

# Statutory Report on Corporate Social Responsibility, cf. Section 99a of the Danish Financial Statements Act

This statutory report on corporate social responsibility for Brødrene A & O Johansen A/S (hereinafter called AO) is part of the Management's Review in the Annual Report for 2017 and covers the accounting period from 1 January to 31 December 2017.

AO is a knowledge-based IT and logistics enterprise. Our customers are primarily in Denmark, and most of our purchases are made in the EU. Our social impact is therefore limited.

AO wants to comply with current legislation and international conventions in the countries and communities where we operate.

We respect and comply with competition rules, environmental legislation, labour market legislation, agreements and safety requirements, and other regulations that provide the framework for how we conduct business in the countries, where we operate.

In addition, we want to be a responsible company that, on a general level, supports the UN Global Compact's ten principles on human rights, labour standards, the environment and anti-corruption.

In our work with corporate social responsibility we have chosen to focus primarily on the **environment**, and **social conditions and working conditions** as the most significant areas.

This choice has been made on the basis of an analysis of CSR related risks and our social impact in the local communities in which we operate. In our opinion, all the countries in which we operate are well-regulated in relation to environment, social conditions, working conditions, human rights, and anti-corruption.

On the basis of our analysis, we have concluded that we can make a positive difference, both internally and externally, primarily by working with the environment.

Social conditions and working conditions are the obvious choice due to the fact that we consider our employees our greatest asset and the reason for our success and results.

The CSR policies are controlled by AO's Board of Directors who, once a year, follow up on financial and non-financial key figures.

## AO's Business Model

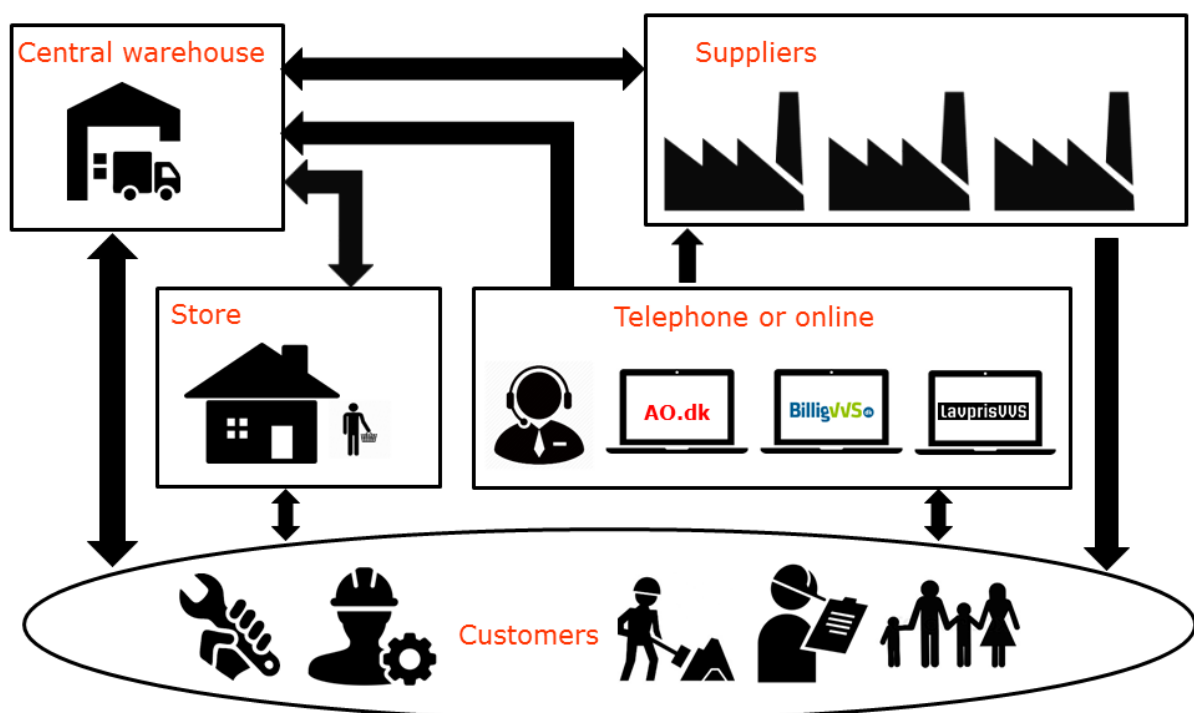
AO is a knowledge-based IT and logistics enterprise with a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

The key concept is one-stop shopping where our customers are offered a complete product range as part of a collection and delivery system, which is supported by strong IT and online trading systems.

Our business is directed toward the professional market and the private market. Through an efficient storage and distribution system we are able to effect prompt deliveries to professional tradesmen, installers, private individuals, municipalities, utilities and public institutions.

Sales are channelled through AO's stores and competency centres, where customers may place orders and get advice and direction as well as offers over the phone and through various webshops.

AO's business model is illustrated below:



In addition, we have developed a number of IT concepts and online trading solutions that strengthen our customers' ability to compete, and through AO.dk and apps for iPhones/iPads and Androids they are able to streamline their business procedures.

## Environment and climate

As an IT and logistics enterprise selling plumbing, heating and sanitary ware products, electrical equipment and components, water supply and drainage products, as well as tools, and having only a very limited own production through our activities in Vaga, our social impact on the environment and climate is limited. We are actively working on making a positive difference and reducing our negative impact on the environment.

## Policy

We have an environmental policy, which focuses on the continued improvement of the company's environmental performance. AO acknowledges that an active consideration for the environment is important, and through our purchases, investments and other operations we will help to protect the environment, so that the development of society may take place in a sustainable way.

We focus on reducing our most **significant** environmental and climate impacts and have identified

- waste – reduction and recycling
- energy consumption – electricity and heat
- transport – larger consignments and fewer transports (costs and deliveries to customers through AO stores)

as the most significant.

Read more in the company's environmental policy at AO.dk: <https://ao.dk/om-ao/fakta-om-ao/csr/miljopolitik/>. (In Danish only).

### **Environmental initiatives and actions, including risks**

In Denmark, we are environmentally certified according to DS/EN ISO 14001. After having been audited by DNV, our environmental certification was renewed once again in 2017.

Our environmental statement for 2016 is available at <https://ao.dk/globalassets/1-om-ao/fakta-om-ao/miljoredegorelse-ao-2016-endelig-version.pdf/>. (In Danish only).

In 2017, we have continuously focused on increasing the number of deliveries to our stores. Instead of delivering goods directly to our customers, we aim at delivering large consignments containing many orders to our stores, thus saving transport costs, when possible, and reducing our environmental impact.

In 2017, the testing of a pick-up point in Køge was extended to our store in Frederiksværk. Here our customers may pick up ordered goods 24 hours a day. The project is adjusted on an ongoing basis. A decision whether the concept is to be continued and implemented in other AO stores is expected to be made in 2018.

At the end of 2016, a nationwide agreement on waste collection was concluded. In 2017, all AO stores and the logistics centre in Horsens were covered by this agreement. In the first half of 2018, the central warehouse in Albertslund is also expected to be covered by this agreement as the last location.

The new agreement makes it possible to differentiate various type of waste at all AO locations and to optimise the number of emptyings by monitoring the filling rate of waste containers. Small quantities of specific waste types generated at the locations are not being collected. Instead, this waste is being disposed of by being sent to the central warehouse together with returned products. From here the waste is disposed of with the remaining waste from the central warehouse

In 2017, we have been working on establishing remote reading of the energy consumption at all AO locations. At the end of the year, only a few stores have not yet been installed with heat and/or electricity meters for remote reading. At these locations manual reading has taken place instead. With the establishment of remote reading, we expect to obtain a more detailed overview which can be used for follow-up on local consumption.

On a regular basis, we try to encourage our suppliers to reduce their environmental and climate impacts. Prior to the conclusion or renewal of a business agreement we make an environmental assessment of each individual supplier based on a simple questionnaire. We also require that our suppliers observe AO's Supplier Conduct for Suppliers, which is available at <https://ao.dk/om-ao/investor-relations/in-english/company-profile/supplier-code-of-conduct>. In addition, see below under "CSR and business partners".

In our stores we advise our customers on the choice of environmentally friendly products and encourage them, among other things, to use the "WUPPI" scheme for the recycling of PVC products. Through energy optimisation in our stores we will lead the way in the efforts to save energy, and at the same time we will make our customers aware of the new opportunities for energy efficiency.

We do not have any formalised processes for "due diligence" regarding the environment, but we evaluate potential environmental consequences in connection with all new major investments, new locations, new transport methods or new transport patterns, as well as other matters, and include them as an integral part of our basis for decision.

In AO we have identified the most significant risks related to the environmental impact of our business activities as being energy consumption in the form of electricity and heat, waste and recycling, and transport. It is therefore not surprising that these three areas have priority in our work to minimise environmental risks.

## **Environmental key figures and results for 2017**

On the basis of AO's environmental policy, we have continued to work on environmental performance measurement in order to achieve AO's environmental and climate goals for 2017.

In 2017, we obtained the following results:

### *Waste*

- With the new agreement on waste collection, focus on recycling more than 70% of the total amount of waste generated at AO's central warehouse and logistics centre continued in 2017. 86% of the total amount of waste was recycled (2016: 84% at the central warehouse in Albertslund and the logistics centre in Horsens). Our recycling objective for 2017 was therefore achieved.
- In 2017, it was an objective to establish a detailed database for waste quantities and recycling of waste for benchmark and local follow-up in the individual stores. The stores were covered by the waste collection agreement in the first half of 2017, and through an optimisation of the filling rate of the waste containers we have already saved nearly 300 emptyings per year at the end of 2017. In 2018, an even better and more detailed follow-up on consumption will be facilitated by the waste collection agreement, but it is not until the end of 2018 that historical data for a full year will be established at all locations.

## *Energy consumption*

- The objective was to reduce the total energy consumption in AO's administration building and central warehouse (electricity and heat) by 6% compared to 2016. The total energy consumption in AO's administration building and central warehouse increased by 3%, and the objective of a 6 % reduction was therefore not reached in 2017. The main reason for this is that the high-bay warehouse was put into operation in the first half of 2017.
- In 2017, it was an objective to establish a database for electricity and heat measurements in the individual stores and in sub-sections of the central warehouse and the administration building. In 2017, a major effort has been made to establish remote reading of heat and electricity at all locations, including not only stores but also sub-sections of the central warehouse and the administration building. By the end of 2017, only a few stores had not yet been installed with meters having remote reading devices. In 2018, the use of remote meter reading will permit a more detailed and local follow-up on consumption, but it is not until the end of 2018 that historical data for a full year will be established at all locations.

## *Transport*

- In 2017, we had focus on using AO's stores as a focal point for the customers to collect pick-up orders, thus enabling us to use our transport capacity more effectively and to reduce the number of direct transports to the customers. The objective was that the growth in pick-up orders had to be equal to or larger than the growth in revenue. In 2017, the number of pick-up orders increased by 11% compared with 2016. Revenue increased by 14%, so the objective for 2017 was achieved.
- In 2017, total transport costs increased by 24% compared with 2016. This must be seen in relation to a revenue growth of 14%. The objective was that the growth in transport costs had to be equal to or less than the growth in revenue. The objective for 2017 was therefore not achieved. This is mainly a result of an increase in freight rates, and the increase in costs is therefore not a full reflection of a corresponding increase in the number of haulages.

We are generally satisfied with the results achieved in 2017. In 2018, we will focus on the measuring of energy consumption and the number of haulages.

## **Work expectations for 2018**

In 2018, we will continue to focus on transport, waste, and energy consumption in order to minimise our environmental and climate impact. We will have focus on using the detailed and local registrations of waste and energy consumption (heat and electricity).

We have a clear expectation that the individual employee will be more aware of AO's consumption of resources, if local consumption patterns are monitored and benchmarks for the stores are provided, thus contributing to a reduction in consumption both locally and overall.

In addition, we expect that the nationwide agreement on waste collection will give a total view of AO's amount of waste, waste separation, and recycling and be instrumental in targeting the local performance.

Our environmental and climate objectives for 2018 are the following:

*Waste:*

- A recycling rate of more than 70% of the total waste generated at our central warehouse in Albertslund and our logistics centre in Horsens.
- A recycling rate of more than 40% of the waste volumes in AO's stores.
- Optimisation of the filling rate of waste containers in the stores, thus reducing the number of emptyings by more than 10%.

*Energy consumption:*

- The total energy consumption (electricity and heat) is to be reduced by 15% in the period from 2018 to 2020. We expect that the highest saving of energy of at least 5% or more will take place in the first year.

*Transport:*

- The development of product deliveries to customers via our stores is equal to or larger than the development in revenue.
- The development in transport costs is equal to or less than the development in revenue.

## **Social conditions and working conditions**

### **Policy**

AO wants to be a socially responsible business focusing on competent and respectful management, motivation, development/training, and work environment.

The employees are our most important asset and vital to our success and results. It is therefore important that our employees thrive and continuously develop personal and professional skills.

We attach great importance to diversity at all levels. It is company policy to secure that AO is a good and versatile workplace that promotes equal career opportunities regardless of gender, age, ethnic origin, religion, sexual orientation or political opinion. This applies both in connection with recruitment and promotion. What matters the most to us is skills, both human and professional.

In accordance with section 139a of the Danish Companies Act, we have set target figures for the supreme management body and prepared a policy for increasing the proportion of the underrepresented gender at the company's other management levels in Denmark.

AO wants that the gender composition at the company's management levels shall reflect the overall gender composition of the workforce, both at Board level and at other management levels. In our opinion, it will strengthen our business and its results in the short run as well as the long run.

AO has no written comprehensive policy regarding social conditions and working conditions. Management believes that AO's intentions and policies are communicated to each individual employee through the daily management, the employee handbook and the policies contained herein, and the work of the Working Environment Committee.

Our Statutory Report on Gender Composition of Management according to section 99b of the Danish Financial Statements Act is available at <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2016/statutory-report-on-gender-composition-2017.pdf>, and AO's policy for increasing the proportion of the underrepresented gender at the company's other management levels in Denmark is available at <https://ao.dk/om-ao/investor-relations/in-english/company-profile/target-figures-and-policies-for-the-gender-composition-of-management>.

### **Social and employee-related initiatives and actions, including risks**

Every day we have great focus on the individual employee's development and well-being. It is provided through attentive day-to-day management and annual staff development interviews, where development on both the personal and professional level, job content and advancement, and the employee's relation to and well-being in AO are discussed. On basis of the above, an individual plan for the individual employee is prepared.

We are aware of the fact that not all have equal opportunities, and we seek to rectify this through the creation of flex-jobs and jobs on special terms and by offering work ability testing in cooperation with the local authorities. This makes sense both in relation to our role in the local community and in relation to those of our employees who no longer have the opportunity to work on the same terms as before. For the same reason, we have a senior policy that gives our employees the opportunity, in good time, to plan their retirement and the content of their last years at work, so that the job is adapted to the possibilities and wishes of the individual employee.

Workplace assessments for our back-office functions in Albertslund were conducted in 2016, where both the physical and psychological environment were in focus. In 2017, the assessment results were examined, and action plans for specific areas were prepared.

The Working Environment Committee has strong focus on employee safety. As a result, there is follow-up on occupational injuries and sickness absence, and the inspection reports of the Danish Working Environment Authority are examined closely. When needed, action plans are prepared to comply with enforcement notices, if any.

As the employees are AO's most important asset and vital to the success and growth of the company, the most important risks are naturally associated with working conditions. AO considers the risk of being unable to retain competent employees and the risk of being unable to recruit the necessary resources and skills as the largest risks.

AO seeks to respond to this by having strong focus on the development and well-being of the employees and, as one of the largest distributors in this line of business, by being well-known and visible in the industry.

Annually, we employ new trainees in order to make sure that we, at any time, have skilled employees trained within the industry. In 2017, we took on 22 new trainees (2016: 12 trainees).

## **Key figures and results for social conditions and working conditions in 2017**

In 2017, we have worked on many fronts with social conditions and working conditions. It has not been possible to measure many of the initiatives, but all have contributed to securing good working conditions and the well-being of the individual at the workplace.

The following results have been achieved in connection with the measurable initiatives in 2017:

### *Training and gender composition:*

- In 2017, our objective was that each employee, on average, should have 2.2 course days. This objective has not been reached. The average number of course days per employee was 2.04 days. It is expected that the average number of course days per employee will increase in 2018.
- In 2017, AO's gender composition at other management levels, not including the Board of Directors, constituted 9% women and 91% men (2016: 9% women and 91% men) against an overall gender composition in AO of 19% women and 81% men (2016: 18% women and 82% men). Our objective for 2017 was to achieve a distribution of 11% women and 89% men at other management levels and an unchanged overall gender composition in AO. The proportion of women in AO increased, whereas the proportion of women at other management levels was unchanged. In order to strengthen the company during its transformation process from being a traditional wholesaler to becoming a modern digital enterprise with focus on the AO culture, IT and e-commerce, the Executive Board was enlarged by three members to a total of five members. Now, the Executive Board consists of two women corresponding to 40% (2016: 0 women = 0%) and three men corresponding to 60% (2016: two men = 100%).

In 2017, we assessed whether the actions and activities undertaken are sufficient to achieve our objective for the proportion of women managers at other management levels. It is still our assessment that the implemented initiatives will have a positive effect in the long run.

In 2017, the average proportion of women participating in management courses was 12% (2016: 14%), which is lower than in 2016, but still higher than the present proportion of women managers in AO. We therefore expect that this will have a positive influence on the proportion of women at other management levels in the coming years.

### *Working environment:*

- In 2017, the number of occupational injuries per 100 employees constituted 2.5 occupational injuries, hereof 38% involving a day's absence or less (2016: 3.0 occupational injuries per 100 employees, hereof 47% involving a day's absence or less). The objective for 2017 was to reduce the number of occupational injuries by at least 10% til a maximum of 2.7 occupational injuries per 100 employees. The objective for 2017 was achieved.
- The objective for 2017 was a sickness absence of a maximum of 3%. In 2017, the sickness absence totalled 3.4%. In 2017, sickness absence was negatively affected by a few employees on long-term sick leave. The objective for 2017 has therefore not been achieved. Further initiatives to reduce sickness absence will be launched in 2018.



- We have obtained green “Smileys” from the Danish Working Environment Authority at all locations. The objective was not to receive any enforcement notices from the Danish Working Environment Authority. In 2017, it was achieved through a dedicated effort from all.

We are satisfied that the initiatives and actions implemented in 2017 resulted in a reduction in the number of occupational injuries. In 2018, we will have focus on course days and sickness absence.

### **Work expectations for 2018**

In 2018, our focus on the employees’ well-being and development will continue.

In 2018, we expect to implement a stress policy followed by an e-learning module for all employees needing more information about stress and management courses in stress prevention, identification of symptoms and management of stress-affected employees.

The objectives for 2018 are the following:

#### *Training and gender composition:*

- Average number of course days per employee: 2.2 days. In 2018, there will be continued focus on individual competency development, so that AO’s high level of training activities is maintained.
- Trainees will constitute 3% of AO’s workforce.
- The gender composition of the company will be unchanged, but with an increase in the proportion of women at other management levels, not including the Board of Directors, to 11% women and 89% men. We have chosen to maintain the latter objective for 2017 as we believe it is ambitious and will ensure that we continue to be on the same level as the industries with which we traditionally compare ourselves.

#### *Working environment:*

- Sickness absence is to be maintained at a maximum of 3%. In 2018, further initiatives for the reduction of sickness absence will be implemented, among other things, by means of a quick and close follow-up on employee absenteeism.
- The number of occupational injuries is to be reduced by 10% to a maximum of 2.3 occupational injuries per 100 employees.
- Green “Smileys” from the Danish Working Environment Authority at all locations. No enforcement notices. AO’s working environment is close to our heart. It is therefore important to us that we comply with the Danish Working Environment Authority’s rules and guidelines and do not receive any enforcement notices.

## **Respect for human rights**

### **Policy**

AO wants to comply with current legislation and international conventions regarding human rights in the countries and local communities where we operate.

We have assessed that we only operate in countries where human rights are an integral part of the countries' local legislation, and where this legislation is recognised and respected by both businesses and the civilian populations.

We have therefore chosen not to have an actual policy for human rights and, in our view, we do not encounter any direct risks related to human rights.

In our opinion, our present policies and practices regarding working conditions are in compliance with locally and internationally recognised human rights, and we refer to the above-mentioned paragraph regarding social conditions and working conditions, where our policies, values, actions, objectives, risks and results are described in detail.

We are, however, aware of the fact that our trade with suppliers may constitute a potential risk of abusing human rights primarily in connection with direct and indirect purchases made from countries where local legislation on the area is not clear, or where such legislation is not recognised, respected and enforced. On these grounds, we have drawn up a Supplier Code of Conduct which is described below under the paragraph headed "CSR and business partners".

## **Anti-corruption and bribery**

### **Policy**

AO wants to comply with current legislation and international conventions regarding sound business practice in the countries and local communities where the company operates

We have assessed that we only operate in countries where rules against corruption and bribery are an integral part of the countries' local legislation, and where this legislation is both recognised and respected by both businesses and the civilian populations. We have therefore chosen not to have an actual policy for anti-corruption and bribery and, in our view, we do not encounter any major risks related to corruption and bribery.

We do, however, recognise that the boundaries may be blurred even in a well-regulated country like Denmark. Consequently, we have internal rules and procedures to ensure independence from customers and suppliers and to regulate areas like supplier and customer events, including gifts, and to ensure the compliance with competition legislation in force.

In 2017, no targets related to anti-corruption and bribery were determined, and no activities were made. No activities are planned for 2018, but we regularly assess the need for it.

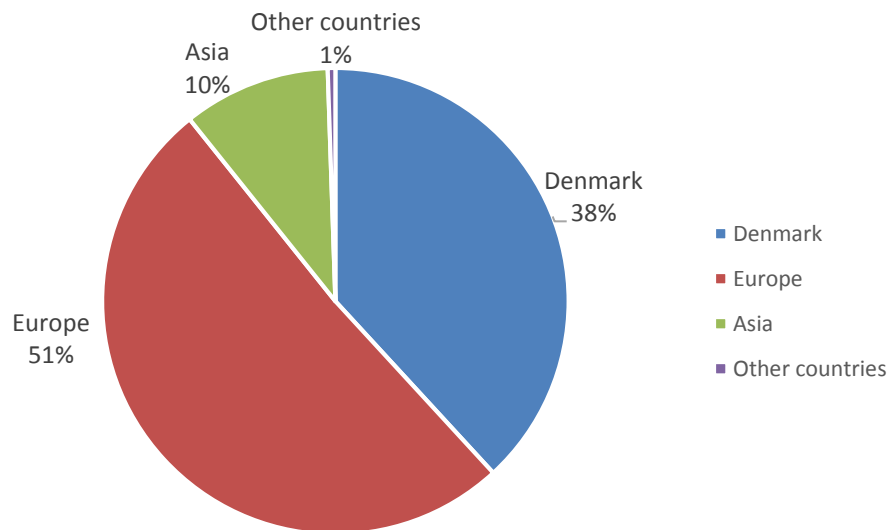
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## **CSR and business partners**

When we trade with suppliers, we are aware of the fact that we may be challenged in connection with our wishes and policies regarding the environment, social conditions and working conditions, human rights, corruption and bribery.

In order to obtain an overall picture of AO's risk in relation to the procurement of goods, we track, on a regular basis, AO's purchases by country of origin.

In 2017, AO's purchases of goods were divided up by country of origin in the following way:



We assess that our overall risk is relatively limited and that it relates primarily to purchases from Asia and other countries outside of Europe, corresponding to approximately 11% of AO's purchases from all suppliers.

On these grounds, we have drawn up a Supplier Code of Conduct, which is discussed with the supplier prior to the conclusion of a business agreement or in connection with the renewal of an agreement, and which is an integral part of the business agreement.

The Code of Conduct contains provisions regarding the supplier's and the subcontractors' compliance with internationally recognised rules on labour standards, human rights, environment, and bribery and corruption.

The Code of Conduct is adopted by the Board of Directors and is available at: <https://ao.dk/om-ao/investor-relations/in-english/company-profile/supplier-code-of-conduct/>.

Through our discussions and our Code of Conduct we hope to inspire and motivate our suppliers to set objectives and work with CSR through their activities, but as of yet we do not require any reporting.

In 2018, we will continue to monitor and assess the need for further action in this area.