

Corporate social responsibility at Bang & Olufsen

This section represents Bang & Olufsen's statutory reporting on CSR pursuant to section 99a of the Danish Financial Statements Act (*Årsregnskabsloven*). An extract from it can be found in the company's 2011/12 annual report.

Business-driven CSR

The Bang & Olufsen logo is a guarantee of quality, which it has been since the inception of the company in 1925. This not only applies to providing high-quality products to customers, but also in relation to the way of conducting business.

Naturally, Bang & Olufsen recognises the UN and ILO declarations on human rights, labour rights, the environment and anti-corruption, for which reason we have chosen to structure our CSR work and reporting according to the UN's Global Compact.

In 2012/13, Bang & Olufsen intends to undertake new activities to strengthen the CSR efforts: Initiation of independent external supplier audits, assessments of the need for tier 2 supplier assessments, expansion of the company's internal code of ethics to include the sales organisation, establishment of a whistleblowing function.

Bang & Olufsen's CSR policy

In order to formalise and elucidate the CSR principles followed by the company, Bang & Olufsen adopted a CSR policy in 2011/12.

The CSR policy underlines that Bang & Olufsen wants to be a reliable and ethical responsible business partner to suppliers and other stakeholders. The company will contribute to improve people's conditions and provide its employees with a framework that will motivate them and give them a sound working environment, and it wants to show concern for the environment, both in its own activities and in the footprint left by the products in a life-cycle perspective. Within its sphere of influence, the company is willing to assume a share in the responsibility for a sustainable global development.

Bang & Olufsen's CSR policy covers all business units and facilities in the group, and the company strives to ensure that suppliers and other business partners act in accordance with the intentions of the policy.

In line with the UN's Global Compact, our CSR policy is divided into four main areas: human rights, labour rights, the environment and anti-corruption.

CSR efforts

Bang & Olufsen has a systematic approach to CSR and is certified according to ISO 9001 (quality management), TS16949 (technical standard for quality in the automotive industry), ISO 14001 (environmental management) and OHSAS 18001 (occupational health and safety management). The management systems contribute to focusing the work on the areas with the greatest potential for improvement.

The 2011/12 adoption of a CSR policy ensures that efforts within human rights, labour rights and anti-corruption are prioritised on the same terms as the other focus areas

The CSR work covers four important focus areas:

- Minimisation of the impact on the external environment through process optimisation, e.g. reduction of the energy consumption and waste volumes at the facilities.
- Environmental improvements through product development, including reduction of the products' electricity consumption and enhanced possibilities of recycling components.
- Improvement of occupational health and safety, e.g. by reducing the number and severity of industrial injuries.
- Safeguarding of human and labour rights for the employees of the component suppliers, which are primarily located in Asia.

To support its CSR policy, Bang & Olufsen has implemented a code of conduct for suppliers setting out the company's values in key areas such as the environment, human rights, labour rights and anti-corruption so that they are clearly communicated to suppliers and other stakeholders.

Finally, the company has implemented an internal code of ethics with guidelines for, among other things, the exchange of gifts, negotiation principles and conflicts of interest.

Group targets and results

The adoption of a CSR policy for the entire Group was a significant result in 2011/12. Good results were also achieved within the areas of environment and work environment even though all formal targets were not achieved.

In 2011/12, four CSR targets for the group were set up. They all related to the environment and occupational health and safety, as these areas are of particular relevance in an electronics company.

Group targets for the 2011/2012 financial year

Policy area	Subject	Target	Result 2011/12
Human- and labour rights	Reduction of the number of industrial injuries per 1 million working hours	Frequency not to exceed 3.5	Frequency of 4.3
Human- and labour rights	Reduction of the number of hours of absence per 1,000 working hours due to industrial injuries	Severity not to exceed 0.154	Severity of 0.095
Environment	Reduction of Bang & Olufsen's own total consumption of natural gas and electricity	Reduction of 5% per year measured in kWh/DKK earned	Reduction of 10%
Environment	Increase of the recycling rate for Bang & Olufsen's own waste	Recycling rate increase of 5%	Recycling rate increase of 6%

In 2012/13 Bang & Olufsen continues improving the work environment and reducing environmental impact of the company's activities. The company expects to establish a whistleblowing function in 2012/13.

Human and labour rights

Bang & Olufsen strives in all matters within the group's control to support and respect the protection of internationally declared human rights.

Bang & Olufsen endeavours to display corporate social responsibility of the highest level in relation to its own employees and working conditions at the company's suppliers. It goes without saying that Bang & Olufsen supports the abolition of child labour and forced labour, as well as dissociating itself from workplace discrimination.

Bang & Olufsen attaches great importance to freedom of association and recognises the right to negotiate collectively. The company wants to be an accommodating workplace in which the individual employee thrives and has the chance to develop and establish a good work-life balance.

Responsible supplier control

Bang & Olufsen's most important work in relation to human and labour rights is done in collaboration with the company's suppliers. Bang & Olufsen works actively to ensure that, for example, no suppliers use child labour or forced labour, or generate unnecessary environmental impact during the production of materials for Bang & Olufsen.

As part of its work on responsible supplier control, Bang & Olufsen has drawn up a code of conduct setting out the company's values in key areas such as the environment and climate, human rights, labour rights and anti-corruption so that they are clearly communicated to suppliers and other stakeholders.

All Bang & Olufsen's direct suppliers must sign the *Code of Conduct* and with it the requirements that Bang & Olufsen expects each and every supplier to

live up to. At the same time, by signing the document, the direct suppliers must ensure that their suppliers, in turn, abide by the same guidelines and regulations.

A risk analysis of Bang & Olufsen's suppliers is carried out once a year and the results are used to focus attention on suppliers considered at risk of breaching the company's *Code of Conduct*. The risk is assessed on the basis of local conditions in the supplier's home country, among other things. Such suppliers can subsequently expect to be subjected to an audit intended to identify opportunities for improving conditions, if necessary. In recent years, audits have been carried out by Bang & Olufsen's own purchasing organisation, which also assesses suppliers' CSR in day-to-day cooperation. This ensures an immediate response to any conspicuous problems.

In 2012/13, audits will be carried out in collaboration with external, independent auditors specialising in CSR. All new suppliers in high-risk countries, e.g. Southeast Asia and Eastern Europe, will undergo an external audit. An assessment will also be made in the course of the year as to whether there is a need to audit Bang & Olufsen's suppliers higher up the value chain. It is not the intention to use supplier control to break off cooperation with the supplier if an audit reveals critical irregularities. Instead, the company will initiate cooperation on action plans aimed at improving the supplier's environmental and social standards.

Working environment

Bang & Olufsen wants to create a safe and healthy working environment for its employees with the emphasis on both the physical and psychological working environments.

Bang & Olufsen's Danish activities received OHSAS 18001 certification in 2010, and the three external audits that have been carried out did not give rise to any nonconformities. One external audit has been completed in 2011/12.

Working environment is incorporated in the product right from the design and development phase, as the choices made by the product developer often have a major impact on working environment in the production phase, including materials, assembly methods and surface treatment.

Risk assessments are carried out for new equipment, new processes and production changes prior to implementation so as to minimise the risk of accidents, while action plans are drawn up for areas for improvement, ensuring, among other things, that all new recruits and employees who change job within the company are introduced to the working environment and environment. Close calls are recorded and analysed so as to reduce the risks of future accidents as much as possible.

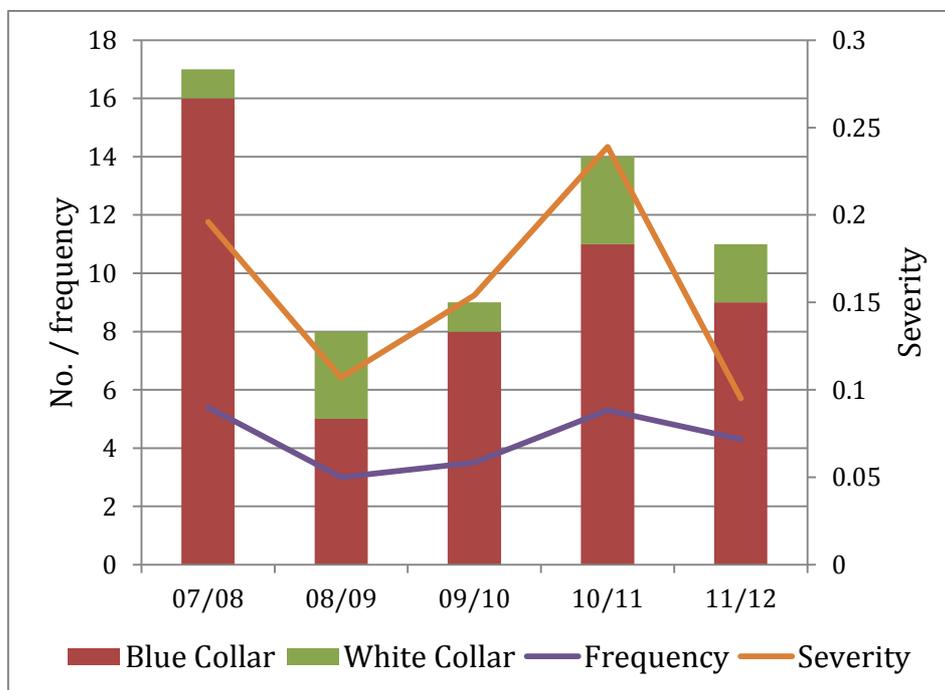
In 2011/12, in addition to the adoption of a CSR policy, two group targets were set within human and labour rights.

Policy area	Subject	Target	Result 2011/12
Human- and labour rights	Reduction of the number of industrial injuries per 1 million working hours	Frequency not to exceed 3.5	Frequency of 4.3
Human- and labour rights	Reduction of the number of hours of absence per 1,000 working hours due to industrial injuries	Severity not to exceed 0.154	Severity of 0.095

Eleven industrial injuries were recorded in 2011/12, equivalent to a frequency of 4.3. The target was a frequency of 3.5 or less. In terms of the number of injuries, the target was exceeded by two injuries. In 2010/11, the number of industrial injuries were 14 with a frequency of 5.3.

The seriousness of the injuries in terms of hours of absence per 1,000 working hours (severity) also fell in relation to the previous year, and the target of severity of 0.154 or less was achieved with a figure of 0.095. We did not succeed in meeting the target for number of injuries in 2011/12, but there was a reduction in the number of days of absence per injury.

The diagram shows changes in the number of injuries and frequency. The target is based on frequency, which is the number of injuries per 1 million working hours and therefore unaffected by the number of employees.



Preventive work to completely eliminate industrial injuries completely is of

course continuing. Group targets for the working environment will be set in 2012/13 too.

Environment

The environment is of particular importance as a CSR target area for Bang & Olufsen, and it is divided into product environment and external environment. Product environment encompasses the environmental issues linked to the company's products, such as electricity consumption in the use phase. External environment encompasses the environmental issues linked to the company's own production, such as waste and consumption of raw materials, electricity, heat and water.

Work is constantly being done to find holistic and sustainable solutions so as to ensure that considerations regarding the features, design and life of our products are in balance with impact on the environment. When our products are eventually disposed of, it must be possible to recycle as much of them as possible for use in a new life cycle.

Bang & Olufsen's Danish activities received ISO 14001 certification in 2010, and the three external audits that have been carried out did not give rise to any nonconformities. One external audit was completed in 2011/12.

The main issues in terms of the external environment are energy consumption and waste from production. The main product-related environmental issue is electricity consumption in the use phase.

Bang & Olufsen makes products with a long life, which contributes to lower resource consumption in general and less waste than in the case of products with a short life. Their design is timeless, and many homes have Bang & Olufsen products that are 20 or 30 years old. On average, a Bang & Olufsen product has a life of 10-15 years without any deterioration in sound or picture quality. Bang & Olufsen supplies spare parts for its products for up to 12 years after a product is last made. Older Bang & Olufsen products also remain in great demand, and the market for used Bang & Olufsen products is relatively large, which helps to further strengthen the Bang & Olufsen brand as offering sought-after products that last.

External environment

It is important to Bang & Olufsen that pollution from the company's activities should be kept to an absolute minimum and that production should not cause any nuisance for neighbours. There is therefore an ongoing emphasis on both new projects and follow-up on existing buildings and activities. The company always enters into a dialogue with the regulatory authorities with a view to finding the best solutions and thereby limiting pollution as much as possible.

Environmental approval under Part 5 of the Danish Environmental Protection Act (*Miljøbeskyttelsesloven*) is required for just a single Bang & Olufsen factory, which is located in Struer. The environmental approval was re-audited in 2010 and is not due to be audited again until 2020. The environmental approval relates to surface treatment and mechanical processing of aluminium. A licence has also been granted to discharge process waste water to a purification plant belonging to the factory.

There were no operating accidents in 2011/12, nor did Bang & Olufsen receive any complaints from neighbours.

One group target was set for energy consumption in production and one group target was set for the recyclability of Bang & Olufsen's waste.

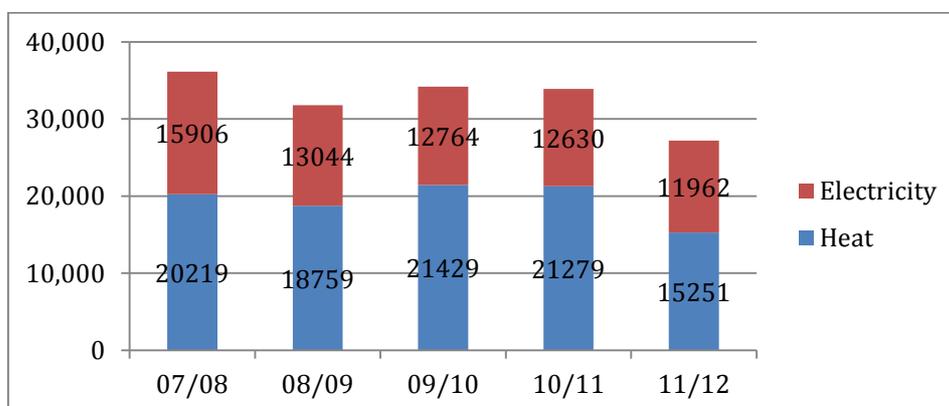
Group target and results for environment in the 2011/12 financial year

Policy area	Subject	Target	Result 2011/12
Environment	Reduction of Bang & Olufsen's own total consumption of heat and electricity	Reduction of 5% per year measured in kWh/DKK earned	Reduction of 10%

There was a marked reduction in total energy consumption. Energy consumption fell both nominally and relative to production volume. The savings were achieved by, among other things, setting up what are called BEOenergy groups among the employees, who work in a targeted way to reduce energy consumption. The BEOenergy project helps to change employees' habits when using tools and office machines, and, together with concrete initiatives such as energy optimisation for production machinery/closing times and buildings, helped Bang & Olufsen reduce energy consumption by 10% when its target had been 5%.

	kWh/DKK earned
07/08	0.46
08/09	0.68
09/10	0.47
10/11	0.42
11/12	0.37 (target: 0.39)

Definition: kWh/DKK earned = (process heat + (building heat * degree days)) + electricity consumption
DKK earned



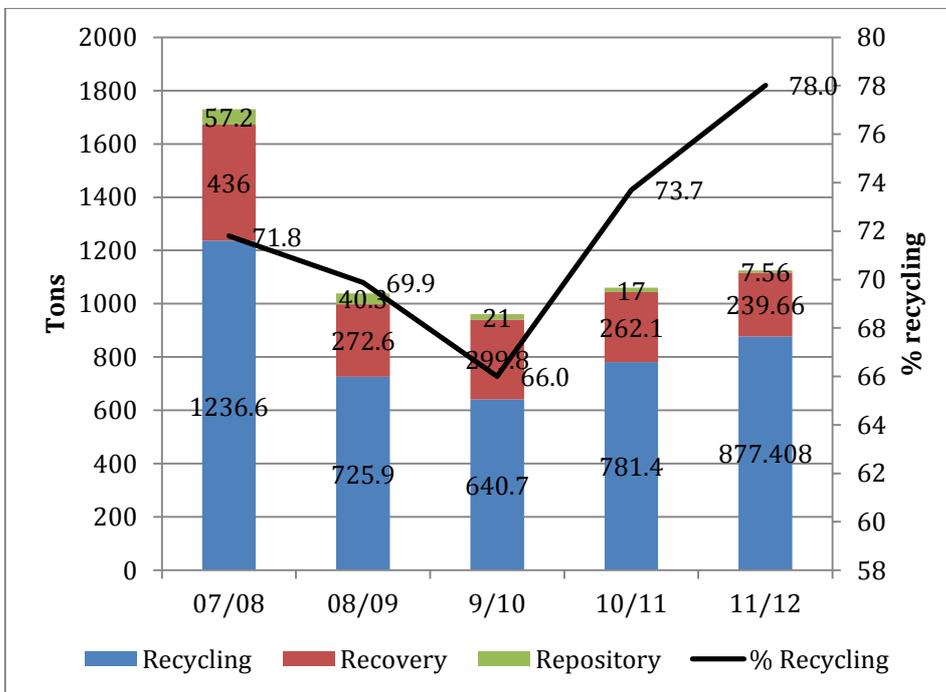
Climate and CO₂

For the last 5 years, Bang & Olufsen has reported to the Carbon Disclosure Project, which collects information on behalf of various investors regarding the work being done by listed companies to reduce carbon emissions. Targets and activities in this area are described in the sections on the external environment and product environment.

Waste from production

Bang & Olufsen cooperates actively with the company's waste buyers with a view to further optimising waste sorting at the factories so as to increase the amount of waste being recycled rather than recovered.

The following diagram shows a substantial increase in the recycling rate in 2011/12 from 74% to 78%. This represents 877 tonnes of the company's total waste of 1,125 tonnes being recycled.



Product environment

Bang & Olufsen incorporates environmental considerations in the life cycle of its products by setting comprehensive environmental requirements for products right from the product development phase.

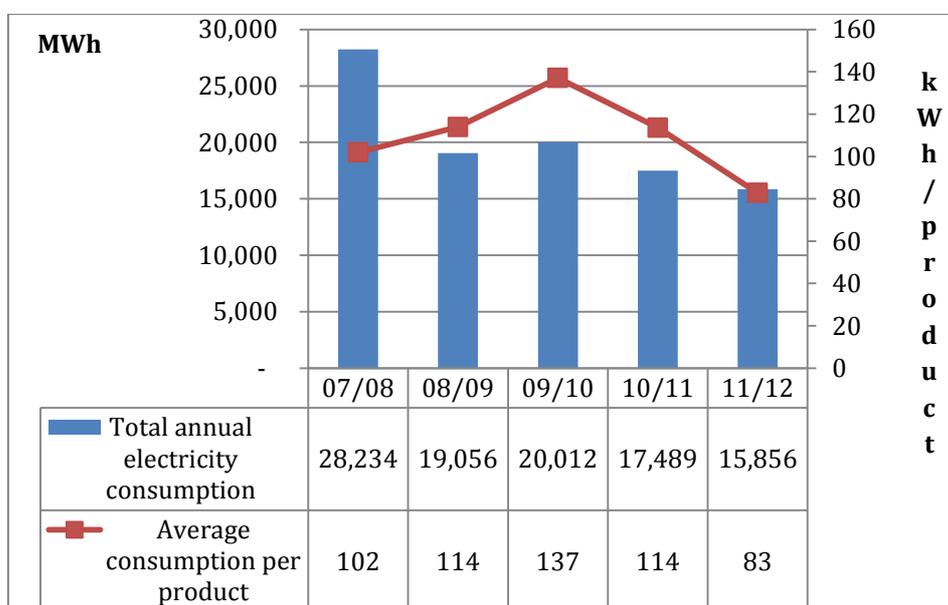
They are called mandatory requirements and ensure compliance with European directives and other legislation, including RoHS, WEEE, the Battery Directive, the Packaging Directive and various labelling schemes. In this way, Bang & Olufsen knows that the products leaving the factory comply with local legislation on all the markets where Bang & Olufsen sells products.

Electricity consumption in use phase

Electricity consumption in the use phase is a significant environmental issue

and is made up of a product's standby electricity consumption and electricity consumption when the product is in use (on mode). Bang & Olufsen's televisions automatically turn themselves off after four hours of inactivity. The results of life cycle analyses for Bang & Olufsen's products show that the greatest environmental impact is energy consumption in the customer's home. This has made it natural for Bang & Olufsen to focus its environmental efforts on, among other things, reducing standby consumption, which can be regarded as pure waste.

The following diagram shows the total annual electricity consumption for all Bang & Olufsen products sold in the 2011/12 financial year and the average electricity consumption per product. Both total electricity consumption and electricity consumption per product have fallen in the last 2 financial years. This is partly because newer television models have been upgraded with new technology, but also because the product mix has changed owing to the successful launch of the new, smaller products in the B&O Play range.



Bang & Olufsen ICEpower

Bang & Olufsen's products mainly use energy-efficient amplifiers from Bang & Olufsen ICEpower. In ordinary amplifiers, only about 20% of the input power is converted to output power. The remaining 80% is converted into heat. That is why amplifiers normally have large cooling fins to disperse the heat.

In normal use, Bang & Olufsen ICEpower reduces power consumption by 70%. In addition to Bang & Olufsen ICEpower amplifiers reducing power consumption when the unit is on, resource consumption is also reduced, as materials do not have to be used for large cooling fins.

Disposal of worn-out products

Electronic scrap is a valuable source for recycling raw materials if it is

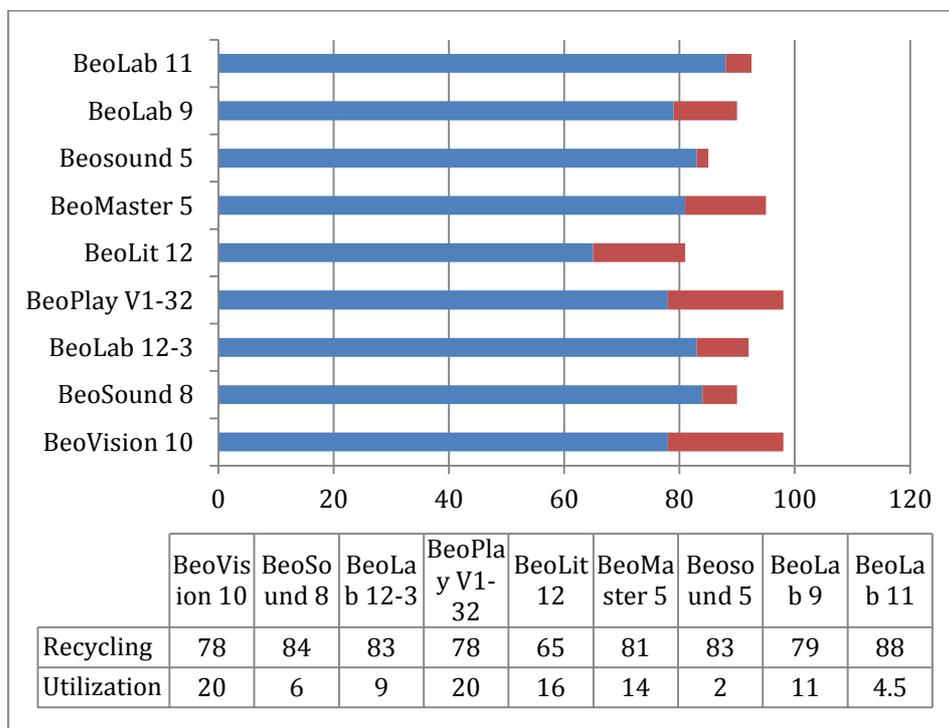
processed correctly. In much of the world, worn-out electrical and electronic products have to be collected and processed by an approved waste handler.

The product is separated into different material fractions – metal, PCBs, plastic, glass and screens – which are then used to make new raw materials. As far as possible, the materials that cannot be recycled are sent for incineration, with the energy being recovered.

Bang & Olufsen also gives thought to disposal when it designs new products. For example, all plastic components are labelled so that waste handlers can identify the type of plastic involved.

The European Waste Electrical and Electronic Equipment Directive (WEEE) requires at least 65% of all entertainment electronics collected to be recyclable, and it has to be possible to make use of a further 10% by means of incineration with energy recovery. Although the manufacturers are not directly responsible for ensuring this, when Bang & Olufsen develops new products, it has a dismantling test carried out to show how the product will be stripped down at disposal, what material fractions the product consists of and how much of the product can be recycled. Suggestions are also made for design improvements that could be used in future products. These dismantling tests show that between 75% and 86% of the material components in Bang & Olufsen's televisions can be recycled.

The figure below shows recycling and energy recovery for some of Bang & Olufsen's products.



Ethics and anti-corruption

The group strongly dissociates itself from all forms of corruption, including extortion and bribery.

In 2011/12, Bang & Olufsen adopted a CSR policy, which also includes anti-corruption but since 2005 the company has had a clear and formal code of ethics with guidelines for e.g. exchange of gifts, negotiation principles and conflicts of interest. In 2011/12, formal Group targets were not set but during 2011/12, the company has evaluated the need to update the code of ethics to extend the use in the organisation and a formal basis for decision is being prepared. During 2012/13 a whistleblowing function is expected to be established.