

BANG & OLUFSEN A/S GROUP

CORPORATE SOCIAL RESPONSIBILITY 2012/13



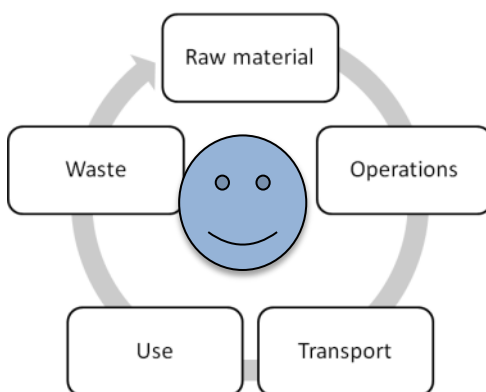
BANG & OLUFSEN

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 2012/13.

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 in relation to delivering products of high quality to the customers but also in relation to the way the business is run.

Bang & Olufsen naturally recognises 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.



Bang & Olufsen has taken the environment into consideration for many years but the topics have changed character and new standards have appeared through the years. Traditionally, focus has been on the products and the production, including work environment and the external environment. Today the consideration for the environment is more oriented towards a product life cycle and the corporate social responsibility and as a consequence the product in an environmental context has become an important parameter.

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, which we are part of. 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 with a smiley, which symbolizes the work with CSR in the middle – we call it 'Design for Sustainability'.

Bang & Olufsen's CSR policy

In order to formalize and clarify the principles of social responsibility that the company lives by, Bang & Olufsen adopted a CSR policy in 2011. The policy is inspired by the UN Global Compact; 10 principles for sustainable behavior in companies.

It is important to Bang & Olufsen to integrate social and environmental considerations in our activities. Through a number of years we have worked with CSR – social responsibility – within the framework of our activities.

We wish to create sustainable products from a life cycle perspective and as a consequence take an active responsibility for the society in which we are part.

The main objective with the policy is to provide the main guidelines for the continuation of this work and to ensure that the Group is aware of the choices, which are made within the CSR policy.

The policy is divided into four main areas; human rights, workers' rights, environment and anti-corruption. An implementation plan is in place for each area, which will be an organic document, which will ensure ongoing improvements.

The four main areas are Bang & Olufsen basic values. Not only do we endeavour to ensure own compliance but also our business partners including suppliers where compliance with the four main areas is included in the Group's purchase agreements.

Human rights

Bang & Olufsen endeavours in all situations within the Group's control to support and respect the protection of internationally declared human rights.

Labour rights

Bang & Olufsen endeavours to show the greatest possible degree of social responsibility in relation to our employees. Naturally we support the abolishment of child and forced labour, as we also eschew labour and employment discrimination.

Bang & Olufsen puts great emphasis on the freedom of association and recognize the right to collective negotiations. We wish to be an inclusive work place where the individual employee can thrive and develop and create a good work life balance.

Environment

At Bang & Olufsen we take a holistic view of the environmental impact our production and products have on our employees, customers and environment. This means that when we use the word 'environment', it broadly covers the disciplines work- product and external environment.

Bang & Olufsen produces products with a long lifetime, which in itself is beneficial to the environment. At the same time, we continually work on finding complete and durable solutions to ensure that the consideration to our products' use properties, design and life time is in mutual balance with our impact on the environment. In connection with disposal of products, as much as possible should be recycled and be part of a new life cycle course.

Anti-corruption

The Group strongly eschews all forms of corruption, including blackmailing and bribery.

The CSR policy emphasizes that Bang & Olufsen would like to be a credible and ethically responsible business partner for suppliers and other stakeholders. The Group would like to contribute to the promotion of human rights and create a framework for the employees which is motivating and forms part of a proper

working environment. At the same time the Group would like to be considerate of the environment both in own activities and in the foot print the products leave in a life cycle perspective.

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

The CSR effort, objectives and results in the financial year

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. In 2012/13 the existing Code of Conduct from 2005 together with the associated self-assessment schedule has been updated to existing standards and is now in conjunction with the CSR policy and the UN Global Compact. In addition to this, external independent supplier audits have been reintroduced at suppliers in high-risk countries, e.g. South East Asia. 30 high-risk suppliers in total have been identified and are audited on an ongoing basis. In 2012/13 10 audits were carried out. All new suppliers in high-risk countries will be subject to an external audit. Through Code of Conduct Bang & Olufsen demands suppliers to comply with the CSR demands in their own supply chains. External audits further back in the supply chain are carried out when there is a concrete suspicion of breach of Code of Conduct.

In 2005 Bang & Olufsen's purchase department made its own 'Moral and ethics in the purchase department at Bang & Olufsen', which included internal anti-corruption guidelines for e.g. gift exchange, negotiation principles and handling of conflicts of interest. It is important to be credible and reliable both internally and externally. Therefore Bang & Olufsen has extended the internal anti-corruption guidelines to also include the sales organisation. This is most relevant in relation to the new markets where Bang & Olufsen currently is expanding the business. To support the guidelines, Bang & Olufsen has set up a whistleblower function, which is an externally run hotline where the employees anonymously can report unethical behaviour.

Environmental objectives for the financial year 2012/2013

Policy area	Topic	Objective	Result 2012/13
Work environment	Reduction in the number of industrial injuries per 1 million working hours	Frequency must not exceed 3.5	2.0
Work environment	Reduction in hours of absence per 1,000 working hours due to work related accidents.	Severity must not exceed 0.095	0.333
Work environment	Completion of three campaigns with focus on prevention of industrial injuries.	- Near miss - Attitude & behaviour - Risk awareness in the labour force	Completed

Environment	Reduction in consumption of natural gas and electricity	5 per cent reduction per year measured in KWh/DKK earned (index must not exceed 0.35)	0.40
Environment	Reduction of scrap from production	Compliance with annual objective	Further reduction of 3 per cent

Table 1: The table shows status of the objectives in the working and external environment areas

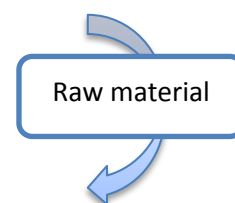
Planned CSR activities in 2013/14

In 2013/14 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, including the extension of the CSR policy to include reduction of climate impact and to extend the governance in the environment area to cover the entire Bang & Olufsen Group. 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 legally required statement for Corporate Social Responsibility (CSR) in accordance with the Financial Statements Act §99a can be found in its entirety on the company's home page [<http://www.bang-olufsen.com/en/the-company/heritage/corporate-social-responsibility>], and is part of the management report in the Bang & Olufsen Annual Report for 2012/13.

Comments to the progress in individual objectives and other efforts can be found in the complete statement for Corporate Social Responsibility.

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 today many homes have Bang & Olufsen products which are 20-30 years old. On average a Bang & Olufsen product has a lifetime of 10-15 years without loss of sound- or picture quality. Bang & Olufsen supply spare parts to the products up to 12 years after a product has been produced for the last time. 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 & throw away culture", which means that the impact on the planet's raw material resources is lower when Bang & Olufsen products are chosen.

Responsible supplier management

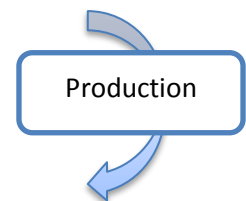
Bang & Olufsen makes an active effort to ensure that no suppliers use for instance child labour, forced labour or unnecessarily overload the environment to produce Bang & Olufsen materials. The agent in this relation is called responsible supplier management, which Bang & Olufsen started to systematically 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 explain the company's values in order for these to be clearly communicated to suppliers. Bang & Olufsen's Code of Conduct partly builds on the ten principles in the UN Global Compact, partly on the UN conventions on human rights. In 2012/13 the existing Code of Conduct from 2005 together with a self- assessment schedule has been updated to current standards in the area and is now in conjunction with the CSR policy and the UN Global Compact.

All direct suppliers to Bang & Olufsen must sign the Code of Conduct and thereby the demands to which Bang & Olufsen expects the individual suppliers to comply with. At the same time, the direct suppliers promise 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. In total 30 high risk suppliers have been identified and 10 audits have been carried out in 2012/13.

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.

Production



The environmental area is a particularly important CSR action area for Bang & Olufsen and is split in product environment (described under "Use phase – in use at the customer"), working environment and external environment. Product environment are the environmental conditions that are attached to the company's products, e.g. energy consumption in the use phase. The working environment is to secure a safe and healthy environment for the employees to work in, e.g. prevention of industrial injuries and work-related illness. The external environment is the environmental conditions that are primarily attached 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, and no exceptions have been noted at the four external audits that have been carried out since the certification.

In 2012 Bang & Olufsen was nominated to the Working environment Council's annual working environment prize. In spring 2013 Bang & Olufsen was awarded 3F Holstebro's Working Environment Prize 2013.

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.

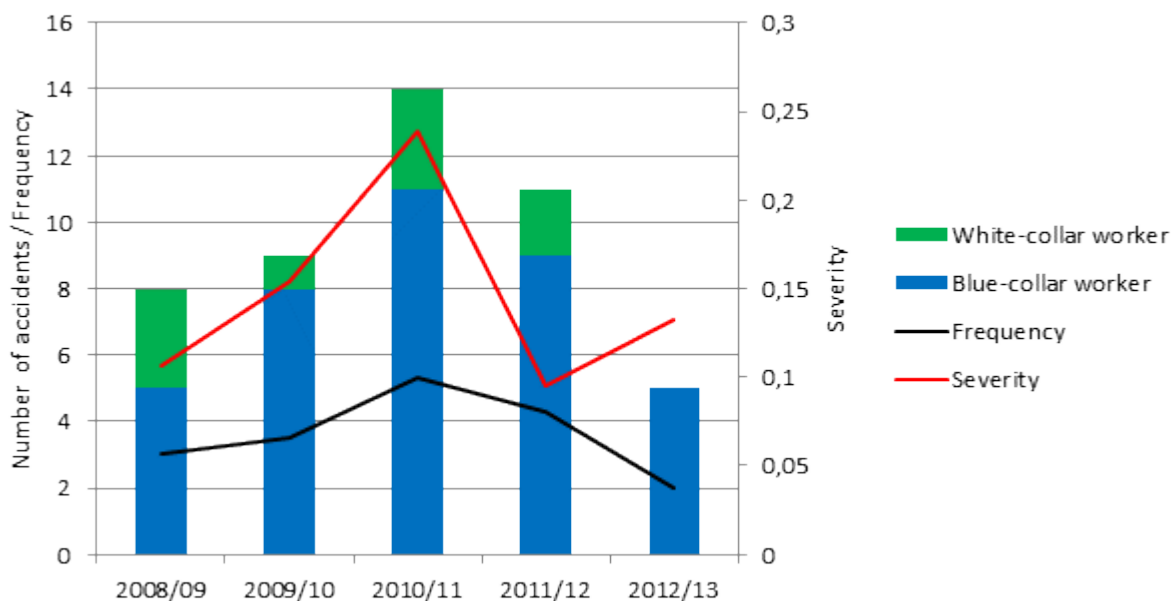


Figure 1: The graph shows the development in the number of accidents and the frequency (number of accidents per 1 million working hours) and the severity (number of hours of absence per 1,000 working hours)

With five industrial injuries with absence during 2012/13 the frequency is far better than the target, at the same time as it is the lowest frequency since 1985 when Bang & Olufsen systematically started to measure the frequency of industrial injuries with absence. The number of days that the employees are absent due to industrial injuries are in general 1-2 days, but one single more serious accident with 39 days' absence has such a great influence on the severity that the target has not been met in the financial year.

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 just a single 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 2012/13, 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 by 5 percent per year. 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 and the key performance indicator can be seen below.

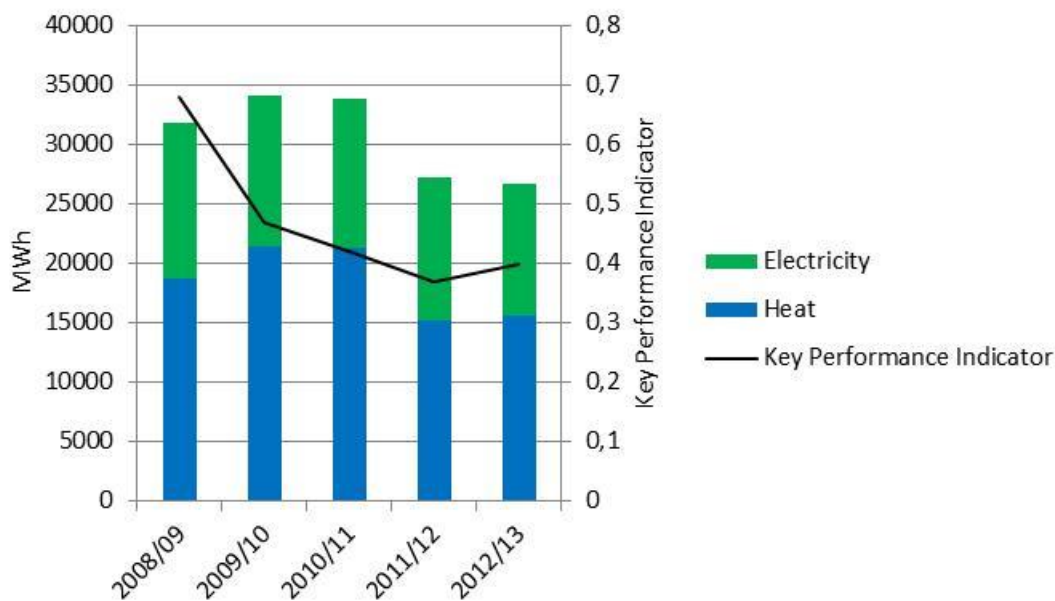
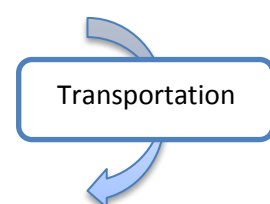


Figure 2: Total energy consumption in MWh split by electricity and heat

The measured energy consumption has been reduced in the last four years. The key performance indicator (the environment target) will be negatively affected by decreasing capacity usage, as the key figure is dependent on the production level.

Transportation



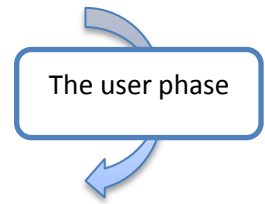
Reduced packaging reduces the CO2 emission

The aim of the packaging is to protect the product from the factory and out 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.

For the TV-series BeoPlay V1, which consist of TVs in the 32-40" class, a different packaging solution without a pallet solution has been opted for, which has resulted in the packaging having been reduced significantly. Now three BeoPlay V1-40s can be on one pallet compared to one traditionally. Except for the positive influence from packaging reduction on raw material usage, the CO₂ emission during transportation is also reduced as less air is transported.

Efforts are also being made to find solutions for smaller packaging for the larger TVs.

In use at the customer



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

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 instead of in broad daylight.

In the BeoVision 11 and BeoPlay V1 TV's we have introduced an eco mode 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. This is also the case for the entertainment system Encore, but in this case it takes 12 hours before it goes on standby.

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 2012/13 and the average energy consumption can be seen in the graph below.

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 introduced to the market in the given financial year and the average annual energy consumption by product.

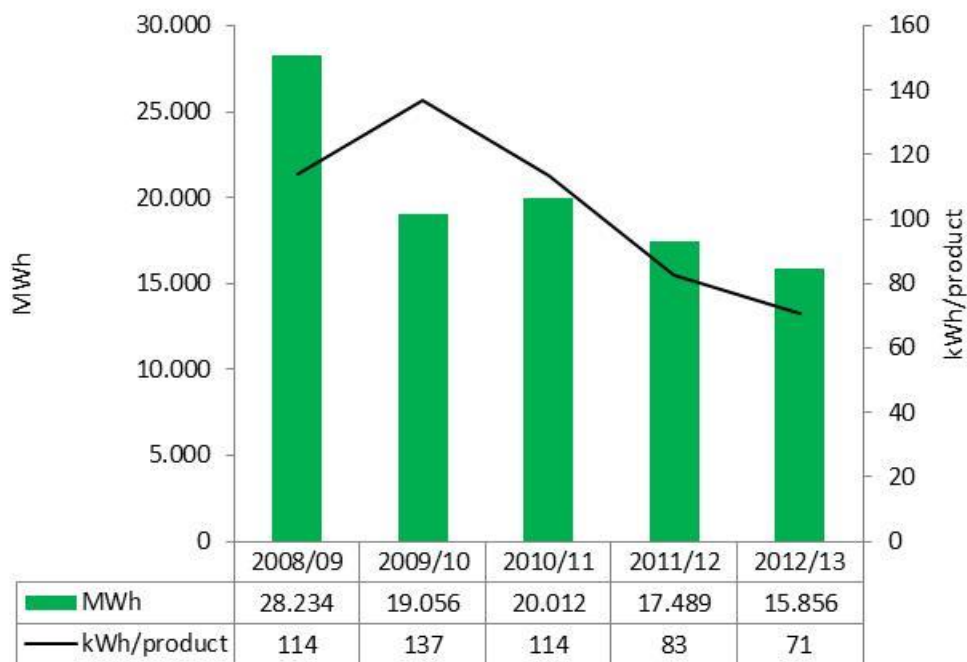


Figure 3: The diagram shows the total annual energy consumption for all sold Bang & Olufsen products in the financial year 2012/13 and the average energy consumption by product

The total energy consumption and the average energy consumption by product have been reduced again this year. The reduction is explained by the fact that products with less energy consumption has been launched at the same time as some of the more energy consuming products have been phased out from the product portfolio.

Bang & Olufsen ICEpower

Bang & Olufsen uses ICEpower amplifiers in most 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. By comparison 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 conduct away the heat. Bang & Olufsen's use of ICEpower amplifiers ensures high sound quality. At the same time the environmental load is minimal.

Waste



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

Minimizing waste from production

Scrap is reusable material left over from production and is made up of aluminum, 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 using the space on the aluminium sheets optimally. Learning from production is brought back to the development department to ensure that materials, which minimize the scrap risk, are developed, which might not have been the case had focus not been on the issue.

The amount of scrap has been monitored through a number of years but in the financial year 2012/13, extra focus has been put on a scrap reduction program, which identifies the root causes of the departmental fluctuations and provides mechanisms to take adjusted actions. 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 scrap reduction program has turned out to be very efficient and the target for 2012/13 has been reached.

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. Although the manufacturers are not directly responsible for ensuring this, Bang & Olufsen carries out a dismantling test 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 tests show that more than 75 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.

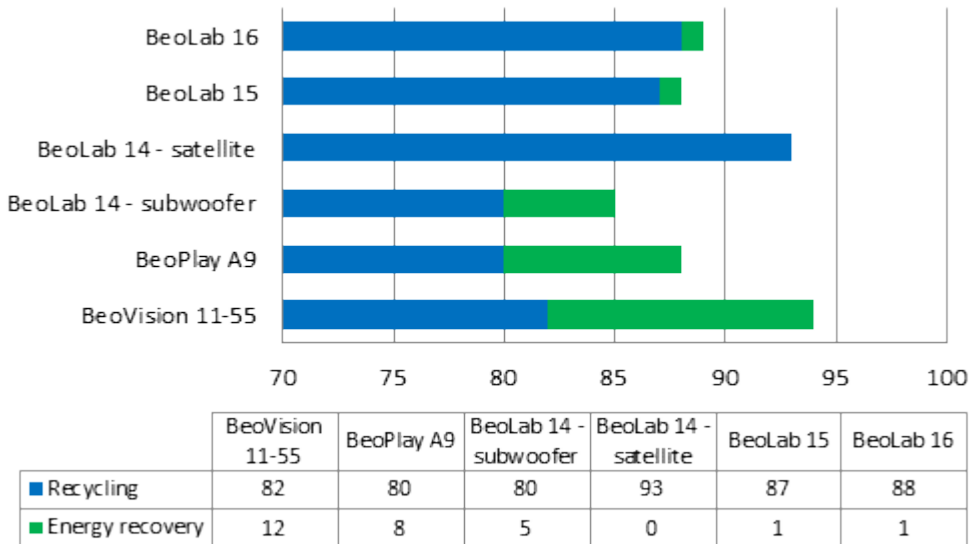


Figure 4: The graph shows recycling and energy consumption in percentage for some of Bang & Olufsen's products



Transverse efforts

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

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 all 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.

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 legal to use so far 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.

Climate and CO2

The last six 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 'In use at the customer'.

The environment has been considered in new design

During the financial year, Bang & Olufsen has launched BeoVision 11, which is a Smart TV and a master piece within sound, picture and digital entertainment.

From a design aspect a number of environmental improvements have been considered compared to earlier TVs in the same family, for instance in relation to life cycle where considerable considerations have been made regarding construction, production, energy efficiency in the use phase and the amount of waste.

BeoVision 11 is a *Design For Manufacture* (DFM) product, so already in the design process focus has been on optimizing assembly and production of the product. The TV has a considerable reduced number of screws compared to the previous generation and improvements in the construction of cable binders have been made, optimization and reduction of number of prints, and fewer materials that should be assembled compared to earlier TV's in the same family. From a working environment aspect, BeoVision 11 is easier to assemble in production and is also simpler to dismantle in correct waste fractions when it eventually becomes scrap. As a consequence of a lighter TV there is a reduction in resource consumption and waste quantities.



The example with BeoVision 11 shows how Bang & Olufsen considers the life cycle when developing new products.

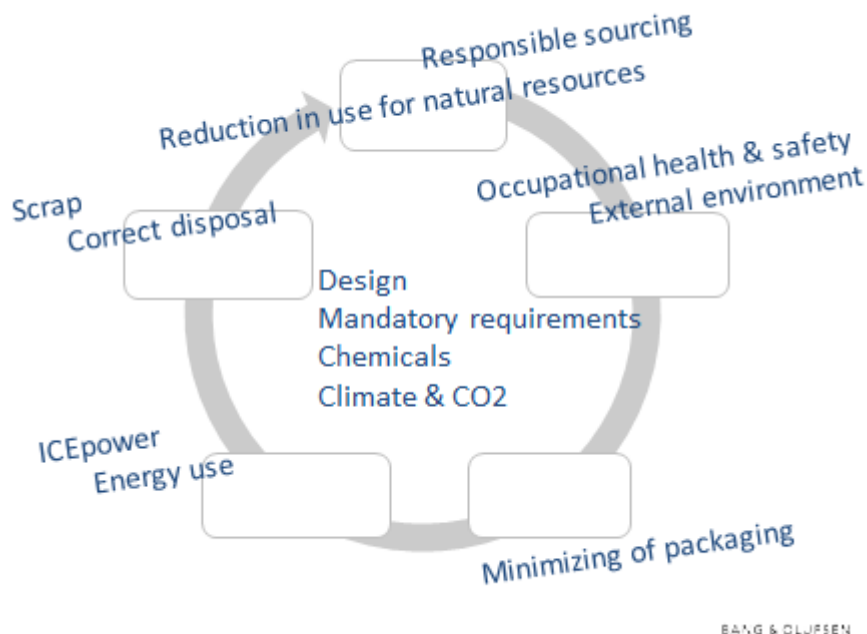


Figure 5: The figure shows the closed life cycle with the environmental stories that have been discussed in this Annual Report, split by individual elements in the products' life cycles.

Sustainable design

When we in Bang & Olufsen refer to sustainable design, we include the product's entire life cycle from suppliers, consumption of raw material, working environment, the environmental load from the products to how the raw materials again can form part of a new life cycle. Figure 5 shows the closed life cycle process with the environmental stories we have chosen to discuss in the Annual Report, split by individual elements in the products' life cycles. That is what we in Bang & Olufsen call sustainable design.