

BANG & OLUFSEN A/S GROUP

CORPORATE SOCIAL RESPONSIBILITY 2014/15

01 JUNE 2014 - 31 MAY 2015



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BANG & OLUFSEN

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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 2014/15.

Contents

| | | | |
|--------------------------------------|---|---|----|
| Contents..... | 2 | 1. Materials..... | 4 |
| CSR in Bang & Olufsen..... | 2 | 2. Manufacturing | 4 |
| Bang & Olufsen's CSR policy..... | 3 | 3. Transportation | 7 |
| Human Rights..... | 3 | 4. Use..... | 7 |
| Employee Rights..... | 3 | 5. Disposal | 8 |
| Anti-Corruption..... | 3 | A case in point - BeoSound Moment | 9 |
| Environment and Climate..... | 3 | CSR results in the 2014/15 financial year..... | 10 |
| CSR work and results in 2014/15..... | 4 | Planned CSR activities and objectives in 2015/16..... | 10 |

CSR 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 CSR requirements to suppliers. 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 procurement department has a set of moral and ethics guidelines, which include 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 is especially 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

Bang & Olufsen's CSR policy states the guidelines for the Corporate Social Responsibility activities within the framework of the Bang & Olufsen Group.

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. Bang & Olufsen supports the abolition of child labour and forced labour, and condemns discrimination in employment and occupation.

Bang & Olufsen attaches great importance to freedom of association and recognizes the right to collective bargaining. Bang & Olufsen aims 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.

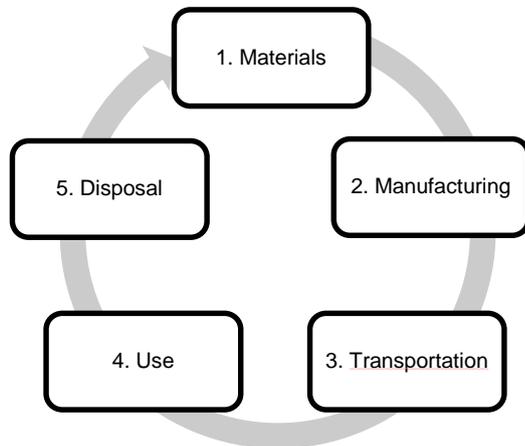
As a responsible company Bang & Olufsen aims to create sustainable products. The considerations involved in the operation, design, and longevity of our products must be in mutual balance with the environmental impact of production. Bang & Olufsen complies with existing legislation in the countries where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

CSR work and results in 2014/15

Bang & Olufsen works with Corporate Social Responsibility within the framework of the product life-cycle, as the environment is considered a closed life-cycle, where waste is a resource, which can be recycled in new products.



1. Materials

The Bang & Olufsen design is timeless and includes simple and genuine materials, which have recyclability potential. Bang & Olufsen commits to continuously update software on the consumers' products, which allows 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.

1.1 Responsible supplier management

Bang & Olufsen makes an active effort to ensure that no suppliers use child labour, forced labour or unnecessarily overload the environment to produce Bang & Olufsen products or components. The agent in this relation is called responsible supplier management, which Bang & Olufsen started to use 10 years ago.

As part of the work with responsible supplier management Bang & Olufsen has set up a Code of Conduct, which the company's values in central areas such as environment and climate, human rights, labour rights and anti-corruption are explained to 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 requirements that Bang & Olufsen expects the individual suppliers to

comply to. At the same time, the direct suppliers guarantee, 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 are subsequently audited, to uncover the possibilities for improving the conditions. During the 2014/15 financial year, four audits were conducted and followed up, and for 2015/16 two to five 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. Manufacturing

The production and the environmental impact is a particularly important CSR focus point for Bang & Olufsen. It is divided into product-, work-, 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).
- **Work 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 the certifying body was:

"Generally speaking we are enthusiastic for what we see out in the areas. There is a broad environmental awareness among managers, employees and the environmental organisation."

No non-conformities were raised during the audit in March 2015.



2.1 Product environment

Sustainable product design is essential for meeting the objectives of a sustainable future, where resource efficiency and zero-waste policies are on top of the global environmental policy agenda.

Sustainable design features can extend the products life time and “design for re-use” takes into account the disposal of the products by using simple materials with high recycling potential. Sustainable design features in Bang & Olufsen’s products help the consumers to separate themselves from the take-make-dispose culture.

Bang & Olufsen has a list of undesirable substances. Substances on this list are legal to use but are under suspicion of being harmful. Therefore, Bang & Olufsen has chosen to phase them out. For instance, Bang & Olufsen prohibited the use of all brominated flame-retardants already in the 1990’s, but only in 2006 did two types these become banned by European regulation. Moreover, Bang & Olufsen began to phase out phthalates in wires that comes into prolonged contact with the skin in 2007. Today all Bang & Olufsen headphones are phthalate-free.

2.2 Work environment

Bang & Olufsen puts great emphasis on creating a safe and healthy work environment for the employees with focus on improving both the physical and psychological work environment. The objective is to make every day work life healthier and to encourage the employees to share the responsibility for their own health and safety.

The work environment is considered already in the product design and development phase 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.

In 2014/15 Bang & Olufsen had particular focus on ergonomic and heavy lift in the early phase of our product production. New lifting equipment was developed and implemented in the development department and the installation videos show how heavy products can be handled by lifting and in an ergonomic way.

To ensure Bang & Olufsen is a good and attractive company to work for, it is essential that the employees thrive in their job, work with interesting and challenging tasks, and that management also provides guidance and support when needed.

Bang & Olufsen has defined roles, responsibilities and activities for each group of employees. Managers and employees are trained in how to handle a colleague or an employee, who is not feeling well.

Policy on the promotion of well-being and stress management among our employees

- Bang & Olufsen endeavours to provide a healthy psychological work environment in which employees thrive
- Bang & Olufsen wants to strengthen the factors that promote the satisfaction, motivation and commitment of our employees
- Bang & Olufsen considers stress a serious issue
- Bang & Olufsen recognises that there are many factors that can affect the general well-being of an employee, and that work-related and personal factors can all play a part. We will therefore raise awareness among managers, employees, and colleagues alike and make a plan of action and a "toolbox" available for the promotion of well-being, and the prevention and management of stress.

The number of injuries with absence during the financial year split in 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.

Work environment 2014/15

| | Target | Actual |
|-----------|--------|--------|
| Frequency | <2 | 3.5 |
| Severity | <0.095 | 0.214 |

Figure 1: Accidents, frequency and severity

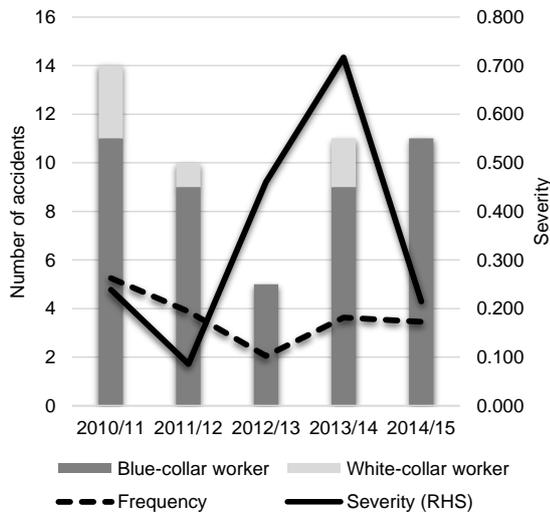


Figure 1: The graph shows the development in the number of accidents and the frequency (number of accidents per 1 million working hours) and the severity (number of hours of absence per 1,000 working hours)

During the 2014/15 financial year Bang & Olufsen had 11 cases of work related injuries (4 in the Czech Republic and 7 in Denmark), which resulted in absence. The number of days of absence resulting from accidents has generally been low (1 to 4 days). However, one accident in Denmark and three accidents in the Czech Republic have resulted in 14 - 31 days of absence. All four have had a significant negative effect on the overall severity.

Accidents analysis

- 90 per cent of all accidents occur in the production in Denmark and the Czech Republic, which is therefore also the key focus areas.
- 90 per cent of all accidents are caused by individual carelessness and wrong attitude and not caused by lack of safety equipment
- 50 per cent of all accidents are caused where people cut themselves on product items or fall as a result of jumping or slipping on the floor

To address the number of accidents in 2014/15, we have conducted a thorough accident analysis and based on the results set up additional activities to reduce the number of work related injuries:

- **Safety walk** in the production in Denmark and in the Czech Republic. The manager tours the production to engage in a dialogue with employees regarding safety and health. The intention is to focus on right and wrong conduct, and to provide clear leadership and management focus and commitment towards health and safety issues.

- **Workshop** for all managers in the Danish production, which will be cascaded by managers through similar session to the employees. The goal is to evaluate the department for risks with focus on sharp items, risk of falling and individual carelessness and wrong attitude

Besides ongoing initiatives, actions and target for 2015/16 have been set to reduce the number of accidents.

2.3 External environment

Bang & Olufsen seeks to keep pollution as well as nuisance to neighbours from the company’s activities to an absolute minimum. Therefore, there is continuous focus and follow up on new projects and existing buildings and activities. The company always enters into dialogue with the regulatory authorities with an aim to find the best solutions and thereby minimising 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 environmental accidents occurred in the financial year 2014/15, nor did Bang & Olufsen receive any complaints from neighbours.

Conclusion on the environmental inspection in 2014/15 from the local authority:

”Bang & Olufsen works diligently with environmental conditions and complies with the demands, which are written in the company’s environmental approval”

Bang & Olufsen seeks to be a sustainable company and has therefore set common goal for energy consumption in the production in Denmark and the Czech Republic. The total energy consumption and the key performance indicator can be seen below.

Energy consumption 2014/15

| | Target | Actual |
|--------------------|--------|--------|
| Energy Consumption | <0.34 | 0.35 |

Note: KPI (kWh/earned wages)

Figure 2: Energy Consumption

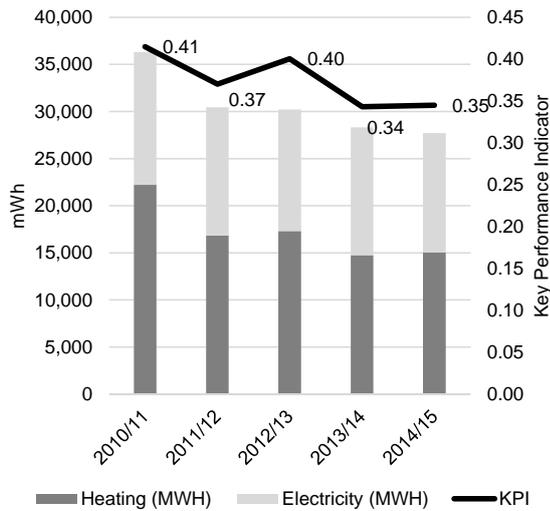


Figure 2: Total energy consumption in MWh split by electricity and heat and KPI (kWh/earned wages)

The environmental KPI increased by 0.8 per cent in the 2014/15 financial year compared to 2013/14, and came in 1.5% per cent above the target. The following activities have been initiated during the financial year:

- A generator has been switched off, resulting in a saving of 44,000 kWh per year.
- Five transformers have been disconnected, resulting in a saving of 50,000 kWh a year.
- Luminous discharge lamps in elevators have been changed to LED resulting in a saving of 2,000 kWh a year.
- Behavior related such as regulating temperature limit in winter and summer, air leak repair, lowering of temperature of water in boilers and switching off lines/areas when finished.

The energy consumption has declined by 24 per cent during the last 5 years, corresponding to a 28 per cent CO₂ a reduction of (3,396 tons CO₂)

Over the last eight 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. This does not only focus on reducing the energy consumption in the production, but also on the energy consumption and transportation of the products, the employees' travelling activities etc.

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.

Bang & Olufsen seeks to optimise materials and resources for the product packaging and design it to allow as many products on one pallet as possible to avoid the environmental impacts related to inefficient transport of products.

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 two TVs per pallet, whereas previous TV models would require one pallet per TV.

4. Use

The energy consumption in the use phase from electronics is a major environmental load. Bang & Olufsen's products are no exception. Different functionalities have therefore been implemented with an aim of managing and 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 reduces the energy consumption when TV is being watched in a dark room compared to broad daylight.

Automatic Brightness Control

Our eyes constantly adjust automatically to lighting conditions without us noticing. Bang & Olufsen's Automatic Picture Control brings this to your television.

There's a large difference between watching daytime news in a room flooded with light and cosying up in front of a movie in the dark. Bang & Olufsen television adapts seamlessly to these different conditions, constantly adjusting its image to avoid strain on the eyes

All of Bang & Olufsen's current TVs also have energy saving functionality for both sound and picture called an "eco mode". This is a setting, which the customer can chose to reduce the products energy consumption. In addition, the TVs also include 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.

The energy consumption in the use phase is a combination of the products standby usage and the energy consumption during use of the product. 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: Product energy consumption

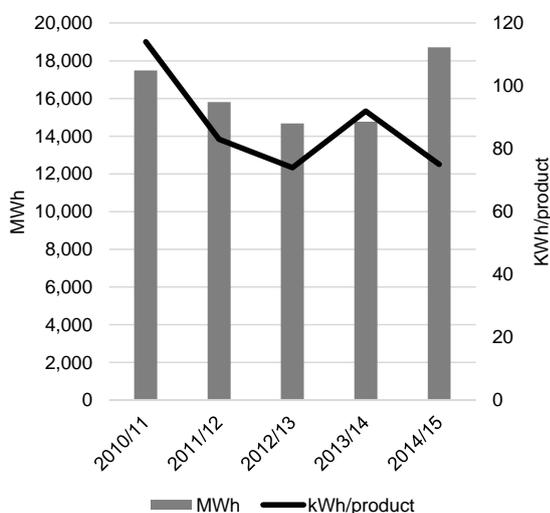


Figure 3: The diagram shows the total annual energy consumption for all sold Bang & Olufsen products in the financial year 2014/15 and the average energy consumption by product

The average energy consumption of a Bang & Olufsen product placed on the market during the 2014/15 financial year has decreased due to an increased share of in sales of B&O PLAY products. The increase in the total energy consumption is the result of the general increase in sales.

5. Disposal

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. 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 high focus on minimizing the amount of scrap, both in the design phase of a product and during running production.

The Scrap Reduction Program started last year continued during 2014/15 with focus at reducing scrap of aluminium. The program identifies the root causes and provides mechanisms for improvements. The result of the Scrap Reduction Program 2014/15 was a

reduction of 10.7 per cent compared with the target of 5.0 per cent reduction. The result was achieved by an intensive focus from both management and employees.

Bang & Olufsen's Aluminum production



- For decades, Bang & Olufsen has used aluminum as a significant design element.
- Aluminum is the third most abundant element in the earth's crust.
- Aluminum is easily recycled and recycling aluminum reduces the energy consumption for melting with 95 per cent.
- Bang & Olufsen in 2014/15 reduced the waste related to processing aluminum with 10.7 per cent.

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.

Bang & Olufsen carries out a dismantling analysis when developing new products to evaluate how the product can be stripped down at disposal, what material fractions the product consists of and how much of the product that can be recycled. The dismantling analysis show that in average 76 per cent of the materials in Bang & Olufsen products has the potential to be recycled.

The figure below details recyclability and energy recovery for a selection of products launched in this financial year.

Figure 4: Recyclability and energy recovery

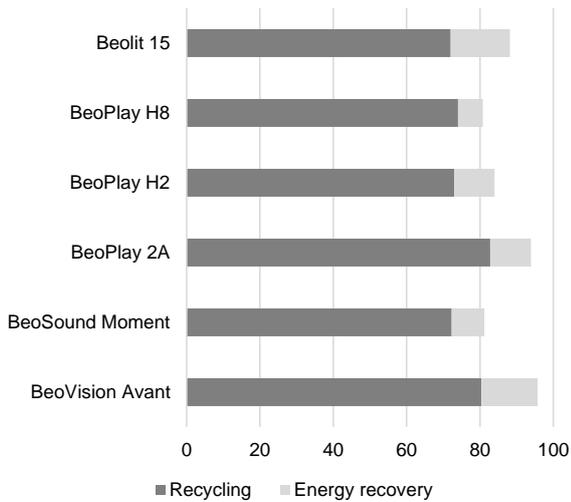


Figure 4: The graph shows recycling and energy consumption in percentage for some of Bang & Olufsen's' products

A case in point - BeoSound Moment

In January 2015 Bang & Olufsen launched BeoSound Moment: An intelligent, wireless music system that integrates music and streaming services into one.



BeoSound Moment includes various sustainability features:

MULTI-FUNCTIONALITY: The multi functionality and simplicity by design is key to the Bang & Olufsen brand. BeoSound Moment gets rid of the need to deal with distractions from other applications, by making your music available all in one place, and instantly accessible with just one touch. All-in-one products saves energy by having only one standby energy consumption and by reducing the energy ascribed to the single functionality.

SIMPLE MATERIALS: What you see is what you get. BeoSound Moment is designed by simple materials of aluminium, plastic and wood.

ENERGY EFFICIENCY: Energy efficiency and power management helps the consumer save energy in the use phase. The tablet battery has gone through strict internal quality and energy efficiency tests and holds a 76 hours standby capacity. Moreover, BeoSound Moment automatically powers down when no signal has been received for a longer period.

SOFTWARE UPDATE: The BeoSound Moment can be software updated according to new features, which has potential to extend the life time of the product.

SERVICE AND REPAIR: The BeoSound Moment is designed for service and repair-ability. Repair of the product will extend the life time and thereby delay the purchase for a new products and hence the consumption of more resources. Spare parts are available for 8 years after the product is terminated.

TIMELESS DESIGN: Good design practise ensure that the product lasts long and live long. BeoSound Moment is designed with this important design feature in mind.

CSR results in the 2014/15 financial year

Bang & Olufsen's key CSR initiatives and results in the 2014/15 financial year are summarised in the table below:

CSR activities, objectives and results for 2014/15

| Policy Area | Topic | Objective | Results 2014/15 |
|------------------------|---|---|---|
| Human rights Labour | Independent supplier audits | Risk-assessment of supplier base to identify audit need. Conduct audits and follow-up accordingly | 2 new suppliers audited 2 suppliers re-audited |
| Environment | Reduction in the frequency of work accidents per 1 million working hours | Frequency must not exceed 2 | 3.5 For further details, please see figure 1 |
| | Reduction in hours of absence per 1,000 working hours due to work related accidents | Severity must not exceed 0.095 | 0.214 For further details, please see figure 1 |
| | Reduction of energy consumption (kWh/total salary expense) | <0.34 | 0.35 For further details, please see figure 2 |
| | Reduction of scrap | A reduction of 5 per cent compared to the 2013/14 financial year | 10.7 per cent reduction |
| | Sustainable Design | Meet the increasing demand for sustainable products | Sustainable design has now been implemented as an integral part of the innovation process |
| | Prepare CZ-site for ISO 14001 and OHSAS 18001 certification | Gaps identified | Gap analysis completed |
| Anti-corruption | Sharpen white collar's awareness of anti-corruption policy and -legislations | Training conducted for white collars in Procurement and Sales | Policy Awareness Program conducted for all white collar employees |

Planned CSR activities and objectives in 2015/16

In 2015/16 Bang & Olufsen will continue the work to improve the working environment and reduce the environmental impact of the Group's activities. 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 2015/16 financial year are summarised in the table below:

CSR activities and objectives for 2015/16

| Policy Area | Topic | Objective |
|------------------------|--|---|
| Human rights Labour | Collective agreement for employees (Suppliers and contractors) | Risk-assessment of supplier base to identify audit need. Conduct audits and follow-up accordingly |
| | Conflict minerals | Review and maintain processes and supplier agreements to avoid conflict minerals in any product |
| Environment | Reduction of accidents | Frequency must not exceed 2 Severity must not exceed 0.095 |
| | Energy savings in facilities | <0.34 kWh/total salary expense |
| Anti-corruption | Policy review | Policies reviewed and updated to reflect actual business set-up |
| | Anti-corruption training | Conduct training for white collars in Procurement and sales |