

BANG & OLUFSEN A/S GROUP

# CORPORATE GOVERNANCE 2013/14

01 JUNE 2013 - 31 MAY 2014

Statutory report on Corporate Governance, see section 107b  
of the Danish Financial Statements Act (Årsregnskabsloven)



**BANG & OLUFSEN**

This annual corporate governance report for Bang & Olufsen a/s forms part of the Management Review in the 2013/14 annual report and covers the financial period 1 June 2013 to 31 May 2014. The report contains a description of the company's management structure, a review of the company's approach to the 'Recommendations for corporate governance' implemented by NASDAQ OMX Copenhagen A/S in its 'Rules for issuers of shares' and a description of the main elements in the Bang & Olufsen Group's internal control and risk management systems in connection with financial reporting.

## **Management structure**

### **Board of Directors**

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

Between eight and ten board meetings are held a year, with ad hoc meetings being held if required. In 2013/14, the Board of Directors held 14 meetings.

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

Information on the current shareholdings of board members can be found on pages 36-37 in the consolidated financial statements.

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

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

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

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

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

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

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

## **Committees**

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

### **Remuneration Committee**

The Board of Directors has appointed a Remuneration Committee consisting of two board members elected by the Board of Directors. The committee is charged with the task of assisting the Board of Directors in fulfilling its obligations with regard to establishing, implementing and carrying out its remuneration policy for members of the Board of Directors and Executive Management (the company's governing bodies). The current members of the Remuneration Committee are Ole Andersen (chairman, independent) and Jim Hagemann Snabe (independent). The committee meets at least twice a year and has held three meetings in 2013/14. The applicable remuneration policy can be found at <http://www.bang-olufsen.com/en/investors/company-information>.

### **Nomination Committee**

The Board of Directors has established a Nomination Committee consisting of two board members. The committee is charged with the task of assisting the Board of Directors in fulfilling its obligations with regard to i) nominating and appointing members of the Board of Directors and Executive Management, ii) ensuring that the Board of Directors and Executive Management are always of the proper size and made up of persons with the necessary professional qualifications and experience, and iii) carrying out regular evaluations of the results achieved by the Board of Directors and Executive Management. The current members of the Nomination Committee are Ole Andersen (Chairman, independent) and Jim Hagemann Snabe (independent). The committee meets at least once a year and has held one meeting in 2013/14.

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

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

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

### **Audit Committee**

The Board of Directors has established an Audit Committee consisting of three board members. The committee is charged with the task of assisting the Board of Directors in

fulfilling its obligations with regard to financial reporting, internal control systems, the audit process and monitoring by the company of compliance with statutes, rules and the code of conduct, including the independence of the external auditor and assessment of quarterly reports.

The Board of Directors appoints the committee members and committee Chairman. The current members of the Audit Committee are Jesper Jarlbæk (Chairman, independent), André Loesebrug-Pietri (independent) and Majken Schultz (independent). The committee meets at least four times a year.

The committee held six meetings in 2013/14 where the external auditors also participated. The meetings were held on the basis of an agreed annual cycle, which ensures compliance with the recommendations and adequate monitoring. It follows key events in the financial year's reporting cycle and covers the areas of responsibility described above.

### **Executive Management**

The Board of Directors appoints an Executive Management with responsibility for the day-to-day management of the company in accordance with the guidelines and recommendations set out by the Board of Directors. Executive Management also has the responsibility to submit proposals and recommendations to the Board of Directors regarding Bang & Olufsen's overall strategy and objectives. Executive Management has two members and is headed by the CEO. Until July 2013, Executive Management had three members. From 1 October 2014 Executive Management will again consist of three members.

### **Recommendations for corporate governance in Denmark**

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

In 2013, NASDAQ OMX Copenhagen A/S implemented the revised recommendations for corporate governance from May 2013. Bang & Olufsen a/s complies with these recommendations.

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

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

**Introduction/conclusion:**

**Report regarding Bang & Olufsen a/s, reg. no. 41257911**

Recommendation	The company complies	The company does not comply	<p><b>The company complies/does not comply with the recommendation due to the following reason:</b></p> <p>According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.</p> <p>The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.</p>
<p><b>1. The company's communication and interaction with its investors and other stakeholders</b></p>			
<p><i>1.1. Dialogue between the company, its shareholders and other stakeholders</i></p>			
<p>1.1.1. The Committee <b>recommends</b> that the Board of Directors ensure an on-going dialogue between the company and its shareholders, so that the shareholders gains relevant information in the company's potential and policies, and that the Board of Directors knows the shareholders' position, interests and views in relation to the company.</p>	<p>X</p>		<p>Bang &amp; Olufsen a/s participates regularly in, and facilitates, events with investors, potential investors, share analysts and stockbrokers. These events comprise of telephone conferences, participation in capital market days as well as other events.</p> <p>Furthermore, the at any given times responsible for Investor Relations , is being of assistance with answering questions, and is actively participating in various investor relations associations, e.g. DIRF (Danish Investor Relations Association).</p>

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			<p>The Board of Directors of Bang &amp; Olufsen a/s has adopted the following IR policy: <a href="#">LINK</a></p> <p>All company announcements, as well as press releases, are prepared in Danish and English.</p>
<p>1.1.2. The Committee <b>recommends</b> that Board of Directors adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues.</p>	X		<p>The Board of Directors has for many years been very attentive to its relationship with its stakeholders, which, among others, is reflected in the company's annual environmental reports, prepared since 1995/1996. Furthermore, the Board of Directors of Bang &amp; Olufsen a/s has approved a policy on Corporate Social Responsibility (CSR), in which identification of the company's stakeholders, and the stakeholders key interest are identified. <a href="#">LINK</a>.</p> <p>The Board of Directors has identified and has clear guidelines for the company's main interest in relation to its key stakeholders (investors, customers, suppliers, business partners, dealers, employees, media's, local authorities, communities and society). The Board of Directors has approved a Stakeholder Policy. <a href="#">LINK</a></p>
<p>1.1.3. The Committee <b>recommends</b> that the company publish quarterly reports.</p>	X		<p>Bang &amp; Olufsen a/s publishes quarterly reports.</p>

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<p><i>1.2. General meeting</i></p>			
<p>1.2.1. The Committee <b>recommends</b> that the Board of Directors when organising the annual general meeting schedules the conduct of the meeting so that it promote active ownership</p>	<p>X</p>		<p>The Board of Directors of Bang &amp; Olufsen a/s tries, in accordance with the recommendation to promote active ownership. Bang &amp; Olufsen a/s are in this context trying to organize the annual general meeting in such a way that as many shareholders as possible have the opportunity to participate.</p> <p>This recommendation was discussed at the annual general meeting on 18<sup>th</sup> September 2009, where the Board received the following authority:</p> <p>"the general meeting has on September 18<sup>th</sup> 2009 decided to establish the possibility of electronic communication between the company and the shareholders and has authorized the Board to determine the time of introduction and to make necessary amendments to the statute. The Board informs shareholders about the time of introduction of electronic communication.</p> <p>The company can provide all notices to the shareholders according to the Public Companies Act or these Articles of Association by electronic mail, and documents can be presented or sent out electronically.</p>



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			<p>The Management Board will request shareholders of the company to provide an electronic mail address at which notices can be sent. All shareholders must continually make sure to update this.</p> <p>Information about system requirements and the use of electronic communication provided by the company directors directly to the shareholders or on the company's website <a href="http://www.bang-olufsen.dk">www.bang-olufsen.dk</a>."</p>
1.2.2. The Committee <b>recommends</b> that proxies for the use on the general meeting allow shareholders to consider each individual item on the agenda.	X		On the proxy form used by Bang & Olufsen a/s in connection with the holding of general meetings, it is possible to consider each item on the agenda.
<b>1.3. Takeover bids</b>			
1.3.1 The Committee <b>recommends</b> that the Board of Directors establishes a contingency procedure for takeover attempts, concerning the period from when the Board of Directors has substantiate assumptions that a takeover bid will be submitted. The contingency procedure should determine that the Board of Directors, do not, without the acceptance of the general	X		The Board of Directors of Bang & Olufsen a/s agree with the recommendation, and will seek to ensure compliance.



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meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid.			
<b>2. The tasks and responsibilities of the Board of Directors</b>			
<i>2.1. Overall tasks and responsibilities</i>			
2.1.1. The Committee <b>recommends</b> that the Board of Directors at least once every year review the terms related to board's handling of its tasks.	X		<p>In connection with the annual audit of the rules of procedure for both the Board of Directors and the Management Board, it is considered how, and to which extend the Board of Directors wishes to exercise control of the work of the Management Board. See also below on the respective Audit, Nomination and Compensation Committee.</p> <p>The Board of Directors is continuously considering whether the necessary skills and financial resources are available in the company.</p> <p>The Board meets pursuant to an established and agreed meeting schedule, and it also meets whenever deemed necessary or expedient in relation to the company's needs.</p> <p>According to the rules of procedure for the Board of Directors, it is the chairman who ensures the convening</p>

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			of the board meetings and organizes and leads these.  The Board of Directors evaluate at least once a year its rules of procedure.
2.1.2. The Committee <b>recommends</b> that the Board of Directors at least once a year review the company's overall strategy with a view to sustaining the value creation in the company.	X		The Board of Directors is continuously aware of the company's overall strategy is right in relation to ensuring value creation. The strategy is adopted annually by the Board of Directors and its implementation is continuously followed.
2.1.3. The Committee <b>recommends</b> that the Board of Directors ensure, that the company has a capital and share structure that substantiates that the company's strategy and long term value creation continue to be in the interests of the shareholders and the company, and account for this evaluation in the management commentary in the annual report and/or on the company's website.	X		The Board of Directors of Bang & Olufsen a/s is continuously evaluating the capital and share structure.
2.1.4. The Committee <b>recommends</b> that the Board of Directors annually review and approve procedures for the management board, including establishing requirements for the executive board's timely,	X		The Board of Directors evaluate at least once a year the rules of procedure for the Management Board. The rules of procedure contain, among other, requirements for the management reporting, and also for the communication between the Board

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accurate and adequate reporting to the Board of Directors.			of Directors and the Management Board.  The recommendation is followed.
2.1.5. The Committee <b>recommends</b> that the Board of Directors at least once a year considers Executive management's composition, development, risks and succession plans.	X		The recommendation is followed.
2.1.6. The Committee <b>recommends</b> that the Board of Directors once every year discuss the activities of the company to ensure diversity at management level, including ensuring equal opportunities for both genders, and that the Board of Directors defines specific targets and accounts for these targets and status for achievement in the management commentary in the annual report and/or on the company's website	X		The Board of Directors of Bang & Olufsen a/s has approved the following Human Resources (HR) policy, which states that the company aims to have at least 15 % female members at management level before the end of May 2013. <a href="#">LINK</a> .  In addition, the Board of Directors of Bang & Olufsen a/s has, as part of the general competencies description of the composition of the Board, inserted a target of having female board members at or before the Annual General Meeting in 2017. <a href="#">LINK</a> .
<b>2.2. Corporate social responsibility</b>			
2.2.1. The Committee <b>recommends</b> that the Board of Directors adopt a policy on corporate social responsibility.	X		The Board of Directors has approved a policy on Corporate Social Responsibility. <a href="#">LINK</a>
<b>2.3. The chairman and deputy chairman of the supreme governing body</b>			

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<p>2.3.1. The Committee <b>recommends</b> that a deputy chairman of the Board of Directors be appointed, who must be able to act in the chairman's absence and also act as an effective discussion partner for the chairman.</p>	X		<p>The Board of Directors has elected a vice chairman.</p> <p>The rules of procedure for the Board of Directors contain a work and task description of the duties, obligations and responsibilities of the chairman and the vice chairman of the Board of Directors.</p>
<p>2.3.2. The Committee <b>recommends</b> that, if the Board of Directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the Board of Directors will maintain responsibility for the overall management and control function. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.</p>	X		<p>If the Board of Directors as an exception request the chairman to perform special tasks for the company, this recommendations will be complied with.</p>
<b>3. Composition and organisation of the Board of Directors</b>			
<i>3.1. Composition</i>			
<p>3.1.1. The Committee <b>recommends</b> that the Board of</p>			<p>The recommended description of competences can be found at <a href="#">LINK</a>,</p>

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<p>Directors annually accounts for</p> <ul style="list-style-type: none"> <li>• the skills it must have to best perform its tasks</li> <li>• the composition of the Board of Directors and</li> <li>• the specific competencies of the individual members.</li> </ul>	X		<p>and it has been taken into account in the recommendation to the general assembly of election of board members.</p> <p>The account is included in the management report.</p> <p>In the overall assessment of the composition of the Board of Directors, it is considered also whether there are areas where members' skills and expertise should be updated.</p>
<p>3.1.2. The Committee <b>recommends</b> that the Board of Directors ensure a formal, thorough and transparent process for selection and nomination of candidates to the Board of Directors. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to age, international experience, and gender.</p>	X		<p>In connection with the election of new Board members, the Board considers the qualifications of new candidates, taking into consideration their qualifications and whether they match the company' s needs, and also taking into account the qualifications and diversity of the remaining Board members.</p>
<p>3.1.3. The Committee <b>recommends</b> that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of executive</p>	X		<p>The notice convening a general meeting with election of directors of the Board will encompass a detailed description of new candidates. For existing members standing for re-election, the notice will refer to the detailed descriptions of the relevant</p>

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boards, boards of directors and supervisory boards, including board committees, held by the candidates in foreign companies as well as information on demanding organisational tasks should accompany the notice convening the general meeting when election of members to the Board of Directors is on the agenda.			<p>persons in the company's annual report.</p> <p>In connection with the description of the qualifications of a candidate for the Board of Directors in the notice convening a general meeting, it is indicated if he/she should not be regarded as independent or not.</p>
3.1.4. The Committee <b>recommends</b> that the company's articles of association determines a retirement age for members of the Board of Directors.	X		Bang & Olufsen a/s has in the rules of procedure for the Board, established a retirement age of 70 years. This means that directors retire because of age, at the annual general meeting in the year they turn 70. Bang & Olufsen a/s provides information on age limit and on age of the individual directors in the annual report. <a href="#">LINK</a>
3.1.5. The Committee <b>recommends</b> that members of the Board of Directors elected by the general meeting be up for re-election every year at the annual general meeting.	X		<p>In the statutes of Bang &amp; Olufsen a/s, the following appears from § 8 subsection 2:</p> <p>"The elected Board members shall retire at each Annual General Meeting. Re-election can take place. "</p>
<b>3.2. The independence of the Board of Directors</b>			
3.2.1 In order for the members of the Board of Directors to act independently of special interests, the Committee			The Company has of today, besides the staff-elected members of the Board, no members who do not meet the requirement of independence.

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<p><b>recommends</b> that at least half of the members elected by the general meeting be independent persons.</p> <p>The independent board of director member may not:</p> <ul style="list-style-type: none"> <li>• be, or have been within the last five years, a member of the management board/managerial staff of the company, a subsidiary or an associated company,</li> <li>• have received significant additional remuneration within the last five years from the company/group, a subsidiary or an associated company apart from a fee for its services in the capacity as a member of the supreme governing body,</li> <li>• represent the interests of a controlling shareholder,</li> <li>• within the last year, have had a material business relationship (e.g. personally or indirectly as a partner or an employee,</li> </ul>	X		



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<p>shareholder, customer, supplier or member of a governing body of companies with similar relations) with the company, a subsidiary or an associated company,</p> <ul style="list-style-type: none"> <li>• be, or have been within the last three years, an employee or partner of the external audit firm,</li> <li>• be the manager of a company in which there is cross management representation with the company,</li> <li>• have been a member of the Board of Directors for more than 12 years, or</li> <li>• have close family ties with persons that are not regarded as independent persons.</li> </ul>			
<p><i>3.3. Members of the Board of Directors and the number of other executive functions</i></p>			
<p>3.3.1. The Committee <b>recommends</b> that each member of the Board of Directors assess the expected time commitment for its specific functions and assignments in order that the member does not take on more assignments than</p>	<p>X</p>		<p>This assessment is called for and the chairman of the Board ensures that members that are not performing their duties for the company in a satisfactory manner, are advised accordingly so that there is properly followed up on this.</p>

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he/she can manage in a satisfactory way for the company.			
<p>3.3.2. The Committee <b>recommends</b> that the annual report contain the following information about the members of the Board of Directors:</p> <ul style="list-style-type: none"> <li>• the member's occupation,</li> <li>• the member's age and gender,</li> <li>• whether the member is considered to be independent,</li> <li>• the time for the member's appointment to the Board of Directors,</li> <li>• expiration of the current election period,</li> <li>• the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies,</li> <li>• demanding organisational tasks, and</li> <li>• the number of shares, options, warrants, etc.</li> </ul>	X		Such information appears in the annual report. <a href="#">LINK</a>

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that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.			
<b>3.4. Board committees</b>			
<p>3.4.1. The Committee <b>recommends</b> that the company publish the following information on the company's website:</p> <ul style="list-style-type: none"> <li>• the terms of reference for the board committees,</li> <li>• important activities of the committees during the year and the number of meetings held by each committee, and</li> <li>• the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.</li> </ul>	X		Such information appears in the annual report. <a href="#">LINK</a>
3.4.2. The Committee <b>recommends</b> that a majority of the members of a board	X		The recommendation is followed.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
committee be independent members.			
<p>3.4.3. The Committee <b>recommends</b> that the Board of Directors establish an actual <u>Audit Committee</u>, in which following should be taken into account in composing said Audit Committee:</p> <ul style="list-style-type: none"> <li>• the chairman of the Board of Directors should not be chairman of the Audit Committee, and</li> <li>• between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.</li> </ul>	X		The recommendation is followed.
<p>3.4.4. The Committee <b>recommends</b> that, prior to the approval of the annual report and other financial reports, the Audit Committee monitor and report to the Board of Directors about:</p> <ul style="list-style-type: none"> <li>• significant accounting</li> </ul>	X		The recommendation is followed.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
<p>policies</p> <ul style="list-style-type: none"> <li>• significant accounting estimates,</li> <li>• related party transactions, and</li> <li>• uncertainties and risks, including in relation to the outlook.</li> </ul>			
<p>3.4.5. The Committee <b>recommends</b> that the Audit Committee:</p> <ul style="list-style-type: none"> <li>• annually consider whether there is a need for an internal audit function, and if so,</li> <li>• formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and</li> <li>• monitor the executive board's follow-up on the conclusions and recommendations of the internal audit function.</li> </ul>	X		The recommendation is followed.
<p>3.4.6. The Committee <b>recommends</b> that the Board of Directors establish a <u>nominations committee</u>, which has the chairman of the board as its chairman, with at least the following preparatory tasks:</p>	X		Such a committee is established, with among other the tasks mentioned in the recommendation.

Recommendation	The company complies	The company does not comply	<p><b>The company complies/does not comply with the recommendation due to the following reason:</b></p> <p>According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.</p> <p>The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.</p>
<ul style="list-style-type: none"> <li>• describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies.</li> <li>• annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes,</li> <li>• annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body,</li> <li>• consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for</li> </ul>			

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
<p>candidates for executive positions, and</p> <ul style="list-style-type: none"> <li>propose a plan of action to the Board of Directors for the future composition of the board, hereunder suggestions for concrete changes.</li> </ul>			
<p>3.4.7. The Committee <b>recommends</b> that the Board of Directors establish a <u>remuneration committee</u> with at least the following preparatory tasks:</p> <ul style="list-style-type: none"> <li>make proposals, for the approval of the Board of Directors prior to approval at the general meeting, on the remuneration policy (including the overall principles of incentive pay schemes), for members of the Board of Directors and the management board,</li> <li>make proposals to the Board of Directors on remuneration for members of the Board of Directors and the management board and ensure that the remuneration is consistent with the</li> </ul>	X		Such a committee is established, with among other the tasks mentioned in the recommendation.



Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
<p>company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the Board of Directors and the management board receive from other companies in the group, and</p> <ul style="list-style-type: none"> <li>• nominate a remuneration policy, that applies to the company in general.</li> </ul>			
<p>3.4.8. The Committee <b>recommends</b> that the remuneration committee do not consult with the same external advisers as the management board of the company.</p>	X		The recommendation is followed.
<p><b>3.5. Evaluation of the performance of the Board of Directors and the management board</b></p>			
<p>3.5.1. The Committee <b>recommends</b> that the Board of Directors undertake an annual evaluation of the performance and achievements of the Board of Directors as a whole and of</p>	X		The recommendation is followed.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
the individual members, as well as the cooperation with the management board. Any substantial changes due to the evaluation should be disclosed in the management commentary in the annual report or on the company's webpage.			
3.5.2. The Committee <b>recommends</b> that the Board of Directors in connection with the preparation of the general meeting considers, whether the number of members is adequate in correlation with the company's needs. It shall be ensured that a constructive debate is allowed and an effective decision-making process is enabled, so that all members have the opportunity of playing an active role.	X		The number of members of the Board of Directors Bang & Olufsen a/s Board is determined taking into account the recommendation 3.5.2.
3.5.3. The Committee <b>recommends</b> that the Board of Directors at least once every year evaluate the work and performance of the management board in accordance with pre-defined criteria.	X		The recommendation is followed.
3.5.4. The Committee <b>recommends</b> that the management board and the Board of Directors establish a procedure according to which	X		The recommendation is followed.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
their cooperation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.			
<b>4. Remuneration of members of the governing bodies</b>			
<i>4.1. Content and form of the remuneration policy</i>			
<p>4.1.1. The Committee <b>recommends</b> that the Board of Directors adopt a clear and easily understandable remuneration policy applicable to the Board of Directors and the management board, containing</p> <ul style="list-style-type: none"> <li>• A detailed description of the components that is entailed in the remuneration of the Board of Directors and the management board,</li> <li>• the reasons for choosing the individual components of the remuneration, and</li> <li>• a description of the criteria on which the balance between the individual components of the remuneration is based.</li> </ul>	X		Such a policy is adopted by the Board of Directors of Bang & Olufsen a/s, and that policy is adopted at Bang & Olufsen a/s' annual general meeting.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
The remuneration policy should be approved by the general meeting and disclosed on the company's website.			
<p>4.1.2. The Committee <b>recommends</b> that, if the remuneration policy includes variable components,</p> <ul style="list-style-type: none"> <li>• limits be set on the variable components of the total remuneration package,</li> <li>• a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term,</li> <li>• there be clarity about performance criteria and measurability for award of variable components,</li> <li>• there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year, and</li> </ul>	X		The recommendation is followed.

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
<ul style="list-style-type: none"> <li>That an agreement is formed, whereafter the company in exceptional cases, is rendered able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proves to be incorrect.</li> </ul>			
4.1.3. The Committee <b>recommends</b> that remuneration of members of the Board of Directors do not include share or warrant programmes.	X		The recommendation is followed.
4.1.4. The Committee <b>recommends</b> that if members of the management board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant.	X		The recommendation is followed in all material respect. However the share option program for the CEO approved by the General Meeting on 10 <sup>th</sup> of Marts 2011 was established with an up-front granting covering a four year period.
4.1.5. The Committee <b>recommends</b> that termination payments should not amount to more than two years' annual remuneration.	X		Bang & Olufsen a/s is following this recommendation unless local legislation is imposing otherwise on the company.
<b>4.2. Disclosure of the remuneration policy</b>			

Recommendation	The company complies	The company does not comply	<p>The company complies/does not comply with the recommendation due to the following reason:</p> <p>According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.</p> <p>The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.</p>
4.2.1. The Committee <b>recommends</b> that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.	X		The recommendation is followed.
4.2.2. The Committee <b>recommends</b> that the proposal for remuneration of the Board of Directors for the current financial year be approved by the shareholders at the general meeting.	X		The recommendation is followed.
4.2.3. The Committee <b>recommends</b> that the total remuneration granted to each member of the Board of Directors and the management board by the company and other consolidated companies, hereunder the essentials of any retention- and retirement schemes, be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.	X		The recommendation is followed.
<b>5. Financial reporting, risk management and audit</b>			
<i>5.1. Identification of risks and openness of additional relevant information</i>			

Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
5.1.1. The Committee <b>recommends</b> that the Board of Directors assess and in the management commentary in the annual report accounts for the most important business risks associated with the realisation of the company's strategy and overall goals, the risks associated with financial reporting as well as the company's risk management.	X		Bang & Olufsen's annual report shows the identification and assessment of business risks, and risks associated with financial reporting. <a href="#">LINK</a>  The recommendation is followed.
<b>5.2. Whistleblowing</b>			
5.2.1. The Committee <b>recommends</b> that the Board of Directors decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing.	X		The Board of Directors of Bang & Olufsen a/s agree with the recommendation and have established a whistleblowing scheme.
<b>5.3. Contact to auditor</b>			
5.3.1. The Committee <b>recommends</b> that the Board of Directors maintain a regular dialogue and exchange of information with the auditor, and that the Board of Directors and the Audit Committee meet with the auditor at least once every year without the management board present. This also applies to the internal auditor, if any.	X		The recommendation is followed.



Recommendation	The company complies	The company does not comply	The company complies/does not comply with the recommendation due to the following reason: According to the Danish Financial Statement Act sec.107b (1)(3), the company must state the reason for not complying with certain parts of the recommendations. Here it is possible for the company to state why a certain recommendation has not been complied with, and what has been done instead.  The company is not obliged to explain if a recommendation has been complied with. However, it may be advantageous to do so as it shows what the company is doing to comply with a certain recommendation. This may also be stated here.
5.3.2. The Committee <b>recommends</b> that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the Audit Committee.	X		The recommendation is followed.

## Financial reporting process and internal control

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

### Control environment

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

### Risk assessment

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

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

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

### **Control activities**

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

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

The Audit Committee has assessed the need for internal auditing and has decided that this is not required due to the size and complexity of the company in combination with the fact that existing internal control and risk management systems and processes are regarded as being satisfactory.

### **Information and communication**

The principles for the group's financial reporting and procedures for using the group's accounting systems are described in the accounting and system manuals used in all the group companies. The manuals are available on the intranet. Financial reporting is done in a single shared reporting system, which guarantees the parent company full transparency in relation to the individual reporting units. Financial reporting is backed up by monthly reporting from the individual units.

### **Monitoring**

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

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

The Board of Directors and Audit Committee monitor the management's response to any control weaknesses and/or lack of controls and ensure that the measures agreed to improve risk management and internal controls in respect of financial reporting are implemented

according to plan. The management is responsible for following up on weaknesses in internal control identified in subsidiaries and any issues described in Management Letters with regard to internal control etc.