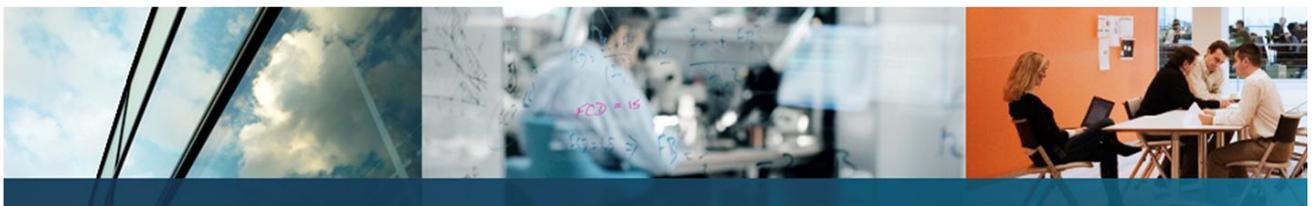


UN Global Compact - Communication on Progress

11. May 2012



Message from the CEO

In the spring of 2010, William Demant joined the UN Global Compact initiative pledging the Group to globally embrace, support and enact the principles of human rights, labour rights, environmental protection and anti-corruption. This document constitutes our second Communication on Progress.

Setting high ethical standards in our way of doing business is an integral part of our tradition and corporate culture. Within our natural sphere of interest, we find it natural to embrace social, environmental and ethical challenges beyond our legal obligations.

As our mission statement says: "All Group companies seek to promote a stimulating and rewarding working environment through a flexible, knowledge-based organisational structure. Moreover, the Group is committed to high standards of ethics, quality and fairness and is dedicated to meeting its environmental and social responsibilities."

Now, in line with the requirements of the Global Compact initiative, we have systematised our corporate social responsibility (CSR) efforts and are using a globally recognised framework for reporting our policies, activities and results. We will continue to be committed to support the Global Compact initiative and its principles, as reflected in the annual issue of a report on our work with CSR, our Communication on Progress.

Niels Jacobsen
President & Chief Executive Officer

United Nations Global Compact Communication on Progress 2011

On ethics and principles

We make high demands with regard to ethical standards and integrity in our business affairs. As it is part of our foundation and corporate culture, it is only natural for us to face the social and environmental responsibilities within our sphere of influence.

For an overview of our progress aligned with the Global Compact principles as well as our own 14 principles, please see [Table: UN Global Compact CoP 2012 in the last section of this report](#).

Our responsibility

To us, being responsible obviously means meeting certain principles, but it also means giving more than is necessarily expected. In this context we should mention that our parent, *William Demants og Hustru Ida Emilies Fond*, also known as the *Oticon Foundation*, awarded DKK 63 million for social, cultural and scientific purposes in 2011.

The primary objects clause of the Foundation concerns hearing loss. Honouring this, the Foundation funds the *Ida Institute*, which at global level develops tools to support people with hearing impairment in their process of recognition and treatment and works to disseminate information about hearing loss to the general public. The institute was granted DKK 36 million from the Oticon Foundation in 2010 to cover operating expenses for three years. In 2011, the institute received another DKK 2.3 million, which is earmarked for a specific project.

In addition, the Foundation supported educational institutions within the audiological field as well as audiology-related research projects in the amount of DKK 13 million.

On the more personally oriented side of the audiology clause we are proud that the Foundation supports projects in the third world such as South Africa and Vietnam. More on this under 'Human rights'.

Policies

Generally, we operate in compliance with [14 principles](#) covering corporate governance, human rights and labour rights, environmental protection and business ethics. These principles serve as guidelines for our development of dedicated policies and action plans, and they are developed in line with the Global Compact initiative.

As an example of how a principle leads to a policy, we have a [business ethics](#) policy that includes a set of rules for the way we interact with customers, business partners and other stakeholders. We have also drawn up an equality policy containing an action plan stipulating how to increase the number of female managers at all levels.

Policies into action

Global Compact – a global tool

In spring 2011, we submitted our first progress report to the UN's Global Compact, which we joined in 2010. Our participation in the Global Compact initiative is a commitment to furthering principles relating to human rights, labour, the environment and anti-corruption. Global Compact also acts as a universally recognised tool for further systematisation and reporting of responsibility initiatives. Our Communication on Progress report has been published on the UN's Global Compact website as well as on our own website.

Human rights

Encouraging diversity and ensuring fair treatment

We want more women in executive and managerial positions. Consequently, we have taken a series of initiatives to ensure equal opportunities for women to obtain executive positions in the Group as well as to increase the number of women in managerial positions.

For example, we wish to stress the fact that we want to see more women candidates responding to managerial job advertisements. We will also document the number of women in managerial positions in our Danish and foreign companies and the trend in this area. And with the support of Management, we will if necessary initiate specific activities to attract more female managers and to have more women rising through the ranks.

Maintaining good relations with neighbours and the surrounding society

Several causes benefit from the support of our majority shareholder, the Oticon Foundation. As co-founder of The Mary Foundation, founded by Her Royal Highness Crown Princess Mary of Denmark, the Oticon Foundation donated DKK 10 million to the Mary Foundation in 2007 and another DKK 10 million in 2011. The Mary Foundation aims to fight social isolation by helping children and adults who are lonely or who are the victims of bullying or domestic violence.

In 2010, the Oticon Foundation sponsored the building of a hearing clinic in Xanthia, a village in eastern South Africa. The clinic has all the equipment required to diagnose hearing losses as well as hearing aids donated by Oticon to help the many people in the local area who have not previously had the opportunity to deal with their hearing impairment.

On the other side of the world, in Vietnam, since 2010 the Oticon Foundation has supported *The Global Foundation for Children with Hearing Loss* in their efforts to improve conditions for children with hearing impairment. Among other activities, *The Global Foundation* develops educational initiatives for parents and teachers working with hearing impaired children and also helps these children gain easier access to hearing aids.

Labour

Providing a safe and healthy working environment – our suppliers code of conduct

Suppliers are one of our special focus areas. Our work is based on a comprehensive [code of conduct](#) that lists criteria governing aspects of human rights, labour, the environment as well as anticorruption –all four principles of the Global Compact.

The code has been used since 2010 throughout the Group and by the end of 2011, 225 of our suppliers of components and packaging had signed the code promising to comply with the rules. That is 35 more suppliers than in 2010, i.e. an increase of 18%. In terms of value, we buy about 90% of our direct materials for production and distribution from this group of suppliers.

We select and currently assess our suppliers based on this code. The suppliers are grouped in three categories according to the level of risk of breach of our code of conduct. The risk assessment is WDH's own methodology; it is subject to independent audit and based on the supplier's geographical presence, sector, management practices and strategic importance to WDH. The categorisation of suppliers helps us prioritise the resources needed for further dialogue with the suppliers.

If we find that there is a risk that a supplier does not live up to our code of conduct, we carry out the audit and draw up a report listing the items that need to be addressed before we can initiate or continue cooperation with that supplier. In 2011, we performed 49 CSR audits, 18 of them were made by an external auditing firm. 31 of the audits made in-house were follow-ups of previous audits, i.e. to control that initiatives contained in prior action plans had indeed been carried out. All 31 suppliers had complied with the requirements we had made which meant that no collaboration agreements were discontinued due to non-compliance.

Basically, the supplier is responsible for remedying any shortcomings but in many cases we work out a common solution. However, we do have a zero tolerance policy in some areas, such as child labour and forced labour.

Environment

Input and raw materials.

Naturally, we comply with all current environmental rules and regulations in all the countries in which we operate. Our product-related environmental impact is fairly limited. By way of example, a hearing aid weighs just 2-6 grammes [and contains no harmful substances], and the total weight of our entire annual output of hearing aids is a mere 10 tonnes.

In 2010 and 2011, we have focused especially on our product packaging. 2011 benefited from the full effect of our reducing and standardising the package size for a number of products in 2010, so that the total consumption of packaging materials fell by about one third compared with consumption prior to this initiative.

Waste handling

Another environment-focussed initiative has been implemented locally at our two Danish production sites in Thisted and Ballerup. We have increased the number of waste fractions from eight to 17, which has meant substantial savings in terms of environmental and financial resources. Today, all electronic wastes are recovered and sold for re-use, the volume of chemical

waste has been reduced, and the collection of combustible wastes has been improved. More specifically, we set up 'environmental stations' in all our departments with boxes for all wastes that can be recycled and used by waste management companies – including batteries, light bulbs, electronics, soldering tips, cables, metals and components suitable for gold recovery.

Energy consumption

In terms of the environment, being responsible means acting globally and locally and having the right attitude. One of our minor examples is the replacement of old-fashioned light bulbs with energy-saving light bulbs at our corporate head office at Smørum with over 700 staff. Another initiative, this one quite significant, is so-called server virtualisation making it possible to operate several locally separate servers on fewer physical servers. This will reduce power consumption for both operation and cooling – and improve operational stability. Overall, these initiatives reduced our power consumption at head office by about 14% from 2010 to 2011, a period, in which the total number of staff rose by more than 11%. From 2008 to 2011, power consumption fell by almost 29% at this location, and with a new control system, we also managed to reduce heat consumption by 30% from 2010 to 2011.

Carbon Disclosure Project

One way of benchmarking an environmental imprint is by reporting to the *Carbon Disclosure Project* (CDP). We have done so since 2008, reporting corporate CO₂ emissions and climate strategy. If we look at trends from 2009 to 2011, according to our CDP reports, emissions in the countries in which production takes place rose by approximately 4% to 10,200 tonnes compared to the revenue increase of 17%. Adjusted for changes to the applied emission factors due to changes in the energy supply, the CO₂ emissions rose by 8%. From 2009 to 2010, the same figures were 2% and 5% respectively compared to a 21% revenue increase in the same period of time.

CO₂ emission by staff member in 2011 was only 3 tonnes which is low for a production company. Actually, this level corresponds to the emission level for the financial industry. Electricity accounts for about 85% of corporate CO₂ emissions, heating buildings for about 8% and company cars for about 7%.

Anticorruption

We are convinced that our business can only flourish if based on sound business ethics. We develop innovative products of high quality and to benefit users through our products is our primary goal. We therefore have no interest in supporting business conduct that contributes to distorting market mechanisms. WDH has not been involved in any legal cases or settlements regarding business ethics.

In 2010, we adopted a company-wide formal business ethics policy, which outlines how we want to act and be seen with regard to the ethical aspects of doing business and interacting with customers. Specifically, the policy provides guidelines as to what is appropriate and inappropriate marketing, hospitality and other interaction with hearing healthcare professionals.

We do not offer, give, accept or receive bribery in any form and we discourage facilitation payments. Along these lines, it is important to note that situations where corruption is prevalent often occur in third world countries in connection with public tenders and that these tenders rep-

resent a very limited part of our total revenue. In fact, OECD countries account for approximately 90% of the market for hearing aids. By the nature of our business challenges regarding corruption are thus extremely rare. Nevertheless, according to the policy, we have incorporated business ethics principles into contracts with third parties where relevant, and we have applied a set of principles to avoid misuse of payments and financial transactions.

Furthermore, we make an effort of communicating our business ethics throughout our business making it a natural part of all managers meetings and internal training.

Goals for the future

Our affiliation with the Oticon Foundation means that our future growth will also benefit society. For example, in early 2012 the Oticon Foundation will invest DKK 1.7 billion in a wind farm through William Demant Invest A/S (WDI). The wind farm will be erected off the German North Sea coast and from 2015 it is to produce green electricity matching the consumption of 285,000 households. WDI's interest in the wind farm will constitute about 18% and the corresponding production of green power will be more than five times the total corporate consumption of electricity. Once the wind farm has been erected, the investment in green power will make WDH a very green enterprise almost overnight. Most of the energy consumed by the Group at global level is used for heating and cooling buildings, lighting and computers, networks etc., with just a small part devoted to producing corporate products. Our investment in wind energy is therefore completely in step with our increasing focus over the past three or four years on further reducing the environmental impact of our energy consumption, which is already relatively low.

Joining the *Global Compact* initiative, our participation in the *Carbon Disclosure Project* and generally higher focus on communication regarding responsibility all testify that this work is a priority and will be further developed in future.

Table: UN Global Compact CoP 2011

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Focus areas	Corporate governance (WDH specific)	Human rights	Labour	Environmental protection	Anticorruption
WDH 14 principles	<p>1. We maintain an accountable and efficient management structure.</p> <p>2. We communicate in an open, transparent, impartial and timely manner with the stock market about the Group's strategy, objectives and risks.</p> <p>3. We maintain adequate internal control mechanisms with a view to monitoring, managing and mitigating any material risks associated with our business.</p>	<p>4. We treat our employees with respect and dignity, encourage diversity and ensure fair treatment.</p> <p>6. We provide a safe and healthy working environment where employees can perform to their full potential and where initiative is encouraged.</p> <p>8. We strive to maintain good relations with neighbours and the surrounding society through involvement and open communication.</p> <p>14. To benefit the users of our products is our primary goal. We therefore avoid actions that may influence business decisions to the disadvantage of the end users.</p>	<p>5. We do not use and prohibit the use of forced labour or child labour.</p> <p>7. We recognise our employees' rights to freedom of association and collective bargaining.</p>	<p>9. We use materials efficiently and strive to optimise packaging as well as waste handling.</p> <p>10. We limit the use of hazardous substances in products and processes.</p> <p>11. We monitor our impact on the climate and aim to reduce energy consumption.</p>	<p>12. We are committed to abide by the laws and regulations of the countries in which we operate. In the absence of adequate laws and regulations, we refer to recognised international standards and industry norms.</p> <p>13. We work against bribery and other forms of corruption, both directly and indirectly through our business partners, and we strive to avoid facilitation payments.</p>
Special attention/action	<p>The Directors rely on the recommendations for corporate governance drawn up by The Committee for Corporate Governance in Denmark, updated August 2011.</p>	<p>Highlighted projects:</p> <p>1. Women in management. Special focus with new policy and action plan for 2012 and onwards</p> <p>2. Oticon Foundation: Ida Institute. Tools to support people with hearing impairment in their process of recognition and treatment. Information about hearing loss to the general public.</p> <p>3. Oticon Foundation: The Centre for Applied Hearing Research established at Denmark's Technical University (DTU)</p> <p>Also, our suppliers' code of conduct includes criteria relating to human rights</p>	<p>In general:</p> <p>Our suppliers' code of conduct includes criteria relating to labour.</p>	<p>Highlighted projects:</p> <p>1. Server virtualisation and general focus on cutting power consumption</p> <p>2. Heat management</p> <p>3. Waste management</p> <p>4. Packaging project</p> <p>5. Reporting to CDP</p> <p>Also, our suppliers' code of conduct includes criteria for the environment.</p>	<p>In general:</p> <p>Our suppliers' code of conduct includes criteria for anticorruption.</p> <p>Business ethics policy</p>

Focus areas	Corporate governance (WDH specific)	Human rights	Labour	Environmental protection	Anticorruption
Results and goals	<p>We have developed a comprehensive Statutory Report on Corporate Governance 2011 describing and reviewing the WDH systems for corporate governance. We comply with 74 out of 79 recommendations from The Committee for Corporate Governance.</p>	<p>Re 1: Women in management: Increasing the number of female managers at all levels through four specific initiatives is a corporate goal.</p> <p>Re 2: By making patient-centred care the core of hearing care practice, The Ida Institute aims to positively impact hearing impaired persons and hearing care professionals around the world</p> <p>Re 3: Promoting research and education within the field of acoustic communication</p>	<p>225 suppliers of components and packaging have signed the code of conduct, an increase of 18% from 2010 to 2011. About 90% of our total purchases come from this group of suppliers.</p> <p>Based on the code, we carried through 49 CSR audits in 2011. No cooperation agreements were interrupted due to deviations.</p>	<p>Re 1: Power consumption at head office reduced by about 14% from 2010 to 2011 and by almost 29% from 2008 to 2011.</p> <p>Re 2: Heat consumption reduced by 30% from 2010 to 2011.</p> <p>Re 3: Types of waste containers increased from 8 to 17 – electronics waste recovered and sold for reuse, the volume of chemical wastes reduced and the collection of combustible waste changed.</p> <p>Re 4: Reduction and standardisation of package sizes for products and packaging consumption fell by about one third.</p> <p>Re 5: Reporting to Carbon Disclosure Project, CDP. In 2010-2011 CO2 emissions only rose by about 4% compared with a rise in revenue of about 17%.</p>	<p>225 suppliers of components and packaging have signed the code of conduct, an increase of 18% from 2010 to 2011. About 90% of our total purchases come from this group of suppliers.</p> <p>Based on the code, we carried through 49 CSR audits in 2011. No cooperation agreements were interrupted due to deviations.</p>