 September 2021.

On 8 November 2021 Group CFO Søren Westh Lonning stepped down to fully focus on recovering from back pain issues. He was replaced by Michael Tyroller, who took on the role as interim Group CFO on 8 November.

There have been no events after the balance sheet that would be expected to influence the economic decisions that users make on the basis of these financial statements.

5.12 Approval of the consolidated financial statements

The annual report for 2020/21 of WS Audiology A/S was approved by the Board of Directors and authorized for issue on 9 December 2021.

Contents

Income Statement

EURm	Note	30 Sept. 2021	30 Sept. 2020
General and administration expenses		(0.9)	(1.2)
Operating loss before tax		**(0.9)**	**(1.2)**
Income taxes	2.1	0.6	–
Loss for the year		**(0.3)**	**(1.2)**

Balance Sheet

EURm	Note	30 Sept. 2021	30 Sept. 2020
Assets			
Investments in subsidiaries	3.1	3,985.5	3,985.5
Total non-current assets		**3,985.5**	**3,985.5**
Current income tax receivables		0.4	-
Cash		0.2	-
Total current assets		**0.6**	-
Total assets		**3,986.1**	**3,985.5**
Equity and Liabilities			
Share capital	4.1	100.0	100.0
Other reserves		3,885.5	3,885.5
Accumulated losses		(2.1)	(1.8)
Total equity attributable to the shareholders of WS Audiology A/S		**3,983.4**	**3,983.7**
Other liabilities		–	0.1
Total non-current liabilities		**–**	**0.1**
Other current financial liabilities		0.4	–
Amounts due to related parties		2.3	1.7
Total current liabilities		**2.7**	**1.7**
Total equity and liabilities		**3,986.1**	**3,985.5**

Statement of Cash Flows

EURm	Note	30 Sept. 2021	30 Sept. 2020
Operating activities			
Loss for the year		**(0.3)**	**(1.2)**
Income tax expense, net		(0.6)	-
Cash flow from operating activities before changes changes in working capital		**(0.9)**	**(1.2)**
Changes in other liabilities		0.3	–
Change in amounts due to related partyes		0.6	1.2
Cash flow from operating activities before financial items and tax		**–**	**–**
Income taxes received, net		0.2	–
Cash flow from operating activities		**0.2**	**–**
Investing activities			
Capital contribution to subsidiaries		–	(50.0)
Cash flow used in investing activities		**–**	**(50.0)**
Financing activities			
Increase in capital reserve and issuance of new shares		–	50.0
Cash flow from financing activities		**–**	**50.0**
Net cash flow		**0.2**	**–**
Cash and cash equivalents, beginning of year		–	–
Cash and cash equivalents, end of year		**0.2**	**–**

Statement of Changes in Equity

EURm	Share capital	Capital Reserve	Accumulated losses	Total equity
Equity at 1 October 2019	**100.0**	**3,835.5**	**(0.6)**	**3,934.9**
Issuance of new shares	*	–	–	*
Increase in capital reserve	–	50.0	–	**50.0**
Loss for the year	–	–	(1.2)	**(1.2)**
Equity at 30 September 2020	**100.0**	**3,885.5**	**(1.8)**	**3,983.7**
Loss for the year	–	–	(0.3)	**(0.3)**
Equity at 30 September 2021	**100.0**	**3,885.5**	**(2.1)**	**3,983.4**

*Amount less than EUR 0.1 mil

Notes

1 Basis of preparation

The parent financial statements for WS Audiology A/S have been prepared in accordance with IFRS as adopted by the European Union (EU) and further requirements in the Danish Financial Statements Act.

The parent financial statements are presented in Euros (EUR) which is the functional currency of WS Audiology A/S. All values are rounded to the nearest million (EUR) with one decimal, except where indicated otherwise.

2 Results of the year

2.1 Income taxes

EURm	30 Sept. 2021	30 Sept. 2020
Income taxes		
Current tax for the year	0.2	–
Deferred tax for the year	0.4	–
Total	**0.6**	**–**
Reconciliation of effective tax rate		
Danish tax rate	22%	22%
Expected income tax expense	0.2	(0.3)
Adjustment of tax with respect to prior years	0.4	–
Expenses not deductible	–	0.3
Total	**0.6**	**–**

3 Operating assets and liabilities

3.1 Investment in subsidiaries

EURm	30 Sept. 2021	30 Sept. 2020
Capital contributions to subsidiaries	3,985.5	3,985.5

Group companies are listed on Note 5.10 of the Group financial statements.

4 Other disclosures

4.1 Outstanding shares

For more information regarding outstanding shares, please refer to Note 4.1 in the consolidated financial statements.

4.2 Related parties

T&W Medical A/S is the parent entity and ultimate parent controlling WS Audiology A/S. There have been no transactions with subsidiaries or other related parties during the year besides related party balances at market rates.

4.3 Fees paid to the auditor appointed at the Annual General Meeting

Fees paid to Deloitte for assurance related services for the year ended 30 September 2021 was EUR 0.1 million (2020: EUR 0.5 million).

4.4 Fees paid to the Board of Directors

Please refer to Note 5.2 in the Consolidated Financial Statements for fees paid to the Board of Directors of WS Audiology A/S.

4.5 Significant events after the balance sheet date

There have been no events after the balance sheet date that would be expected to influence the economic decisions that users make on the basis of these financial statements.

4.6 Approval of the financial statements

The annual report for 2020/21 of WS Audiology A/S was approved by the Board of Directors and authorized for issue on 9 December 2021.

Entity information

Entity
WS Audiology A/S
Nymøllevej 6
3540 Lynge

Business Registration No (CVR): 40296638
Founded: 28.02.2019
Registered in: Allerød
Financial year: 01.10.2020 – 30.09.2021

Board of Directors
Marco Gadola, Chair
Jan Tøpholm, Vice-Chair
Adam Westermann
Egbertus Adrianus Johannes van Acht
Jes Carøe Munk Hansen
Julian Tøpholm
Karen Naomi Prange
Kasper Grundtvig Knokgaard
Malou Aamund
Marcus Eckart Friedrich Karl Brennecke

Executive Board
Eric Alain Bernard, Chief Executive Officer
Søren Westh Lonning, Chief Financial Officer

Auditors
Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 København S

GRI index

GRI index

Disclosure Number	Aspect	Page or comments
Organizational profile		
102-1	Name of the organization	p1
102-2	Activities, brands, products, and services	p17, 20-22
102-3	Location of headquarters	Lynge Denmark
102-4	Location of operations	p4
102-5	Ownership and legal form	Privately held stock corporation
102-6	Markets served	p4
102-7	Scale of the organization	p11, 68
102-8	Information on employees and other workers	WS Audiology Group employs 11,844 employees across all entities and countries. The following breakdown data includes Audibene, TruHearing, CommuniCare and Shoebox. 3 main regions - Asia Pacific, US, and the rest. We employed 3,322 employees in APAC (78.7% permanent and 21.3% temporary), 1,670 employees in US (98.9% permanent and 1.1% temporary) and 4,486 employees in EMEA-LA-CA (88.9% permanent and 11.1% temporary). 3 main groups of employees - White Collars (68%), Manufacturing Operators (14%) and Retail Employees (17%). 8,223 permanent employees, incl. 44.3% male and 55.7% female. 1,217 temporary employees, incl 30.9% male and 69.1% female. 9,287 full time employees, incl. 42.4% male and 57.6% female. 153 part time employees, incl. 51.5% male and 48.4% female.
102-9	Supply chain	p36
102-10	Significant changes to the organization and its supply chain	p44, 104
102-11	Precautionary Principle or approach	We are committed to the UNGC Ten Principles, which includes the precautionary approach.
102-12	External initiatives	p6
102-13	Membership of associations	p131
Strategy		
102-14	Statement from senior decision-maker	p5-6
102-15	Key impacts, risks, and - opportunities	p39-40, p57-59
Ethics and integrity		
102-16	Values, principles, standards, and norms of behavior	p27
102-17	Mechanisms for advice and concerns about ethics	p35

Disclosure Number	Aspect	Page or comments
Governance		
102-18	Governance structure	p53
102-19	Delegating authority	p53
102-20	Executive-level responsibility for economic, environmental, and social topics	Chief Quality and Regulatory Affairs Officer is overall responsible for Sustainability (incl. economic, environmental, and social topics). This role reports directly to the President and CEO.
102-21	Consulting stakeholders on economic, environmental, and social topics	p39-40
102-22	Composition of the -highest governance body and its committees	p54-55 As of 30 September 2021, Average tenure of Board of Directors was 2 years. 9 members of the age group of 30-60. 1 member of the age group above 60. No directors represent other under-represented social groups. One member of Board of Directors closely guides WS Audiology on sustainability.
102-23	Chair of the highest governance body	p54
102-24	Nominating and selecting the highest governance body	The members of the Board of Directors are chosen based on their experience and qualifications as well as to achieve diversity in regard to nationality and gender mix.
102-25	Conflicts of interest	p54-55 Conflict of Interest Policy. A process has been established to ensure that conflicts of interest are avoided. Each WS Audiology employee has a duty to make business decisions in the interest of WS Audiology and not be influenced by their own personal interests. For senior employees, the disclosure will be done on an annual basis. Conflicts of interest for senior employees are disclosed to Group Management and/or the Board of Directors.
102-26	Role of highest governance body in setting purpose, values, and strategy	p53
102-27	Collective knowledge of highest governance body	No measures
102-28	Evaluating the highest governance body's performance	No evaluation
102-29	Identifying and managing economic, environmental, and -social impacts	p53
102-30	Effectiveness of risk management processes	p53
102-31	Review of economic, environmental, and social topics	p53
102-32	Highest governance body's role in sustainability reporting	p53
102-33	Communicating critical concerns	p53
102-34	Nature and total number of critical concerns	None

Disclosure Number	Aspect	Page or comments
102-35	Remuneration policies	We reward our employees in accordance with market benchmarks, seniority levels and role. Employees' renumeration packages are made up of different components including fixed salary, allowances, commissions, short term incentives (based on individual and company performance) and long-term incentives. WS Audiology adheres to the local statutory contribution for each employee. We follow a strict renumeration process where 2-level approvals are required for salary changes (known as the 4 eyes principle). For senior executives, salary is approved via the remuneration committee, which comprises of the selected board members. For the Global Leadership Team (GLT), salary changes are approved by the Chief HR Officer and the President and CEO. WS Audiology makes use of salary grading/evolution to ensure that we are on par with market conditions to attract the best talents in our competitive environment. The grading/evaluation exercises are supported and based on Mercer Salary Grading framework. In addition to compensation, our employees also enjoy a wide variety of benefits including medical, hospitalization, screenings, as well as subsidies such as hearing aids for themselves and their immediate family members.
102-36	Process for determining remuneration	See 102-35
102-37	Stakeholders' involvement in remuneration	See 102-35
102-38	Annual total compensation ratio	Data not for disclosure.
102-39	Percentage increase in annual total compensation ratio	Data not for disclosure.

Disclosure Number	Aspect	Page or comments
Stakeholder engagement		
102-40	List of stakeholder groups	p39-40 Stakeholders are selected based on the stakeholders' interests in WSA and stakeholders' influence on WSA. Stakeholder identification and prioritization is an integrated part of our materiality assessment.
102-41	Collective bargaining agreements	15% of all employees are covered by collective bargaining agreements.
102-42	Identifying and selecting stakeholders	p39-40
102-43	Approach to stakeholder -engagement	p39
102-44	Key topics and concerns raised	p40
Reporting practice		
102-45	Entities included in the consolidated financial statements	p75, 112-116
102-46	Defining report content and topic Boundaries	The reporting content and topic is defined based on materiality assessment.
102-47	List of material topics	p40
102-48	Restatements of information	None
102-49	Changes in reporting	None
102-50	Reporting period	1st October 2020 to 30th September 2021
102-51	Date of most recent report	30th of June 2021, WSA Sustainability Report FY19-20
102-52	Reporting cycle	Annually

Disclosure Number	Aspect	Page or comments
102-53	Contact point for questions regarding the report	Please call +45 44 35 56 00 and be directed to Sustainability Team
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option
102-55	GRI content index	GRI content index
102-56	External assurance	Deloitte is appointed to conduct the third party assurance for this report. Deloitte is also the assurance provider for WSA financial report. See page 66 for assurance report.
GRI 205: Anti-corruption 2016		
103-1	Explanation of the material topic and its Boundary	p34
103-2	The management approach and its components	p34
103-3	Evaluation of the management approach	For the last financial year, there has not been any substantiated breaches of corruption or bribery incidents. No reports were made to the Ombudsman on corruption or bribery incidents in the last financial year.
205-3	Confirmed incidents of corruption and actions taken	Zero incidents.
GRI 206: Anti-competitive behavior 2016		
103-1	Explanation of the material topic and its Boundary	p35
103-2	The management approach and its components	p35

Disclosure Number	Aspect	Page or comments
103-3	Evaluation of the management approach	For the last financial year, there has not been any substantiated breaches. No reports were made to the Ombudsman in the last financial year.
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	No legal actions pending or completed.
GRI 302: Energy 2016		
103-1	Explanation of the material topic and its Boundary	p33, 45
103-2	The management approach and its components	p31, 33
103-3	Evaluation of the management approach	p31, 45 We evaluate the management approach of material topics through quantified KPIs and internal audits or reviews.
302-1	Energy consumption within the organization	p45
GRI 305: Emissions 2016		
103-1	Explanation of the material topic and its Boundary	p33, 46
103-2	The management approach and its components	p31, 33
103-3	Evaluation of the management approach	p31, 46
305-1	Direct (Scope 1) GHG emissions	p46

Disclosure Number	Aspect	Page or comments
305-2	Energy indirect (Scope 2) GHG	p46
305-3	Other indirect (Scope 3) GHG emissions	p46
GRI 306: Waste 2020		
103-1	Explanation of the material topic and its Boundary	p31, 45
103-2	The management approach and its components	p31
103-3	Evaluation of the management approach	p31, 45
306-1	Waste generation and significant waste-related impacts	The waste from our own operation includes waste from production, packaging waste from goods received, and office waste. The downstream packaging waste is also a material topic for us.
306-2	Management of significant waste-related impacts	WS Audiology gradually implements the concept of lean production in the production process to control the amount of waste. We monitor waste production every month, identify abnormal data in time and take control measures. Qualified waste disposal suppliers handle our waste legally. p31
306-3	Waste generated	p45
GRI 307: Environmental compliance 2016		
103-1	Explanation of the material topic and its Boundary	p31
103-2	The management approach and its components	p31
103-3	Evaluation of the management approach	p31, 45

Disclosure Number	Aspect	Page or comments
307-1	Non-compliance with environmental laws and regulations	None
GRI 308: Supplier environmental assessment 2016		
103-1	Explanation of the material topic and its Boundary	p36
103-2	The management approach and its components	p36
103-3	Evaluation of the management approach	p50
308-2	Negative environmental impacts in the supply chain and actions taken	p36
GRI 401: Employment 2016		
103-1	Explanation of the material topic and its Boundary	p26
103-2	The management approach and its components	p26
103-3	Evaluation of the management approach	p48
401-1	New employee hires and employee turnover	WS Audiology hired a total of 2,494 employees in the reporting period of which 61.5% are female and 38.5% are male. The regional breakdown and age group breakdown of the new hires are similar to the Group distribution. WS Audiology has a total annualized attrition rate of 21.7% of which voluntary attrition rate stands at 14% over a 12 month period. A total of 2,003 employees had left WS Audiology over the 12 months period.

Disclosure Number	Aspect	Page or comments
GRI 403: Occupational health and safety 2018		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	p48
403-1	Occupational health and safety management system	p29
403-2	Hazard identification, risk assessment, and incident investigation	WS Audiology established the Standard Operating Procedure (SOP) of "EH&S Aspects Impacts and Hazards Risks Assessment" to systematically identify and assess risks in the workplace. The SOP is reviewed at least once a year, and relevant training is carried out to ensure that the evaluators have the relevant competence. In addition, employees are encouraged to report Near Miss incidents at work to identify risks in a wider scope. Our SOP follows ISO 14001 and OHSAS 18001.
403-3	Occupational health services	WS Audiology has established a risk identification and evaluation system to determine the major risks and control measures.
403-4	Worker participation, consultation, and communication on occupational health and safety	WS Audiology has implemented the EHS management system by establishing an EHS committee, electing/appointing employee representatives, holding regular EHS committee meetings, communicating EHS related information, and ensuring consultation and participation of workers
403-5	Worker training on occupational health and safety	WS Audiology organizes a variety of training programs to ensure that employees are aware of the risks and precautions associated with their jobs, as well as emergency response actions.
403-6	Promotion of worker health	In addition to the basic and mandatory medical insurance, WS Audiology also purchases additional commercial insurance for its employees to provide additional protection for their physical and mental health.

Disclosure Number	Aspect	Page or comments
403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	Potential fire hazards can cause significant negative occupational health and safety impacts. WS Audiology protects employees against these risks by setting up fire alarm systems and organizing relevant training and drills.
403-9	Work-related injuries	p48
GRI 405: Diversity and equal opportunity 2016		
103-1	Explanation of the material topic and its Boundary	p28
103-2	The management approach and its components	p28
103-3	Evaluation of the management approach	p48
405-1	Diversity of governance bodies and employees	p48. Refer to 102-22 (124)
GRI 406: Non-discrimination 2016		
103-1	Explanation of the material topic and its Boundary	Own operation and supply chain. p29
103-2	The management approach and its components	We are committed to non-discriminiation and we expect our suppliers to do the same. This is included in our company policies. Our employees can raise complaints through our grievance mechanism. p29
103-3	Evaluation of the management approach	We evaluate the management of the discrimination topic through employee engagement surveys. Supplier's compliance is evaluated through audits.
406-1	Incidents of discrimination and corrective actions taken	No legal actions or complaint registered with WS Audiology or competent authorities through a formal process including WS Audiology grievance mechanism.

Disclosure Number	Aspect	Page or comments
GRI 407: Freedom of association and collective bargaining 2016		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	p29
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	p29, 36
GRI 408: Child labor 2016		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	p29
408-1	Operations and suppliers at significant risk for incidents of child labor	p29, 36
GRI 409: Forced or compulsory labor 2016		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	p29
409-1	Operations and suppliers at significant risk for incidents of forced or compulsory labor	p29, 36 WSA UK Modern Slavery Act Statement FY19-20
GRI 412: Human rights assessment 2016		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	p29
412-1	Operations that have been subject to human rights reviews or impact assessments	p29, 59
412-2	Employee training on human rights policies or procedures	Human rights training is planned as a part of the WS Audiology Code of Conduct training in the financial year 2021/2022. The training is postponed from financial year 2020/2021.
GRI 413: Local communities 2016		
103-1	Explanation of the material topic and its Boundary	p29
103-2	The management approach and its components	p29
103-3	Evaluation of the management approach	Our communication department evaluates the quality of local community engagement activities and communicate high quality engagement stories to encourage other colleagues.

Disclosure Number	Aspect	Page or comments
413-2	Operations with significant actual and potential negative impacts on local communities	Our operation is located in commercial building, with very limited negative impact on local communities, i.e. no human rights (incl. land rights) violaiton. Water is sourced from municipality water system, wastes are handled by qualified vendors, and see more about GHG emission on page 33.
GRI 414: Supplier social assessment 2016		
103-1	Explanation of the material topic and its Boundary	p36
103-2	The management approach and its components	p36
103-3	Evaluation of the management approach	p50
414-2	Negative social impacts in the supply chain and actions taken	p36, 50
GRI 416: Customer health and safety 2016		
103-1	Explanation of the material topic and its Boundary	p37
103-2	The management approach and its components	p37
103-3	Evaluation of the management approach	p37
416-1	Assessment of the health and safety impacts of product and service categories	100% product and service categories for which health and safety impacts are assessed for improvement.
GRI 417: Marketing and labeling 2016		
103-1	Explanation of the material topic and its Boundary	p37
103-2	The management approach and its components	p37
103-3	Evaluation of the management approach	p37
417-2	Incidents of non-compliance concerning product and service information and labeling	p37
GRI 418: Customer privacy 2016		
103-1	Explanation of the material topic and its Boundary	p38
103-2	The management approach and its components	p38
103-3	Evaluation of the management approach	p38
418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data	WS Audiology has not recorded non-compliance with data privacy regulations, and no fines have been imposed on WS Audiology.
GRI 419: Socioeconomic compliance 2016		
103-1	Explanation of the material topic and its Boundary	p27
103-2	The management approach and its components	p27
103-3	Evaluation of the management approach	p27
419-1	Non-compliance with laws and regulations in the social and economic area	WS Audiology has not recorded non-compliance with regulations in the social and economic area, and no fines have been imposed on WS Audiology.

Membership Associations

Partnerships for maximizing our impact

Through membership asociation and partnership with industry peers, we maximize our impact on society.

Germany	Bundesverband der Hörsysteme-Industrie (BVHI)
France	Audition Solidarité
Canada	Hearing Industry Association of Canada
United Kingdom	The British Irish Hearing Instrument Manufacturers Association (BIHIMA)
Denmark	Leverandørforeningen for høreapparater
Sweden	Svensk Hörsel
Norway	Melanor
Belgium	Bemedtech
Netherland	GAIN
Italy	Confindustria Dispositivi Medici (Industry associacion)
	Danish Business Club Italy (Danish Embassy in Rome)
Portugal	Associação Portuguesa de dispositivos Médicos (APORMED)
Swiss	Hearing System Manufacturers (HSM)
	Swiss Medtech
Turkey	Turkish Hearing Aids Manufacturers and Importers Association
Russia	SurdoAlliance
Poland	TECHNOMED (Association of Medical Devices Manufacturers)
	Polish Association of Hearing Care professionals (PSPS)
Hungary	National Association of Hearing Aid Manufacturers' Representatives and Distributors
	Distributors for Health Alliance
South Africa	South African Medical Technology Industry Association (SAMED)
Argentina	Argentine Chamber of Supplies, Implantables and Medical Equipment (CADIEM)
Mexico	Mexico City Services and Tourism Chamber of Commerce
	Organización Mexicana de la Audición S.C. (OMA)
Slovenia	Chamber of commerce section of medical device dealers
Japan	JHIMA (Japan Hearing Instruments Manufacturers Association)
	JHIDA (Japan Hearing Instruments Dispensers Association)
Australia	Hearing Care Industry Association (HCIA)
India	Hearing Aid Association India
Europe	European Hearing Instrument Manufacturers Association (EHIMA)
USA	Hearing Industries Association

"

Our dedicated employees steered WS Audiology safely and successfully through the challenges faced by all of us in the past financial year, enabling us to continue to deliver on our purpose of unlocking human potential by making wonderful sound part of everyone's life.

Eric Bernard
President and CEO

WS Audiology
Nymøllevej 6, 3540 Lynge
Denmark

wsa.com
Phone: +45 44 35 56 00
Phone: +65 6370 9666

Sivantos Pte. Ltd
18 Tai Seng Street
Singapore 539775

WSAudiology