

BANG & OLUFSEN A/S GROUP

CORPORATE SOCIAL RESPONSIBILITY 2013/14

01 JUNE 2013 - 31 MAY 2014



BANG & OLUFSEN

This report is Bang & Olufsen's legally required statement for Corporate Social Responsibility, cf. Financial Statements Act §99a. An extract can be found in the Bang & Olufsen Annual Report 2013/14.

Corporate Social Responsibility in Bang & Olufsen

The Bang & Olufsen logo is a quality guarantee as it has been since the company was established in 1925. This is not only related to delivering products of high quality to the customers but also related to the way the business is run.

Bang & Olufsen recognises the UN and ILO declarations regarding human rights, labour rights, environment and anti-corruption and has therefore chosen to structure the CSR work, including the CSR policy, in accordance with the UN Global Compact guidelines.

Bang & Olufsen works systematically with CSR, and is certified in accordance with ISO 9001 (quality management), TS16949 (technical standard for quality within the automotive industry), ISO 14.001 (environmental management) and OHSAS 18.001 (work environment management). The management systems contribute to ensure that the efforts are concentrated in the areas with main potential for improvement.

The CSR policy is supported by Bang & Olufsen's Code of Conduct, which contains the company's demands to suppliers within the CSR area. Through the Code of Conduct Bang & Olufsen requires the suppliers to comply with the CSR demands in their own supply chains. External audits of the suppliers, as well as their sub-suppliers, are carried out when there is a concrete suspicion of breach of the Code of Conduct.

Bang & Olufsen's purchase department has prepared a set of guidelines: 'Moral and ethics in the purchase department at Bang & Olufsen', which includes internal anti-corruption guidelines for e.g. gift exchange, negotiation principles and handling of conflicts of interest. The internal anti-corruption guidelines have been extended to include the sales organisation, which in particular is relevant for new markets where Bang & Olufsen is currently expanding the business.

To support the guidelines, Bang & Olufsen has set up a whistle-blower function, which is an externally run hotline to which the employees anonymously can report unethical behaviour.

Bang & Olufsen's CSR policy

The purpose of Bang & Olufsen's CSR policy is to state the guidelines for our Corporate Social Responsibility activities within the framework of our business.

The policy is divided into four main areas: Human Rights, Labour Rights, Environment and Anti-corruption. Each issue has a specific action plan to ensure continual improvement.

Bang & Olufsen aims to ensure compliance both within its own organization as well as for partners and suppliers.

Human Rights

Bang & Olufsen aims, in all matters within the Group's control, to support and respect the protection of internationally proclaimed human rights.

Employee Rights

Bang & Olufsen aims to show the greatest degree of social responsibility towards our employees. We do of course support the abolition of child labour and forced labour, and we condemn discrimination in employment and occupation.

Bang & Olufsen attaches great importance to freedom of association and recognizes the right to collective bargaining. We wish to be a tolerant workplace where each employee thrives and has the possibility to develop and create a good work-life balance.

Anti-Corruption

Bang & Olufsen strongly disassociates itself from all kinds of corruption, including extortion and bribery.

Environment and Climate

Bang & Olufsen has an integrated thinking with regard to the environmental consequences our production and products have on our employees, customers and surroundings. We use the word "environment" broadly to cover the disciplines of work environment, product environment and external environment.

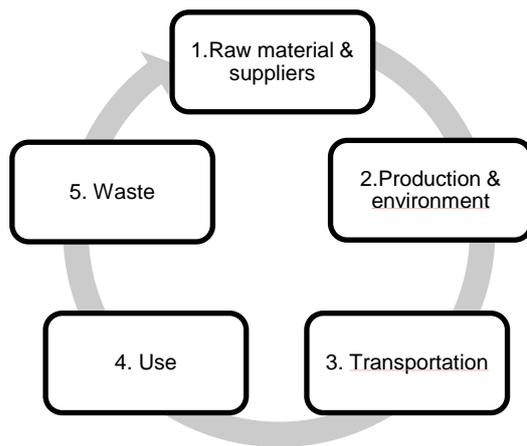
As an environmentally responsible company Bang & Olufsen aims to create sustainable products. The considerations involved in the operation, design, and longevity of our products must be in mutual balance with the environmental impact of production. Bang & Olufsen complies with existing legislation in the countries where we produce and sell our products.

More specifically we aim to focus on the areas where the right balance between effort and impact can be achieved:

- Improve the work environment and the health and safety conditions of our employees
- Prevent work related illnesses and/or injuries
- Improve and prevent negative environmental impact from our production and products including reduction of climate impact.

The CSR work and results in the 2013/14 financial year

Bang & Olufsen considers the environment in a closed life-cycle, where waste is a resource, which can be recycled in other products. At the same time, Bang & Olufsen wishes to take an active co-responsibility for the society of which we are part. Through a number of years we have worked with Corporate Social Responsibility within the framework of our business. This is best illustrated by the picture of a closed life-cycle which symbolizes life-cycle of the products, with the CSR work in the middle.



1. Raw material & suppliers

Bang & Olufsen makes products with a long lifetime, which contribute to generally lower resource consumption and reduced waste quantities compared to products with short lifespans. The design is timeless, and Bang & Olufsen commits to continuously update software on the consumers' products, which allows for the Bang & Olufsen products to be long-lasting. In addition there is still a large demand for older Bang & Olufsen products, and the market for used Bang & Olufsen products is relatively large, which contributes to strengthening the Bang & Olufsen brand as attractive high-quality products with a long lifetime. The relatively long lifetime in comparison to many other electronic products alone means that Bang & Olufsen is not part of the "use and throw away culture", which means that the impact on the planet's raw material resources is lower when Bang & Olufsen products are chosen.

1.1 Responsible supplier management

Bang & Olufsen makes an active effort to ensure that no suppliers use for instance child labour, forced labour or unnecessarily overload the environment to produce Bang & Olufsen materials. The agent in this relation is called responsible supplier management, which Bang & Olufsen started to systematically use in 2005.

As part of the work with responsible supplier management Bang & Olufsen has set up a Code of Conduct, which in central areas such as environment and climate, human rights, labour rights and anti-corruption explains the company's values to enable these to be clearly communicated to the suppliers. Bang & Olufsen's Code of Conduct partly builds on the ten principles in the UN Global Compact and partly on the UN conventions on human rights.

All direct suppliers to Bang & Olufsen must sign the Code of Conduct and thereby accept the demands that Bang & Olufsen expects the individual suppliers to comply with. At the same time, the direct suppliers guarantee with their signature that their sub-suppliers comply with the same guidelines and demands. Once a year a risk analysis is made of Bang & Olufsen's suppliers and the efforts are hereafter focused on suppliers with a high risk of violating the Code of Conduct. These suppliers subsequently can expect an audit, which aims to uncover the possibilities for improving the conditions. During the 2013/14 financial year, previous audits have been followed up, and for 2014/15 three to seven new audits are expected.

The work with responsible supplier management is a continuous process. The intention is therefore not to use the Code of Conduct to terminate the cooperation with the supplier if an audit reveals critical deviations. Instead the company will initiate cooperation on action plans to improve the supplier's environmental and social standards.

2 Production and environment

The production and the environmental impact is a particularly important CSR focus point for Bang & Olufsen. It is divided into product environment (described in section "4 Use"), working environment and external environment. Product environment is the environmental conditions that are attached to the company's products (e.g. energy consumption in the use phase). Working environment is the health and safety conditions under which the employees work. External environment is the environmental conditions that are related to the company's own production, (e.g. raw material usage, electricity consumption, heat consumption, water consumption and waste).

Bang & Olufsen's Danish activities have been environmentally certified (ISO 14.001) and the working environment certified (OHSAS 18.001) since 2010. The audit conclusion from our certifying body was:

"B&O has a well-managed management system with very committed environmental groups working thoroughly with HSE at each of the Factories".

No major non-conformities were raised during the audit.

2.1 Working environment

Bang & Olufsen puts great emphasis on creating a safe and healthy working environment for the employees with focus on improving both the physical and psychological working environment. The objective is to make the everyday healthier and to encourage the employees to share the responsibility for their own health and life style. Life style factors such as exercise, diet, smoking and alcohol are important in our day-to-day focus on health.

The working environment is considered in the product already in the design and development phases as choices in the early product development phases often have great influence on the work environment in the production phase – e.g. in the form of choice of material, assembly methods and choice of surface treatment.

Risk assessments are made of new equipment, new processes and changes in the production in advance of the start-up to minimize the risk of accidents and action plans are prepared for areas of improvement, which ensure that all new employees and employees on job rotation are introduced to working environment and environment.

Near-miss accidents are registered and analysed to ensure that the risk of future accidents is reduced to the greatest possible extent. Particularly with focus on prevention, there has been extra

focus in the work environment objectives for the financial year on reporting of near-miss accidents and to secure correct attitudes and behaviour of all employees in Bang & Olufsen.

The number of injuries with absence during the financial year split by white-collar and blue-collar workers is detailed in the graph below. The graph also shows the frequency (number of accidents per 1 million working hours) and the severity (number of hours of absence per 1,000 working hours) of the industrial injuries.

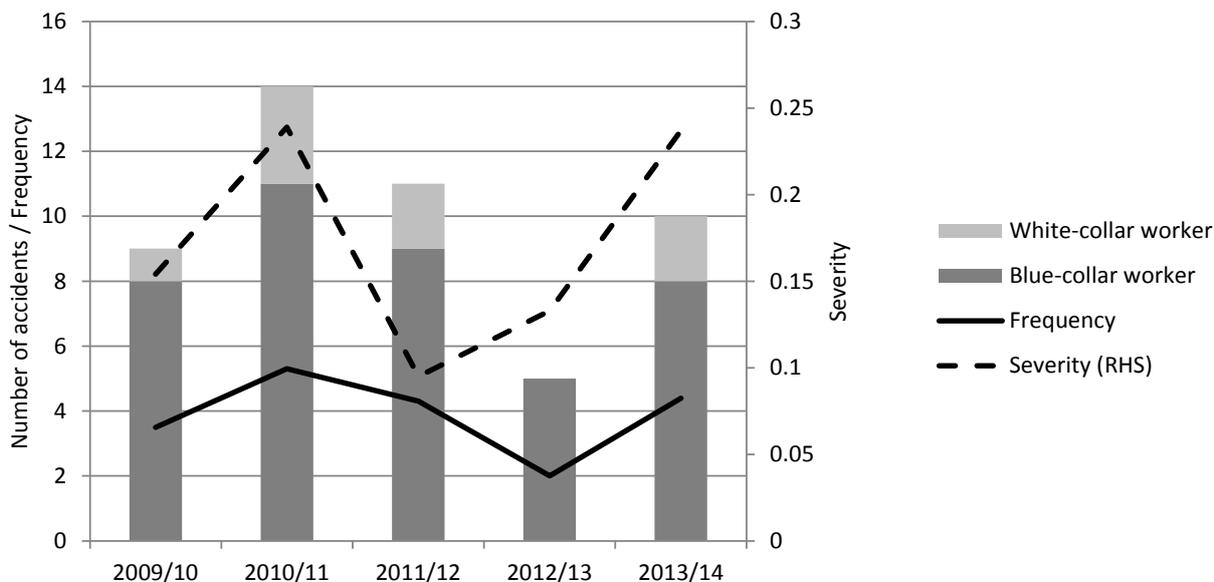


Figure 1: The graph shows the development in the number of accidents and the frequency (number of accidents per 1 million working hours) and the severity (number of hours of absence per 1,000 working hours)

During the 2013/14 financial year, 10 cases of work related injuries, which resulted in absence, occurred, which was above the target. The number of days of absence resulting from accidents has generally been low. However, an accident related to an employee commuting on a train and a case related to an employee commuting on a motorcycle resulted in 17 and 15 days of absence respectively, and both have had a significant negative effect on the severity. We are currently awaiting National Board of Industrial Injuries decision in these two cases of work related injuries.

During the 2013/14 financial year we have setup the following activities to reduce the number of work related injuries:

- An environment leader course with focus on leader responsibility and role modeling
- Implemented a new way to conduct work place assessment
- Environmental introduction to all new employees by the Environmental Department with focus on attitude and behavior
- Implemented a new near-miss on-line portal where all employees can record incident, which could course an work accident
- Initiated a "who is responsible for your safety" campaign, which included mirrors in all factories, where employees are prompted to reflect on their own responsibility for improving safety

2.2 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 to the neighbours. As a result, focus on new projects and follow-up on existing buildings and activities are ongoing. The company always enters into dialogue with the regulatory authorities with a view to finding the best solutions and thereby limiting the pollution as much as possible.

Environmental approval under Part 5 of the Danish Environmental Protection Act (*Miljøbeskyttelsesloven*) is required for one Bang & Olufsen factory, which is located in Struer. The environmental approval relates to the surface treatment and mechanical processing of aluminium. A licence has also been granted to discharge process waste water to a purification plant attached to the factory.

No operational accidents occurred in the financial year 2013/14, nor did Bang & Olufsen receive any complaints from neighbours.

BeoEnergy is an energy saving project, which has been started as Bang & Olufsen wishes to be a green, energy-saving company and has an environmental objective to reduce energy consumption. In the individual factories, BeoEnergy groups have been set up consisting of our environmental groups and consultancy assistance from the Technical department and the Environmental department. The groups work actively to reduce the energy consumption and have mapped the energy consumption and suggestions have been received on energy saving actions. Habits and behaviour in relation to energy consumption are specifically monitored.

The total energy consumption for the Struer and Herning facilities and the key performance indicator can be seen below.

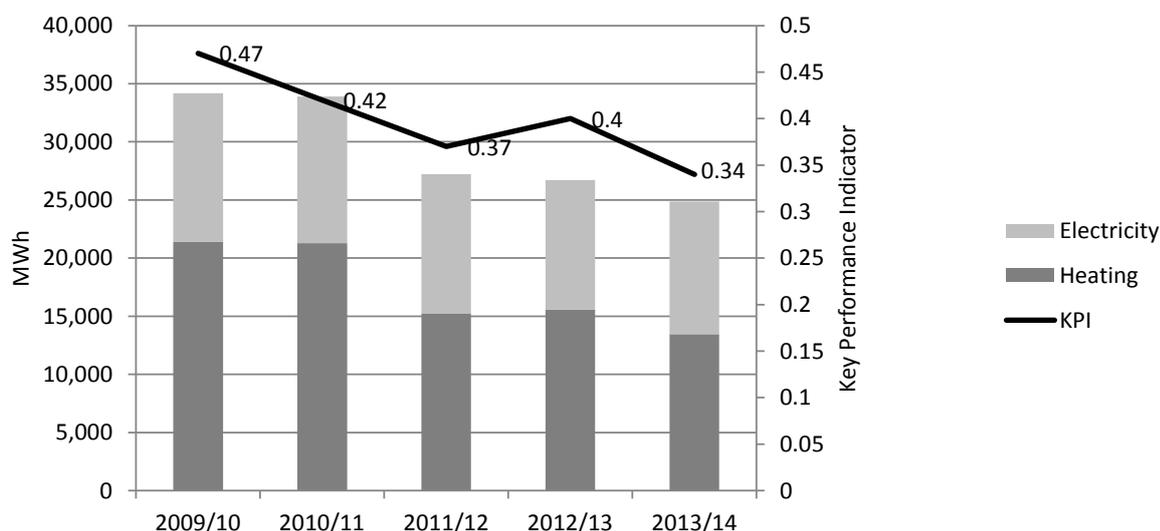


Figure 2: Total energy consumption in MWh split by electricity and heat

The Environmental KPI was reduced by 15 per cent in the 2013/14 financial year compared to 2012/13, and came in 2.9 per cent below the target for the 2013/14 financial year. The following activities have contributed to the reduction during the financial year:

- When a roof was rebuilt after a storm, the insulation was improved
- When changing pumps we bought a new one with a frequency converter to save energy
- Two oil boilers were preserved
- Activities were concentrated in fewer factories.

The energy consumption has declined by 27 per cent during the last 5 years, corresponding to a 24 per cent CO₂ reduction (2,213 tons CO₂)

3. Transportation

3.1 Reduced packaging reduces the CO₂ emission

The aim of the packaging is to protect the product during transportation from the factory to the customer. Insufficient packaging will damage the product and excessive packaging is an environmental problem. Traditionally Bang & Olufsen has produced packaging for TVs based on a pallet solution. This has been necessary as the products are so heavy that they must be handled with a pallet- or fork truck. The large packaging gives some practical challenges with the handling at the dealer as it is heavy and unmanageable without lifting aids. Additionally there is a direct link between the size of the packaging and the environmental load in the form of CO₂ emission when transporting the products.

During the 2013/14 financial year, Bang & Olufsen has reviewed the company's product packaging, with the goal of reducing the company's costs and environmental impact. The result of the initiative is a significantly improved end-to-end process for packaging. As an example the packaging for newly launched BeoVision Avant now allows for 2 TVs per pallet, whereas previous TV models would require one pallet per TV.

4. Use

The result of life cycle analyses of Bang & Olufsen's products shows that the largest environmental load is the energy consumption in the customer's home. It has therefore been natural for Bang & Olufsen to among other things focus the environmental effort on reduction of the product's energy consumption.

4.1 The products help save energy

The energy consumption in the use phase from entertainment electronics is a major environmental load. Bang & Olufsen's products are no exception. Different functionalities have therefore been implemented with a view to reducing the energy consumption. The energy consumption of a TV is among other things dependent on the picture on the screen. All Bang & Olufsen TVs have an automatic brightness control, which means that the light on the screen is automatically adjusted based on the light conditions in the room, which reduces the energy consumption when TV is watched in a dark room compared to broad daylight.

In all of Bang & Olufsen's current TVs an "eco mode" has been introduced for both sound and picture. This is a setting, which the customer can opt for, which further reduces the energy consumption. There is also a function where a warning will appear on screen if a turned on TV hasn't been used for four hours, after which the TV automatically will be switched off.

Today a large number of products use network standby, which is a particular form of standby whereby the products can be awakened through an external signal e.g. via the customers' smartphones. In spring 2013 EU adopted new regulations for network standby. The first regulations will come into force in 2015 and Bang & Olufsen's products already meet these.

The total energy consumption for Bang & Olufsen products sold in the financial year 2013/14 and the average energy consumption can be seen in the graph below.

4.2 Energy consumption in the use phase

The energy consumption in the use phase is a significant environmental condition and is a combination of the products standby usage and the energy consumption during use of the product (on mode). The graph below shows the total annual energy consumption for the products, which Bang & Olufsen has sold in the given financial year and the average annual energy consumption by product.

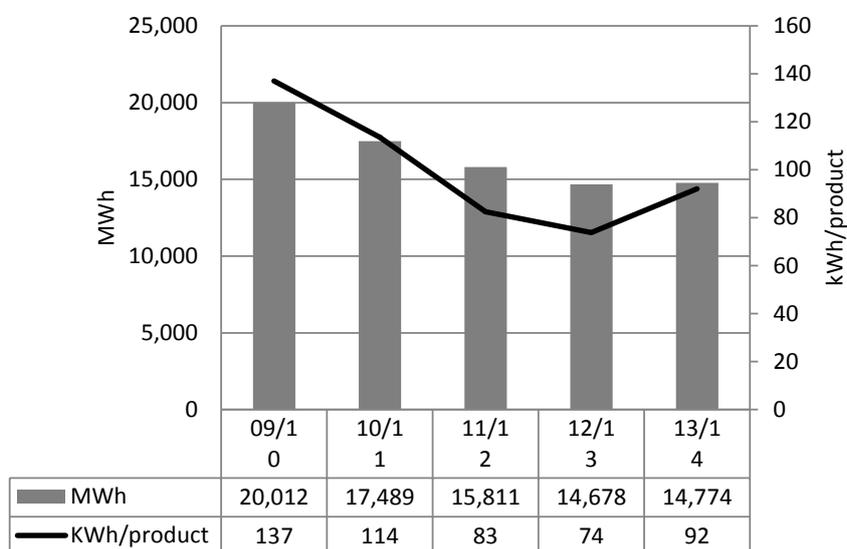


Figure 3: The diagram shows the total annual energy consumption for all sold Bang & Olufsen products in the financial year 2013/14 and the average energy consumption by product

The average energy consumption of Bang & Olufsen's products has increased during the 2013/14 financial year. Among the various products in Bang & Olufsen's portfolio, TV's use more energy than other product categories. The energy consumption of TV's and the screen size of TV's are proportional; the larger screen size the higher energy consumption. In recent years the demand for larger TV screen sizes has increased significantly and as a result Bang & Olufsen have launched more TV's in larger screen sizes in order to meet the demand. The sales of Bang & Olufsen's televisions with a screen size of 46" and larger have increased more than 20 percent compared to the financial year 2012/13, which has resulted in an increase of the average energy consumption of the products placed on the market in 2013/2014.

4.3 Bang & Olufsen ICEpower

Bang & Olufsen uses ICEpower amplifiers in many of the products. ICEpower is a subsidiary of Bang & Olufsen and is a pioneer within Class D amplifiers.

ICEpower's amplifiers are different from traditional amplifiers in that they are extremely energy efficient as the amplifiers transform up to 90 per cent of the input effect to output effect. Traditional amplifiers only transform approximately 20 per cent of the input current to output effect, while the remaining 80 per cent is converted to heat. In normal use, ICEpower's amplifiers provide a solution, which significantly reduces the power consumption. At the same time the resource consumption is reduced as materials do not have to be used for cooling fins on the amplifiers to divert the heat. Bang & Olufsen's use of ICEpower amplifiers ensures high sound quality. At the same time the environmental load is minimal.

5. Waste

The effort to minimize waste is multifaceted, and has the objective to both minimize the amount of waste and secure correct waste sorting. The Bang & Olufsen products are constructed to enable disassembly to ensure that as much as possible can be recycled as raw materials in new products.

5.1 Minimizing waste from production

Scrap is reusable material left over from production and is made up of aluminium, glass, TV screens, electronics etc.; with the main part being aluminium. Scrap can, in contrast to a lot of other waste, have a considerable financial value. It is, however, even more valuable to reduce the amount of scrap from production. When scrap is reduced, the raw materials are used more efficiently, which is of benefit to both the environment and to the cost of the purchase of new raw material and of production. Bang & Olufsen therefore has major focus on minimizing the amount of scrap, primarily from aluminium, which is an important resource in the production. Already in the product development phase, focus is on optimizing the use of aluminium. Learnings from production are brought back to the development department to ensure that materials are developed, which minimize scrap.

The amount of scrap has been monitored through a number of years, but in the financial year 2013/14, focus has been put on a scrap reduction program, which identifies the root causes of the departmental fluctuations and provides mechanisms to improve these. The success of the program is secured by a structured management effort and specific solutions, which are adapted to the individual departments and which the individual employee is committed to. It is important to communicate to both management and employees both in terms of the project's progress and what the individual employee can do to contribute to less scrap in his/her own workplace. The 2013/14 financial year showed a 1.9 % increase in the amount of scrap, which is mainly due to a large amount on new product launches, which generally create more scrap in the beginning of the product life cycle than after the production has matured.

5.2 Disposal of worn-out products

Electronic scrap is a valuable source for recycling raw materials if it is processed correctly. A large part of the world legislation states that worn-out electrical and electronic products have to be collected and processed by an approved waste handler.

The product is separated in different material fractions – metal, PBCs, plastic, glass and screens, which subsequently close the cycle by being reused to produce new raw materials. The materials, which cannot be recycled, are as far as possible sent for incineration with the energy being recovered. Bang & Olufsen also considers disposal when designing new products. For example, all plastic components are marked so waste handlers can identify the plastic type involved.

The European Waste Electrical and Electronic Equipment Directive (WEEE) requires at least 65 per cent of all collected entertainment electronics to be recyclable and a further 10 per cent should be recovered through incineration with energy recovery. Bang & Olufsen carries out a dismantling analysis when developing new products to show how the product will be stripped down at disposal, what material fractions the product consists of and how much of the product that can be recycled. Suggestions are also made for design improvements that can be used in future products. The dismantling analysis show that in average 80 per cent of the material components in Bang & Olufsen products can be recycled.

The figure below details recycling and energy consumption for some of the products launched in this financial year.

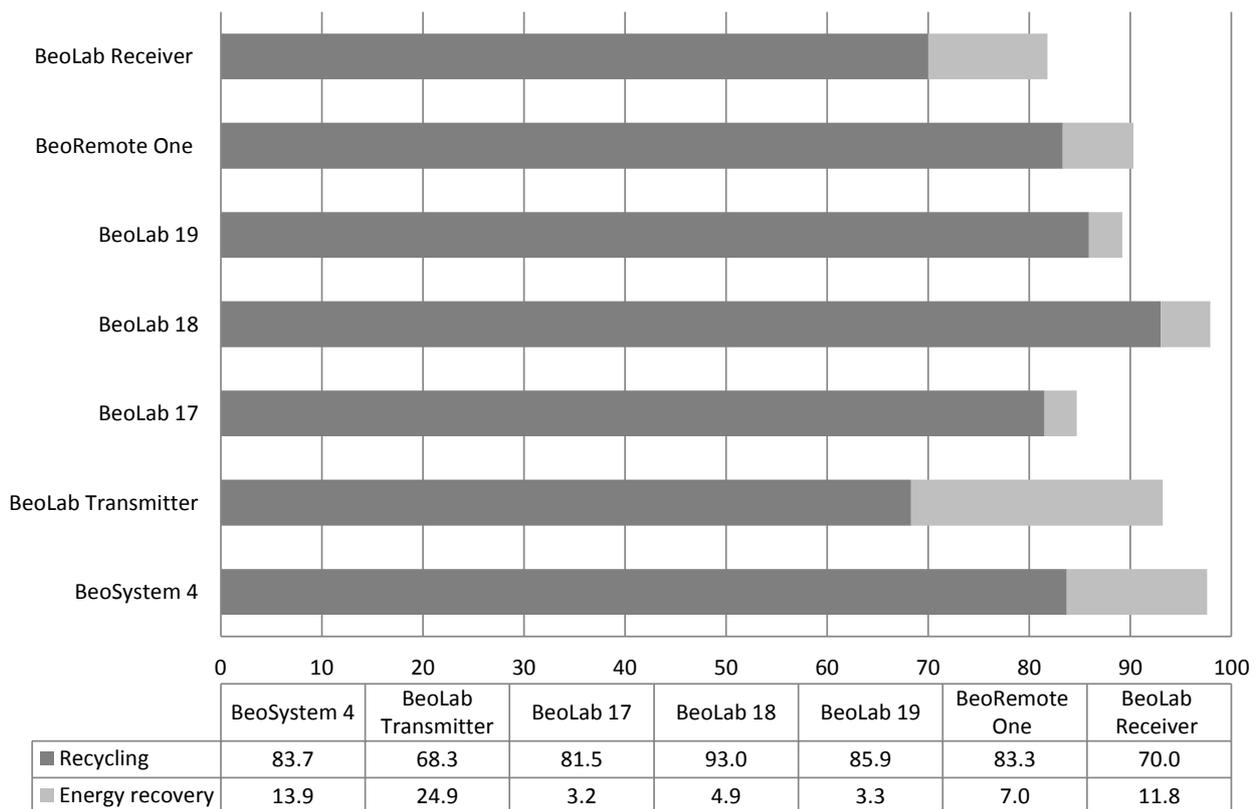


Figure 4: The graph shows recycling and energy consumption in percentage for some of Bang & Olufsen's products

6. Cross functional efforts

Constant efforts are made to find holistic and long-term solutions to ensure that the product performance, design and life time are in balance with the environmental impact. When a product is disposed of most of it should be recycled and incorporated into a new life cycle.

6.1 Environmental demands to the products

Bang & Olufsen considers product environmental issues early in the life cycle of the products by imposing extensive environmental demands to the products already at the product development stage.

These environmental demands are called mandatory requirements, and ensure compliance with EU directives and other legislation, including REACH, RoHS, WEEE, the Battery Directive and the Packaging Directive. In this way Bang & Olufsen can guarantee that the products leaving the factory comply with local legislation in markets where Bang & Olufsen sells products. As a consequence, there are mandatory requirements, which ensure regulatory compliance but also mandatory requirements outside the scope of the legislation such as plastic softening phthalate, c.f. the section below.

6.2 Substitution of chemicals – negative list

Electronic goods contain a number of chemical substances. Some have become prohibited from use, e.g. via EU's chemicals legislation RoHS and REACH but in addition to this, Bang & Olufsen also has a list of undesirable substances. Substances on this list are still legal to use but as the substances are under suspicion of being harmful, Bang & Olufsen has chosen to out-phase them. Bang & Olufsen prohibited for instance the use of all brominated flame retardants already back in the 1990's and only in 2006 did 2 types of the brominated flame retardants become banned by the RoHS directive.

Phthalates is another material, which is not prohibited but has been phased out by Bang & Olufsen. The material is often used as plasticizer in PVC wire and is suspected to be endocrine disrupting. Back in 2007 Bang & Olufsen began to phase out phthalates in all cables for installation. Bang & Olufsen is now one step further ahead and has chosen to prohibit 4 phthalates in all new products and a further 2 phthalates, in wires that come into prolonged contact with the skin, e.g. in headphones. All Bang & Olufsen headphones are now phthalate-free.

6.3 CO₂ reporting and transparency

The last seven years Bang & Olufsen has reported to the Carbon Disclosure Project, which on behalf of a number of investors collects information about the efforts of listed companies in relation to reduction of CO₂ emission in the entire value chain. Not only is focus on reducing the energy consumption in the production, but also on the energy consumption and transportation of the products, the employees' travelling activities and so on. Objectives and activities in the area are described under the sections 'Production' and 'Use'.

A case in point – BeoVision Avant

The six phases in Bang & Olufsen's life-cycle approach to CSR from suppliers, is however best illustrated with a brief case example of our life-cycle approach.

During the 2013/2014 financial year Bang & Olufsen launched the new TV BeoVision Avant. Early in the product development environmental considerations have been applied to the new TV model.

RAW MATERIALS & SUPPLIERS: All suppliers to the BeoVision Avant (or any other Bang & Olufsen product) confirm that they are compliance with the lists of restricted and banned substances (i.e. RoHS) when they sign the purchase agreement.

PRODUCTION AND ENVIRONMENT: From a working environment aspect the BeoVision Avant is easy to assemble and hence the model is easy to strip down into fractions once it becomes waste. This feature results in a relatively high recyclability of the product, which embraces the idea of resource efficiency.

TRANSPORTATION: From the beginning of the development of the BeoVision Avant, packaging has been a key focus area. The TV has significantly lower weight than its predecessors (e.g. like the BeoVision 7), which reduces the overall energy consumption for transportation. In addition, the packaging has been designed to allow two TVs per pallet, which greatly increased the transportation efficiency.

USE: In terms of considerations in regards to the energy consumption, BeoVision Avant includes features that reduce the overall energy consumption. The TV power down after 4 hours if the consumer has not reacted on a displayed warning. Furthermore, the TV offers power management, eco-mode and automatic brightness control – features that have the potential to reduce the overall consumption significantly.

WASTE: The BeoVision Avant is significantly lighter in weight compared to previous generations Bang & Olufsen TV's which reduce the volume of waste fraction that are not possible to recycle.

CSR results in the 2013/14 financial year

Bang & Olufsen's key CSR initiatives and results in the 2013/14 financial year are summarised in the table below:

CSR activities, objectives and results for 2013/14

Policy area	Topic	Objective	Result 2013/14
General CSR Policy	Extension of the CSR policy to include reduction of climate impact	To include reduction on climate impact in the policy	Completed
General CSR policy	Extend the governance in the environment area to cover the entire Bang & Olufsen Group.	Expand Environmental governance to cover CZ	Completed
Environment and Climate	Reduction in consumption of natural gas and electricity	Maintain 2012/13 energy objective measured in kWh/DKK total salary expense where the index must not exceed 0.35.	0.34 Kwh/DKK total salary expense
Environment and Climate	Reduction in the frequency of work accidents per 1 million working hours	Frequency must not exceed 2	4.4
Environment and Climate	Reduction in hours of absence per 1000 working hours due to work related accidents	Severity must not exceed 0.095	0.237
Environment and Climate	Reduction of scrap from production	Compliance with annual objective	The reduction of scrap was 1.9 per cent below target
General CSR policy	Continue Independent supplier audits	Compliance with Code of Conduct	No new high risk suppliers identified in the 2013/14 financial year
General CSR policy	Re-audits of the suppliers where deviations have been found in relation to Code of Conduct.	Compliance with Code of Conduct	Follow-up on 2012/13 audits still ongoing and has not yet revealed any re-audit needs.

Planned CSR activities and objectives in 2014/15

In 2014/15 Bang & Olufsen will continue the work to improve the working environment and reduce the environmental impact of the Group's activities with a view to prevent industrial injuries and reduction of scrap and energy consumption. Independent supplier audits will continue with re-audits of the suppliers where deviations have been found in relation to Code of Conduct. Bang & Olufsen's CSR activities and target for the 2014/15 financial year are summarised in the table below:

CSR activities and objectives for 2014/15

Policy area	Topic	Objectives
Human rights Labour	Independent supplier audits	Risk-assessment of supplier base to identify audit need. Conduct audits and follow-up accordingly
Environment	Reduction in the frequency of work accidents per 1 million working hours	Frequency must not exceed 2
	Reduction in hours of absence per 1,000 working hours due to work related accidents	Severity must not exceed 0.095
	Reduction of energy consumption (kWh/total salary expense)	<0.34
	Reduction of scrap	A reduction of 5% compared to the 2013/14 financial year
	Sustainable Design	Meet the increasing demand for sustainable products
	Prepare CZ-site for ISO 14001 and OHSAS 18001 certification	Gaps identified
Anti-corruption	Sharpen white collar's awareness of anti-corruption policy and -legislations	Training conducted for white collars in Procurement and Sales