

BANG & OLUFSEN  
Statutory report on corporate governance

Statutory report on corporate governance, see section 107b of  
the Danish Financial Statements Act (*Årsregnskabsloven*).

1 June 2011 - 31 May 2012

This annual corporate governance report for Bang & Olufsen a/s forms part of the management's review in the 2011/12 annual report and covers the financial period 1 June 2011 to 31 May 2012. The report contains a description of the company's management structure, a review of the company's approach to the 'Recommendations for corporate governance' implemented by NASDAQ OMX Copenhagen A/S in its 'Rules for issuers of shares' and a description of the main elements in the Bang & Olufsen Group's internal control and risk management systems in connection with financial reporting.

## **Management structure**

### **Board of Directors**

The Board of Directors has overall management responsibility for the company. In keeping with current practice in Denmark, responsibility is divided between the Board of Directors and the Management Board, which are independent of each other. The Management Board handles the day-to-day management of the company, while the Board of Directors supervises the work of the Management Board and is responsible for general strategic management. The Board of Directors has currently nine members, six of whom are elected at the Annual General Meeting and three of whom are elected by the employees. The board members elected at the Annual General Meeting, including the Chairman, are all independent, with the exception of Peter Skak Olufsen. All the board members elected at the Annual General Meeting are elected for one year at a time. All the employee representatives are elected for four years at a time in accordance with current legislation. The age limit is 70.

Between six and eight board meetings are held a year, with ad hoc meetings being held as required. In 2011/12, the Board of Directors held 8 meetings.

With the exception of the employee representatives, Bang & Olufsen's board members are under an obligation to buy shares in the company equivalent to at least one year's board remuneration for an ordinary board member within 12 months of being elected and keep them for as long as they remain board members.

Information on the current shareholdings of board members can be found in note 5 to the consolidated financial statements.

### **Rules for the election of employee representatives for the Board of Directors**

Under the Danish Companies Act (*Selskabsloven*), employees in the group's Danish companies have the right to elect a number of members and alternates to the Board of Directors equivalent to half the number of board members elected by the Annual General Meeting, but not less than two members.

The employees have chosen to elect board members at group level, which means that representatives are only elected to the Board of Directors of the parent company, Bang & Olufsen a/s.

The most recent election of employees to the Board of Directors took place in June 2011 by written, secret, direct ballot. The employees elected members joined the Board of Directors immediately after the Annual General Meeting in 2011.

The employee representatives are elected for a four-year period.

If an employee representative's employment is terminated, the employee in question retires from the Board of Directors and is replaced by one of the elected alternates.

Employee representatives have the same rights, obligations and responsibilities as the other board members.

### **Committees**

The Board of Directors may appoint board committees with a view to preparing decisions and recommendations for assessment and approval by the Board of Directors. In accordance with the revised recommendations for corporate governance from the Committee on Corporate Governance in Denmark, Bang & Olufsen has appointed three board committees – a Remuneration Committee, a Nomination Committee and an Audit Committee. The committees report to the Board of Directors and each have terms of reference setting out their most important tasks and responsibilities. All the board committees are made up of independent members, with the exception of the Audit Committee, of which Peter Skak Olufsen is a member.

### **Remuneration Committee**

The Board of Directors has appointed a remuneration committee consisting of at least two board members elected by the Board of Directors. The committee is charged with the task of assisting the Board of Directors in fulfilling its obligations with regard to establishing, implementing and carrying out its remuneration policy for members of the Board of Directors and Management Board (the company's governing bodies). The current members of the Remuneration Committee are Ole Andersen (chairman, independent) and Rolf Eriksen (independent). The committee meets at least twice a year and has held two meetings in 2011/12. Our applicable remuneration policy can be found at <http://www.bang-olufsen.com/en/investors/company-information>.

### **Nomination Committee**

The Board of Directors has appointed a nomination committee consisting of at least two board members. The committee is charged with the task of assisting the Board of Directors in fulfilling its obligations with regard to i) nominating and appointing members of the Board of Directors and Management Board, ii) ensuring that the Board of Directors and Management Board are always of the proper size and made up of persons with the necessary professional qualifications and experience, and iii) carrying out regular evaluations of the results achieved by the Board of Directors and Management Board. The current members of the Nomination Committee are Ole Andersen (Chairman, independent) and Alberto Torres (Deputy Chairman, independent). The committee meets at least once a year and has held two meetings in 2011/12.

The Chairman of the Board of Directors manages a structured annual self-assessment process regarding the performance of the Board of Directors as a whole and an evaluation of the performance and competencies of the individual board members. The evaluation is carried out with a view to constantly improving the work of the Board of Directors, as well as to assess whether its composition is satisfactory in terms of competencies and whether there is a need for any further training.

The assessment process which was performed by the individual board members and Executive Management by completing a questionnaire of 79 questions regarding the work of the Chairman, competencies and composition, work practices and climate of cooperation, focus areas, cooperation with Executive Management and assessment of the individual board members. The answers were given to an external consultant who collated them before passing them onto the Chairman. The result of the evaluation process was presented to and reviewed by the Board. The result of the evaluation was very positive, and only a few areas of improvement were identified.

One area was succession planning which should be seen in the light of the recruitment of a number of key persons during the financial year. The Chairman also reviewed the assessment of the individual board members together with the respective individual.

### **Audit Committee**

The Board of Directors has appointed an audit committee consisting of at least two board members. The committee is charged with the task of assisting the Board of Directors in fulfilling its obligations with regard to financial reporting, internal control systems, the audit process and monitoring by the company of compliance with statutes, rules and the code of conduct, including the independence of the external auditor and assessment of quarterly reports.

The Board of Directors appoints the committee member and committee Chairman. The current members of the Audit Committee are Jesper Jarlbæk (Chairman, independent) and Peter Skak Olufsen (not independent). The committee meets at least four times a year.

The committee held four meetings in 2011/12. The meetings were held on the basis of an agreed annual cycle, which ensures compliance with the recommendations and adequate monitoring. It follows key events in the financial year's reporting cycle and covers the areas of responsibility described above.

**Management Board**

The Board of Directors appoints a Management Board with responsibility for the day-to-day management of the company in accordance with the guidelines and recommendations set out by the Board of Directors. The Management Board also has a responsibility to submit proposals and recommendations to the Board of Directors regarding Bang & Olufsen's overall strategy and objectives. The Management Board has three members and is headed by the CEO.

**Recommendations for corporate governance in Denmark**

The company is covered by the 'Recommendations for Corporate Governance', which are available on the Committee on Corporate Governance in Denmark's website at [www.corporategovernance.dk](http://www.corporategovernance.dk). The schedule contains the Committee on Corporate Governance's recommendations of 8 April 2010 as implemented by NASDAQ OMX Copenhagen A/S in its 'Rules for issuers of shares' with effect from 1 July 2010. Bang & Olufsen a/s has followed all the recommendations of 8 April 2010.

In 2011, NASDAQ OMX Copenhagen A/S implemented the revised recommendations for corporate governance from August 2011, introducing recommendations on diversity in management. Bang & Olufsen a/s expects to follow these recommendations, including setting up specific objectives for diversity in the course of 2012/13.

# SCHEDULE

**Schedule for reporting regarding the recommendations from the Committee on Corporate Governance**

**(Reporting regarding corporate governance in accordance with the Danish Financial Statement Act sec. 107b.)**

<b>Introduction/conclusion:</b> <b>Report regarding Bang &amp; Olufsen a/s, reg. no. 41257911</b>			
<b>Recommendation</b>	<b>The company complies</b>	<b>The company does not comply</b>	<b>The company complies/does not comply with the recommendation due to the following reason:</b>  According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been

			complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here
<b>1. The role of the shareholders and their interaction with the management of the company</b>			
<i>1.1. Dialogue between the company and its shareholders</i>			
1.1.1. The Committee <b>recommends</b> that the central governing body, for example through investor relations activities, ensures an ongoing dialogue between the company and its shareholders in order that the central governing body knows the shareholders' attitudes, interests and views in relation to the company and that investor relations material be made available to all investors on the company's website	X		<p>Bang &amp; Olufsen a/s regularly participates in, and facilitates - events with investors, potential investors, share analysts and stockbrokers. These events are in the form of telephone conferences, participation in capital market days as well as other events.</p> <p>Furthermore, the at any given time responsible person for Investor Relations , is available for answering questions, and is actively participating in various investor relations associations, e.g. DIRF (Danish Investor Relations Association).</p>
<i>1.2. Capital and share structure</i>			
1.2.1. The Committee <b>recommends</b> that the central governing body every year evaluates whether the company's capital and share structures is continuously in the interest of the shareholders and the company, and account for this evaluation in the management commentary in the annual report and/or on the company's website.	X		The board of directors of Bang & Olufsen a/s is continuously evaluating the capital and share structure.
<i>1.3. General Meeting</i>			
1.3.1. The Committee <b>recommends</b> that the supreme governing body and the executive board promote active ownership, including shareholders' attendance at general meetings.	X		The Board of Directors of Bang & Olufsen a/s tries, in accordance with the recommendation, to promote active ownership. Bang & Olufsen a/s does in this context try to organize the annual general meeting in such a way that as many shareholders as possible have the opportunity of participating.
1.3.2. The Committee <b>recommends</b> that the central governing body resolves or submits to the general meeting the question whether the general meeting shall be conducted by physical attendance or as a partly or entirely electronic general meeting.	X		This recommendation was discussed at the annual general meeting on 18 <sup>th</sup> September 2009, where the Board received the following authority:

		<p>"the general meeting has on September 18<sup>th</sup> 2009 decided to establish the possibility of electronic communication between the company and its shareholders and has authorized the Board to determine the time of introduction and to make necessary amendments to the statute. The Board informs shareholders about the time of introduction of electronic communication.</p> <p>The company can provide all notices to the shareholders according to the Public Companies Act or the Articles of Association by electronic mail, and documents can be presented or sent out electronically.</p> <p>The Management Board will request shareholders of the company to provide an electronic mail address to which notices can be sent. All shareholders must continuously ensure that these addresses are updated.</p> <p>Information about system requirements and the use of electronic communication is provided by the company directors directly to the shareholders or on the company's website <a href="http://www.bang-olufsen.dk">www.bang-olufsen.dk</a>."</p>
1.3.3 The Committee <b>recommends</b> that proxies given to the supreme governing body allow shareholders to consider each individual item on the agenda.	X	On the proxy form used by Bang & Olufsen a/s in connection with the general meetings, it is possible to consider each item on the agenda.
1.3.4 The Committee <b>recommends</b> that all members of the supreme governing body and the executive board are present at the general meeting.	X	The Board of Directors and the Management Board of Bang & Olufsen a/s are, whenever possible, participating in the general meetings of the company.
<b>1.4. Takeover bids</b>		
1.4.1 The Committee <b>recommends</b> that the central governing body, from the moment it obtains knowledge that a takeover bid will be submitted, do not - without the acceptance of the general meeting - attempt to counter the takeover bid by making decisions which in reality prevent the shareholders		The Board of Directors of Bang & Olufsen a/s agrees with the recommendation, and will seek to ensure compliance.

from deciding on the takeover bid.	X		
1.4.2. The Committee <b>recommends</b> that the central governing body gives shareholders the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.	X		The Board of Directors of Bang & Olufsen a/s agrees with the recommendation, and will seek to ensure compliance.
<b>2. The role of stakeholders and their importance to the company and the company's corporate social responsibility</b>			
<i>2.1. The company's policy in relation to its stakeholders</i>			
2.1.1. The Committee <b>recommends</b> that the central governing body identifies the company's key stakeholders and their main interests in relation to the company.	X		The Board of Directors has for many years been very attentive to its relationship with its stakeholders, which is, amongst others, reflected in the company's annual environmental reports, prepared since 1995/1996. Furthermore, the Board of Directors of Bang & Olufsen a/s has approved a policy on Corporate Social Responsibility (CSR), in which identification of the company's stakeholders, and the stakeholders key interest are identified. <a href="#">LINK no 1</a> . Finally the Board of Directors has approved a stakeholder Policy. <a href="#">LINK no. 2</a> .
2.1.2. The Committee <b>recommends</b> that the central governing body adopts a policy on the company's relationship with its stakeholders, including the investors, and ensures that the interests of the stakeholders are respected in accordance with the company's policy on such issues.	X		The Board of Directors has identified and made clear guidelines for the company's main interest in relation to its key stakeholders (Investors, customers, suppliers, business partners, dealers, employees, media's, local authorities, communities and society). The Board of Directors has approved a Stakeholder Policy. <a href="#">LINK no. 2</a>
<i>2.2. Corporate social responsibility</i>			
2.2.1. The Committee <b>recommends</b> that the central governing body adopts a policy on corporate social responsibility.	X		The Board of Directors has approved a policy on Corporate Social Responsibility. <a href="#">LINK no. 1</a>
<b>3. Openness and transparency</b>			
<i>3.1. Disclosure of information to the market</i>			
3.1.1. The Committee <b>recommends</b> that the central governing body adopts a communication strategy.	X		The Board of Directors of Bang & Olufsen a/s has adopted the following communication policy: <a href="#">LINK no. 3</a>
3.1.2. The Committee <b>recommends</b> that information from the company to the market be published in both			All company announcements, as well as press releases, are

Danish and English.	X		prepared in Danish and English.
3.1.3. The Committee <b>recommends</b> that the company publishes quarterly reports.	X		Bang & Olufsen a/s publishes quarterly reports.
<b>4. The tasks and responsibilities of the supreme and the central governing bodies</b>			
<i>4.1. Overall tasks and responsibilities</i>			
4.1.1. The Committee <b>recommends</b> that the central governing body determines the company's overall strategy at least once every year with a view to sustaining value creation in the company.	X		The Board of Directors is continuously evaluating whether the company's overall strategy is right in relation to ensure value creation. The strategy is adopted annually by the Board of Directors and its implementation is continuously followed.
4.1.2. The Committee <b>recommends</b> that the supreme governing body at least once every year discuss and ensures that the necessary qualifications and financial resources are in place in order for the company to achieve its strategic goals.	X		The Board of Directors is continuously considering whether the necessary skills and financial resources are available in the company.
4.1.3. The Committee <b>recommends</b> that the supreme governing body at least once every year defines its most important tasks related to the financial and managerial control of the company, including how to supervise the work of the executive board.	X		In connection with the annual audit of the rules of procedure for both the Board of Directors and the Management Board, it is considered how, and to which extent the Board of Directors wishes to exercise control of the work of the Management Board. See also below on the respective Audit, Nomination and Compensation Committee.
<i>4.2. Procedures</i>			
4.2.1. The Committee <b>recommends</b> that the supreme governing body reviews its rules of procedure annually to ensure that they are adequate and always match the activities and needs of the company.	X		The Board of Directors does – at least once a year - evaluate its rules of procedure.
4.2.2. The Committee <b>recommends</b> that the supreme governing body annually reviews and approves procedures for the executive board, including establishing requirements for the executive board's timely, accurate and adequate reporting to the supreme governing body and for any other communication between the two governing bodies.	X		The Board of Directors does, at least once a year, evaluate the rules of procedure for the Management Board. The rules of procedure contain, amongst others, requirements for the management reporting, and also for the communication between the Board of Directors and the

			Management Board.
<b>4.3. The chairman and deputy chairman of the supreme governing body</b>			
4.3.1. The Committee <b>recommends</b> that a deputy chairman of the supreme governing body be appointed. The deputy chairman must be able to act in the chairman's absence and also act as an effective discussion partner for the chairman.	X		The Board of Directors has elected a deputy chairman.
4.3.2. The Committee <b>recommends</b> the preparation of a scope of work and task list specifying the tasks, duties and responsibilities of the chairman and deputy chairman.	X		The rules of procedure for the Board of Directors contain a work and task description of the duties, obligations and responsibilities of the chairman and the deputy chairman of the Board of Directors.
4.3.3. The Committee <b>recommends</b> that the chairman of the supreme governing body organizes, convenes and chair meetings to ensure efficiency in the body's work and to create the best possible working conditions for the members, individually and collectively.	X		According to the rules of procedure for the Board of Directors, it is the chairman who ensures the convening of the board meetings and organizes and leads these.
4.3.4. The Committee <b>recommends</b> that, if the board of directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the board of directors will maintain responsible for the overall management and control function. A reasonable distribution of duties must be ensured between the chairman, the deputy chairman, the other members of the board of directors and the executive board. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.	X		If the Board of Directors as an exception requests the chairman to perform special tasks for the company, this recommendation will be complied with.
<b>5. Composition and organisation of the supreme governing body</b>			
<b>5.1. Composition</b>			
5.1.1. The Committee <b>recommends</b> that the supreme governing body annually specifies the skills it must have to best perform its tasks and that the specification be posted on the website. Proposals for the nomination/replacement of members of the supreme governing body to be submitted to the general meeting should be prepared in the light hereof.	X		The recommended description of competences can be found at <a href="#">LINK no. 4</a> , and it has been taken into account in the recommendation to the general assembly of election of board members.
5.1.2. The Committee <b>recommends</b> that the supreme governing body ensures a formal, thorough and transparent process for selection and nomination of candidates to the supreme governing body. When			In connection with the election of new Board members, the Board considers the qualifications

assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age, etc.	X		of new candidates, taking into consideration their qualifications, whether they match the company's needs, and also taking into account the qualifications and diversity of the remaining Board members.
5.1.3. The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about their other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, held by the candidates in both Danish and foreign companies as well as information on demanding organizational tasks should accompany the notice convening the general meeting when election of members to the supreme governing body is on the agenda.	X		The notice convening a general meeting with election of directors of the Board will include a detailed description of new candidates. For existing members standing for re-election, the notice will refer to the detailed descriptions of the relevant persons in the company's annual report.
5.1.4. The Committee <b>recommends</b> that every year, the annual report contains an account of the composition of the supreme governing body, including its diversity, and of any special skills possessed by the individual members.	X		This is included in the management report.
<i>5.2. Training of members of the supreme governing body</i>			
5.2.1. The Committee <b>recommends</b> that new members joining the supreme governing body be given an introduction to the company.	X		In connection with the accession of new members, they receive a thorough introduction to the company. This introduction includes introductory meetings with all key executives, and any other information that the Board at the appropriate time would say is important in relation to providing the necessary insight into Bang & Olufsen a/s' affairs.
5.2.2. The Committee <b>recommends</b> that the supreme governing body annually assesses whether the skills and expertise of its members need to be updated.	X		In the overall assessment of the composition of the Board of Directors, it is considered also whether there are areas where members' skills and expertise should be updated.
<i>5.3. Number of members of the supreme governing body</i>			
5.3.1. The Committee <b>recommends</b> that the supreme governing body has only so many members that it allows a constructive debate and an effective decision-making process, enabling all members to play an active role.	X		The number of members of the Board of Directors Bang & Olufsen a/s Board is determined taking into account the recommendation 5.3.1.

5.3.2. The Committee <b>recommends</b> that in connection with the preparation for each year's general meeting, the supreme governing body considers whether the number of members is appropriate in relation to the requirements of the company.	X		The number of members of the Board of Directors Bang & Olufsen a/s Board is determined taking into account the recommendation 5.3.2.
<i>5.4. The independence of the supreme governing body</i>			
5.4.1. In order for the members of the supreme governing body to act independently of special interests, the Committee <b>recommends</b> that at least half of the members elected by the general meeting be independent persons.  The independent supreme governing body member may not: <ul style="list-style-type: none"> <li>• be, or have been within the last five years, a member of the executive board/managerial staff of the company or an associated company,</li> <li>• have received significant additional remuneration from the company/group or an associated company apart from a fee for its services in the capacity of a member of the supreme governing body,</li> <li>• represent the interests of a controlling shareholder,</li> <li>• within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee, shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company or an associated company,</li> <li>• be, or have been within the last three years, an employee or partner of the external audit firm,</li> <li>• hold cross-memberships of governing bodies,</li> <li>• have been a member of the supreme governing body for more than 12 years, or</li> <li>• have close family ties with persons that are not regarded as independent persons.</li> </ul>	X		The Company has, besides the staff-elected members of the Board, today only one member who does not meet the requirement of independence. He has been a board member for more than 12 years. It is the opinion of the board, that the member who does not meet this requirement, still adds value to the Company, and he will reach the retirement age by the AGM in 2012.
5.4.2. The Committee <b>recommends</b> that at least once every year, the supreme governing body lists the names of the members who are regarded as independent persons and also disclose whether new candidates for the supreme governing body are considered independent persons.	X		In connection with the description of the qualifications of a candidate for the Board of Directors in the notice convening a general meeting, it is indicated if he/she should be regarded as independent or not.
<i>5.5. Members of the supreme governing body elected by the employees</i>			
5.5.1. The Committee <b>recommends</b> that the individual company explains, in the company's annual report or			This description can be found in Bang & Olufsen a/s' annual

<p>on its website, the system of employee-elected board members and the company's use hereof in companies where the employees have chosen to apply the provisions of the Companies Act on employee representation.</p>	X		<p>report <a href="#">LINK no. 5</a></p>
<p><b>5.6. Meeting frequency</b></p>			
<p>5.6.1. The Committee <b>recommends</b> that the supreme governing body meets at regular intervals according to a predetermined meeting and work schedule or when meetings are deemed necessary or appropriate as required by the company and that the number of meetings held be disclosed in the annual report.</p>	X		<p>The Board meets pursuant to an established and agreed meeting schedule, and it also meets whenever deemed necessary or expedient in relation to the company's needs. The number of meetings held is disclosed in the annual report. <a href="#">LINK no 6</a></p>
<p><b>5.7. Expected time commitment and the number of other executive functions</b></p>			
<p>5.7.1. The Committee <b>recommends</b> that each member of the supreme governing body assesses the expected time commitment for each function in order that the member does not take on more functions than he/she can manage in a satisfactory way for the company.</p>	X		<p>This assessment is called for and the chairman of the Board ensures that members that are not performing their duties for the company in a satisfactory manner, are advised accordingly so that there is a proper follow up on this.</p>
<p>5.7.2. The Committee <b>recommends</b> that the annual report contains the following information about the members of the supreme governing body:</p> <ul style="list-style-type: none"> <li>• the member's occupation,</li> <li>• the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies as well as demanding organizational tasks, and</li> <li>• the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.</li> </ul>	X		<p>Such information appears in the annual report. <a href="#">LINK no 7</a></p>
<p><b>5.8. Retirement age</b></p>			
<p>5.8.1. The Committee <b>recommends</b> that the company's articles of association sets a retirement age for members of the supreme governing body and that the annual report contains information on such retirement age as well as the age of each member of the board of directors.</p>	X		<p>Bang &amp; Olufsen a/s has in the rules of procedure for the Board, established a retirement age of 70 years. This means that directors retire because of age, at the annual general meeting in the year they turn 70. Bang &amp; Olufsen a/s provides information on age limit and on age of the individual directors in the annual report. <a href="#">LINK no. 8.</a></p>

5.9. Election period			
5.9.1. The Committee <b>recommends</b> that members of the supreme governing body elected by the general meeting be up for re-election every year at the annual general meeting.	X		In the statutes of Bang & Olufsen a/s, the following appears from § 8 subsection 2:  "The elected Board members shall retire at each Annual General Meeting. Re-election can take place. "
5.9.2. The Committee <b>recommends</b> that the annual report states when the individual member of the supreme governing body joined the body, whether the member was re-elected and when the current election period expires.	X		Such information appears in the annual report. <a href="#">LINK no 9</a>
5.10. Board committees			
5.10.1. The Committee <b>recommends</b> that the company publishes the following information in the management commentary in its annual report or on the company's website:  <ul style="list-style-type: none"> <li>the terms of reference for the board committees,</li> <li>important activities of the committees during the year and the number of meetings held by each committee, and</li> <li>the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	X		Such information appears in the annual report.
5.10.2. The Committee <b>recommends</b> that a majority of the members of a board committee be independent members.	X		The recommendation is followed.
5.10.3. The Committee <b>recommends</b> that the supreme governing body establishes an actual <u>audit committee</u> .	X		The recommendation is followed.
5.10.4. The Committee <b>recommends</b> that the following be taken into account in composing the audit committee:  <ul style="list-style-type: none"> <li>the chairman of the supreme governing body should not be chairman of the audit committee, and</li> <li>between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.</li> </ul>	X		The recommendation is followed.

<p>5.10.5. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the audit committee monitors and reports to the supreme governing body about:</p> <ul style="list-style-type: none"> <li>• significant accounting policies</li> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook.</li> </ul>	X		The recommendation is followed.
<p>5.10.6. The Committee <b>recommends</b> that the audit committee:</p> <ul style="list-style-type: none"> <li>• annually considers whether there is a need for an internal audit function, and if so,</li> <li>• formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	X		The recommendation is followed.
<p>5.10.7. The Committee <b>recommends</b> that the supreme governing body establishes a <u>nomination committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies.</li> <li>• annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes,</li> <li>• annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body,</li> <li>• consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and</li> <li>• identify and recommend to the supreme governing body candidates for the governing bodies.</li> </ul>	X		Such a committee is established, with amongst others the tasks mentioned in the recommendation.
<p>5.10.8. The Committee <b>recommends</b> that the supreme governing body establishes a <u>remuneration committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>• make proposals (for approval by the supreme governing body prior to approval at the general meeting) on the remuneration policy, including the overall principles of incentive pay schemes, for members of the supreme governing body and the executive board,</li> <li>• make proposals to the supreme governing body on remuneration for members of the supreme governing body and the executive board, and</li> </ul>	X		Such a committee is established, with amongst others the tasks mentioned in the recommendation.

<p>ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the supreme governing body and the executive board receive from other companies in the group, and</p> <ul style="list-style-type: none"> <li>ensure that the information in the annual report on the remuneration of the supreme governing body and the executive board is correct, true and sufficient.</li> </ul>			
<p>5.10.9. The Committee <b>recommends</b> that the remuneration committee does not consult with the same external advisers as the executive board of the company.</p>	X		The recommendation is followed.
<p>5.11. <i>Evaluation of the performance of the supreme governing body and the executive board</i></p>			
<p>5.11.1. The Committee <b>recommends</b> that the supreme governing body undertakes an annual evaluation of the performance and achievements of the supreme governing body and of the individual members of the body.</p>	X		The recommendation is followed.
<p>5.11.2. The Committee <b>recommends</b> that the chairman be in charge of the evaluation of the supreme governing body, that the outcome be discussed in the supreme governing body and that the details of the procedure of self-evaluation and the outcome be disclosed in the annual report.</p>	X		The recommendation is followed.
<p>5.11.3. The Committee <b>recommends</b> that the supreme governing body at least once every year evaluates the work and performance of the executive board in accordance with pre-defined criteria.</p>	X		The recommendation is followed.
<p>5.11.4. The Committee <b>recommends</b> that the executive board and the supreme governing body establish a procedure according to which their cooperation is evaluated annually through a formalized dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.</p>	X		The recommendation is followed.
<p><b>6. Remuneration of members of the governing bodies</b></p>			
<p>6.1. <i>Content and form of the remuneration policy</i></p>			
<p>6.1.1. The Committee <b>recommends</b> that the supreme governing body adopts a remuneration policy applicable to the supreme governing body and the executive board.</p>	X		Such a policy is adopted by the Board of Directors of Bang & Olufsen a/s, and said policy is additionally approved by Bang & Olufsen a/s' annual general meeting

			on September 23 <sup>rd</sup> , 2011.
6.1.2. The Committee <b>recommends</b> that the remuneration policy and any changes to the policy be approved by the general meeting of the company.	X		See 6.1.1.
6.1.3. Committee <b>recommends</b> that the remuneration policy includes a thorough description of the components of the remuneration for members of the supreme governing body and the executive board.	X		The recommendation is followed.
6.1.4. The Committee <b>recommends</b> that the remuneration policy includes: <ul style="list-style-type: none"> <li>• the reasons for choosing the individual components of the remuneration, and</li> <li>• a description of the criteria on which the balance between the individual components of the remuneration is based.</li> <li>•</li> </ul>	X		The recommendation is followed.
6.1.5. The Committee <b>recommends</b> that, if the remuneration policy includes variable components, <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term,</li> <li>• there be clarity about performance criteria and measurability for award of variable components, and</li> <li>• there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year.</li> </ul>	X		The recommendation is followed.
6.1.6. The Committee <b>recommends</b> that remuneration of members of the supreme governing body do not include share or warrant programmes.	X		The recommendation is followed.
6.1.7. The Committee <b>recommends</b> that if members of the executive board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant. An explanation of the relation between the redemption price and the market price at the time of grant should be provided.	X		The recommendation is followed in all material respect. However the share option program for the CEO approved by the General Meeting on 10 <sup>th</sup> of Marts 2011 was established with an up-front granting covering a four year period.
6.1.8. The Committee <b>recommends</b> that, in exceptional cases, companies should be able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be manifestly misstated.	X		The recommendation is followed.

6.1.9. The Committee <b>recommends</b> that termination payments should not amount to more than two years' annual remuneration.	X		Bang & Olufsen a/s is following this recommendation unless local legislation is imposing otherwise on the company.
<b>6.2. Disclosure of the remuneration policy</b>			
6.2.1. The Committee <b>recommends</b> that the remuneration policy be clear and easily understandable and that it be disclosed in the annual report and posted on the company's website.	X		The recommendation is followed.
6.2.2. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.	X		The recommendation is followed.
6.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the supreme governing body and the executive board by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.	X		The recommendation is followed.
6.2.4. The Committee <b>recommends</b> that the details of any defined-benefit schemes offered to members of the supreme governing body or the executive board and the actuarial value of such schemes as well as changes during the year be included as part of the information on the total remuneration.	X		The recommendation is followed.
6.2.5. The Committee <b>recommends</b> that the most important aspects of retention and severance programmes be disclosed in the company's annual report.	X		The recommendation is followed.
6.2.6. The Committee <b>recommends</b> that the proposal for remuneration of the supreme governing body for the current financial year be approved by the shareholders at the general meeting.	X		The recommendation is followed.
<b>7. Financial reporting</b>			
<b>7.1. Other relevant information</b>			
7.1.1. The Committee <b>recommends</b> that the annual report and other financial reports be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.	X		The recommendation is followed.
<b>7.2. Going concern assumption</b>			
7.2.1. The Committee <b>recommends</b> that, upon consideration and approval of the annual report, the supreme governing body decides whether the business is a going concern, including supporting assumptions or qualifications where necessary.	X		The recommendation is followed.
<b>8. Risk management and internal control</b>			

<b>8.1. Identification of risks</b>			
8.1.1. The Committee <b>recommends</b> that the central governing body at least once every year identifies the most important business risks associated with the realisation of the company's strategy and overall goals as well as the risks associated with financial reporting.	X		Bang & Olufsen's annual report shows the identification and assessment of business risks, and risks associated with financial reporting. <a href="#">LINK no 10</a>
8.1.2. The Committee <b>recommends</b> that the executive board currently reports to the supreme governing body on the development within the most important areas of risk and compliance with adopted policies, frameworks etc. in order to enable the supreme governing body to track the development and make the necessary decisions.	X		The recommendation is followed.
<b>8.2. Whistleblowing</b>			
8.2.1. The Committee <b>recommends</b> that the supreme governing body decides whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing.	X		The Board of Directors of Bang & Olufsen a/s, continuously assesses the need for establishing such a scheme. A scheme is expected to be established during the financial year 2012/13.
<b>8.3. Openness about risk management</b>			
8.3.1. The Committee <b>recommends</b> that the management commentary in the annual report includes information about the company's management of business risks.	X		Bang & Olufsen's annual report shows information about the company's risk management of business risks <a href="#">LINK no 11</a>
<b>9. Audit</b>			
<b>9.1. Contact to auditor</b>			
9.1.1. The Committee <b>recommends</b> that the supreme governing body maintains a regular dialogue and exchange of information with the auditor.	X		The recommendation is followed.
9.1.2. The Committee <b>recommends</b> that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the audit committee.	X		The recommendation is followed.
9.1.3. The Committee <b>recommends</b> that the supreme governing body and the audit committee meet with the auditor at least once every year without the executive board being present. This also applies to the internal auditor, if any.	X		The recommendation is followed.
<b>9.2. Internal audit</b>			
9.2.1. The Committee <b>recommends</b> that the supreme governing body, on the basis of a recommendation from the audit committee, once every year decides whether to establish an internal audit for support and control of the company's internal control and risk			The recommendation is followed.

management systems and state the reasons for its decision in the annual report.	X		
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## Financial reporting process and internal control

The Board of Directors and Management Board assume the primary responsibility for Bang & Olufsen's risk management and internal control systems, including compliance with current legislation and other financial reporting standards. Bang & Olufsen's risk management and internal control systems in respect of financial reporting, including IT and tax, have been designed with a view to limiting the risk of errors and omissions in financial reporting.

### Control environment

Internal control at Bang & Olufsen is based on the company's organisation, decision-making processes, powers and responsibilities, which are set out in and communicated via its corporate documentation, e.g. internal policies, code of conduct, etc. Internal control is also carried out on the basis of procedures described in manuals and memoranda. The Management Board has set up central functions with responsibility for compliance and control with a view to ensuring that relevant legislation and other financial reporting requirements are complied with, and to check financial reporting by subsidiaries and associates. Bang & Olufsen set up a separate audit committee made up of two board members in 2011. The Audit Committee is charged with the task of evaluating and discussing important accounting and financial reporting issues.

### Risk assessment

The Audit Committee and Management Board carry out an assessment of the risks relating to financial reporting for the entire group at least once a year, including:

- Material accounting estimates
- Material changes in accounting policies
- Assessment of fraud risks

The purpose of this risk assessment is to identify the financial reporting processes that are most likely to contain material misstatements. Taking such a risk assessment as its basis, Bang & Olufsen focuses on implementing measures with a view to managing and reducing risk in these processes.

### Control activities

The control framework consists first and foremost of an organisation with clearly defined roles that supports an efficient and, in terms of internal control, relevant allocation of responsibilities, backed up by specific control activities aimed at identifying and preventing financial reporting errors. These control activities are based on an evaluation of materiality and risk. The purpose of the control activities is to ensure that objectives, policies, manuals, procedures etc. communicated by the management are complied with and any errors, discrepancies and omissions are prevented, discovered and corrected in time. Control activities include manual and physical checks, general IT checks and automatic application checks in IT systems, for example.

The management has established procedures for consolidated financial reporting that encompass budget reporting and monthly reporting, including budget discrepancy reporting with ongoing adjustment of estimates for the year. In addition to the income statement, balance sheet and cash flow statement, ongoing reporting also includes notes and other information.

The Audit Committee has assessed the need for internal auditing and decided not to go down that path at present, with the existing internal control and risk management systems and processes being regarded as satisfactory.

### Information and communication

The principles for the group's financial reporting and procedures for using the group's accounting systems are described in the accounting and system manuals used in all the group companies. The manuals are available on the intranet. Financial reporting is done in a single shared reporting system,

which guarantees the parent company full transparency in relation to the individual reporting units. Financial reporting is backed up by monthly reporting from the individual units.

### **Monitoring**

The risk assessment process and control activities are monitored continuously. Monitoring consists of both formal and informal procedures, which are used by the management and the people who own processes, risks and control procedures, including checks on results, which are compared with budgets and plans, analytical procedures and important key figures and financial ratios. The management constantly monitors whether relevant legislation and other financial reporting requirements are being complied with and reports to the Board of Directors and Audit Committee.

The Board of Directors considers whether the internal control systems are adequate at least once a year. The internal control systems are discussed with the auditors elected by the Annual General Meeting at the board meeting at which the annual report is dealt with. Based on what the auditor says in the long-form audit report, the Board of Directors and external auditors discuss the outcome of the audit, material accounting policies used, material accounting estimates and the appropriateness of the accounting policies used.

The Board of Directors and Audit Committee monitor the management's response to any control weaknesses and/or lack of controls and ensure that the measures agreed to improve risk management and internal controls in respect of financial reporting are implemented according to plan. The management is responsible for following up on weaknesses in internal control identified in subsidiaries and any issues described in Management Letters with regard to internal control etc.