

United Nations Global Compact Communication on Progress



Message from the CEO

Since spring 2010, we have actively supported the UN Global Compact initiative. Thus, this is our third Communication on Progress report, summarising how, on a global scale, the William Demant Group embraces, supports and enacts the principles of human rights, labour rights, environmental protection and anti-corruption.

We find that the requirements of the Global Compact initiative provide us with an excellent framework to further systematise our corporate social responsibility (CSR) efforts, and we are confident that by using a globally recognised framework for reporting our policies, activities and results, we will be able to sharpen our focus even more in the areas within our natural sphere of interest where it is possible for us to embrace social, environmental and ethical challenges beyond our legal obligations.

The UN Global Compact initiative is already incorporated into our mission statement, which states: "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."

We will continue to be committed to support the Global Compact initiative and its principles, by issuing an annual report on our work with CSR, the Communication on Progress.

Niels Jacobsen
President & Chief Executive Officer

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United Nations Global Compact Communication on Progress for 2012

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On ethics and principles

We make an effort to meet the social and environmental responsibilities within our sphere of influence. It is simply part of our foundation and corporate culture. Thus, our ethical standards and requirements and our integrity in business affairs are high and in many cases above the legislative demands imposed upon us in the markets where we operate.

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

Being responsible, to us, means meeting certain principles and always following local legislation, but it also means giving more than is necessarily expected or required by law. Hence, we find it relevant to mention how our parent, the Oticon Foundation, awarded close to DKK 100 million for social, cultural and scientific purposes in 2012.

The Oticon Foundation

The primary objects clause of the Oticon Foundation concerns hearing loss. In 2012, with a grant of DKK 36.5 million from the Foundation, the Technical University of Denmark (DTU) founded a new research centre with special focus on cross-disciplinary basic research in the audiological disciplines. In more popular terms, the different disciplines will meet to research the so-called 'cocktail party problem', or the noisy situations where people with a hearing impairment are especially challenged. The aim is to get a deeper understanding of how speech and music are processed and perceived by the brain. The centre is called the Oticon Centre of Excellence for Hearing and Speech Sciences, colloquially just the Oticon Centre of Excellence. In addition to the new research centre, over the years, the Oticon Foundation has over the years also subsidised the Centre for Applied Hearing Research (CAHR) at DTU by a total of DKK 20 million. As opposed to the Oticon Centre of Excellence, CAHR focuses on so-called applied research, leading to the development of practical solutions for diagnosing and treating hearing loss.

Throughout 2012, the Foundation has supported educational institutions within the audiological field as well as audiology-related research projects at a total amount of DKK 58 million.

In addition to the donations supporting education, it is important for us to acknowledge that the Foundation supports audiological projects in the third world and in remote regions where the population faces extra challenges when it comes to taking care of people suffering from hearing loss. New projects in Brazil and Greenland have been added to already established projects in South Africa and Vietnam. More on this under 'Human rights'.

Policies

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

As an example of how a principle becomes a policy, we have laid down 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. This specific policy has received special attention in 2012. Please refer to the 'Human rights' paragraph.

Policies into action

Global Compact – a universal tool

Since our first Communication on Progress to the UN's Global Compact in spring 2011, we have experienced progress within several of the four focus areas covered by the ten principles. And we take our participation in the Global Compact initiative quite seriously. It is a commitment to furthering principles relating to human rights, labour rights, the environment and anti-corruption.

As the framework is a universally recognised tool used for systematising and reporting responsibility initiatives over a continuous period of time, it indicates how we have developed so far and also whether we are moving along the right path. In other words, it acts as guidance for us to maintain and strengthen our focus within corporate social responsibility.

Our Communication on Progress is published on the UN's Global Compact website as well as on our own website.

Human rights

Principle 3: *"Uphold the freedom of association and the effective recognition of the right to collective bargaining"*

The William Demant Group has signed collective agreements with relevant labour unions. Subsequently, we negotiate and sign local agreements, duly considering local conditions, thus further improving terms regarding salary, working hours, salary increments, education etc.

We respect and support the individual's membership of labour unions.

Maintaining good relations with neighbours and the surrounding society

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 previ-

ously had the opportunity to deal with their hearing impairment. In 2012, the Xanthia clinic treated more than 100 individuals and provided 35 hearing instruments to people who would not otherwise have had the chance to benefit from our advanced products.

On the other side of the world, in Vietnam, the Oticon Foundation has since 2010 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. So far, the project has been able to help more than 900 children with hearing loss.

In 2012, a new clinic project in Parintins, Brazil, was initiated and supported by the Oticon Foundation. The clinic employs a full-time audiologist, who performs hearing tests on all age groups from newborns to adults. About 50 people are tested each month, 10% of whom are children. The clinic fits 10-15 hearing aids every month. In addition to donating hearing aids, the clinic also supplies free batteries and dehumidifiers. If enough people volunteer, the plan is to visit schools and riverside areas to perform hearing tests.

Labour

Principle 4: *"Businesses should uphold the elimination of all forms of forced and compulsory labour"* (et al.)

Supplier code of conduct – providing a safe and healthy working environment

Suppliers are one of our special focus areas. All suppliers must sign a comprehensive [code of conduct](#) that lists criteria, governing aspects of human rights, labour rights, the environment as well as anti-corruption – in fact, all four principles of the Global Compact. Thus, this code of conduct covers more than just Principle 4, but the compliance with our policy is described under Principle 4, as we focus our attention on our Chinese suppliers in a part of the world where labour relations are a big issue.

The code has been used since 2010 throughout the Group, and at the end of 2012, 229 of our suppliers of components and packaging materials had signed the code, promising to comply with the rules. That is four more suppliers than in 2011. 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 based on William Demant's own methodology. It is subject to independent audit and is based on the supplier's geographical presence, sector, management practices and strategic importance for William Demant. 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 an audit and prepare a report, listing the items that need to be addressed before we can initiate or continue cooperation with that supplier. In 2012, we performed 24 CSR audits, four of which were carried out by an external auditing firm. Of the audits made in-house, all 20 were follow-ups on previous audits, i.e. to control that initiatives contained in prior action plans had indeed been

carried out. All 24 suppliers had complied with the requirements we had made, which means 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.

Principle 6: "Uphold the elimination of discrimination in respect of employment and occupation"

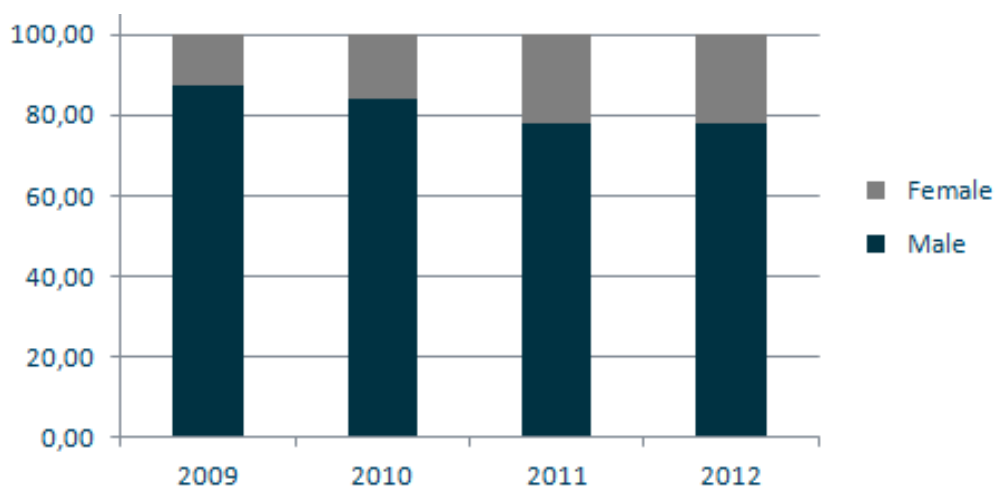
More female managers

We work actively to encourage more women to seek executive and managerial positions. In 2012, to formalise and support this goal we therefore developed a policy and action plan with a view to increasing the share of female managers in the William Demant Group. We simply called it '[More female managers](#)'.

In this policy, for example, we stress that when we cooperate with external suppliers to recruit candidates for executive positions, it is a mandatory part of the search criteria that the Group wants to see women in the field of candidates. And internally, our managers and HR function have special focus on the number and qualifications of both internal and external female applicants for executive positions in the Group.

Once every year, Group Management will consider whether or not the current number of female managers in the Company can be considered natural compared with the underlying number of potential candidates having the relevant professional background, and – if this is not the case – Management will launch activities to change this.

Measuring the number of women in managerial positions in our Danish and foreign companies, we see a positive trend in this area. Over the last four years, the total ratio of female managers has risen from 13% in 2009 to 22% in 2012. We still have a way to go when it comes to top management, but with this effort and focus, we aim to improve our internal recruiting procedure so in the future, we should see women in top management too.



Development in female-male ratio, total management

Management level		Top management	Senior management	Middle- and first line management	Total
2009	Male	100%	92%	83%	87%
	Female	0%	8%	17%	13%
2010	Male	100%	86%	80%	84%
	Female	0%	14%	20%	16%
2011	Male	100%	81%	73%	78%
	Female	0%	19%	27%	22%
2012	Male	100%	86%	70%	78%
	Female	0%	14%	30%	22%

Development in male-female ratio, from top management to first-line management

Environment

Principle 7: "Support a precautionary approach to environmental challenges"

Principle 8: "Undertake initiatives to promote greater environmental responsibility"

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. Putting our production into perspective, the total weight of our entire annual output of hearing aids only adds up to approximately 12 tonnes.

Restricted lists

Although the use of raw material is limited compared to other industries, we still encourage a precautionary approach to environmental challenges. Thus, we have implemented the use of 'Restricted lists'. A restricted list is a list of chemicals that are somehow restricted from use in hearing aids. The document lists all relevant components and materials, which are banned or restricted. It is mandatory for our suppliers to comply with the Restricted list, which is controlled through a declaration of conformity and/or audits. The list is an initiative taken by William Demant, and it is mainly based on regulations, such as the ROHS directive, Toys directive, the REACH candidate list etc. Substances are categorised in classes:

- Class I: Prohibited (not to be introduced in the production or be present in any products put on the market by the William Demant Group).
- Class II: Restricted (for restricted use only).
- Class III: Subjected to special deliberation (can be used, but under observation).
- Class IV: Under observation (can be used after thorough risk assessment).

Working with restricted lists ensures full transparency on the use of hazardous substances and also ensures compliance with relevant directives, and it gives the manufacturers the opportunity to set the bar even higher than required or recommended by external standards.

Waste handling

Waste handling is an important focus area. Not only have we implemented local initiatives at our two Danish production sites in Thisted and Ballerup, leading to substantial savings in terms of environmental and financial resources, but we have also created the opportunity to inform our employees of and educate them in waste handling. The latest project open for all employees in Denmark is the so-called WasteAcademy. WasteAcademy offers enterprises tailor-made education in how to handle and optimise their specific waste issues. It is a portal solution that enables the 'students' to complete an e-learning session and to be kept up-to-date on the latest developments on this subject.

Organic canteen

At William Demant's headquarters in Smørum, Denmark, the canteen, which cooks breakfast and lunch for approximately 600 people every day, received a so-called silver certificate in 2012, due to the fact that 60-90% of the food served in the canteen is organic. Only a few canteens in Denmark have received this certification.

Energy consumption

In terms of the environment, being responsible means acting globally and locally and having the right attitude. We constantly try to do better in this field. By way of example, our Swiss operations, employing approximately 150 people, in 2012 equipped their air-condition systems with a heat recovery system. Due to this improvement, 90% of the heat is now recovered in the wintertime. Also in Switzerland, a major part of the general lighting system has been renewed and converted into low-energy systems, mainly using LED. In addition, the new systems are equipped with automatic on/off switches and detectors. These examples may seem small and almost insignificant, yet they show responsibility and dedication to save energy, and they show that supporting a precautionary approach to environmental challenges is universally shared throughout the entire William Demant Group.

Energy consumption and the carbon footprint can also be addressed by 'moving the mountain'. In Brisbane, Australia, we moved our facilities in late 2012 to Nundah, very close to Brisbane airport. This way, we have substantially reduced our transport routes to major carrier hubs and airfreight terminals.

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. At the time of writing this report, no figures were yet available for 2012, but looking at 2011, CO₂ emission by staff was only 3 tonnes, which is low for a production company. Actually, this level corresponds to the emission level in the financial industry. Electricity accounts for about 85% of corporate CO₂ emissions, the heating of buildings for about 8% and company cars for about 7%.

Principle 9: "Encourage the development and diffusion of environmentally friendly technologies"

Marketing materials

Even though our products are small and contain no harmful substances, the production of printed marketing materials used to facilitate the sales process of each hearing aid is quite substantial. Today, more than 70% of our marketing materials are based on an off-line solution (print) and 30% on an on-line (digital) solution. The goal is to reverse this ratio to 30% off-line and 70% on-line, even though a specific time frame has not yet been set.

Concretely, we have launched the following initiatives to reduce the effect of printed materials on the environment:

- Electronic proof impressions reduce printed proof impressions by 80%.
- All printed materials are FSC-labelled. FSC, or the Forest Stewardship Council, promotes environmentally appropriate, socially beneficial and economically viable management of the world's forests.
- All printing companies on our list of vendors are certified according to acknowledged environmental standards.
- Our use of chemicals (e.g. UV varnish) has been significantly reduced and is coming very close to elimination.
- All in-house printers are connected to a recycle solution.

Offshore windmill farms

In early 2012, the Oticon Foundation invested DKK 1.7 billion in a wind farm through William Demant Invest (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 constitutes 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 William Demant a very green enterprise almost overnight.

Most of the Group's energy consumption 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 increased focus over the past three or four years on further reducing the environmental impact of our energy consumption, which is already relatively low.

Anti-corruption

We are convinced that our business can only flourish if based on sound business ethics. We develop innovative, high-quality products and our primary goal is for the users to benefit from our products. We therefore have no interest in supporting business conduct that contributes to distorting market mechanisms. William Demant has not been involved in any legal disputes or settlements on business ethics.

In 2010, we adopted a formal business ethics policy that applies to all Group companies. The policy outlines how we want to act and how we want to be perceived, when it comes 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 represent 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 to communicate our business ethics to all our companies, thus making ethics a natural part of all manager meetings and internal training sessions.

Goals for the future

Special focus areas for the near future are general environmental initiatives. In the area of facility management, i.e. in connection with building and renovation projects, we will make an effort to ensure that we always choose the best solution, which means implementing environmentally friendly improvements.

Also, marketing will receive special attention in the near future. The project to reverse the print/on-line material ratio from 70/30 to 30/70 will continue, and new improvements will be made on an ongoing basis.

On the labour side, project 'More female managers' will receive continued attention, as it is a long process and requires substantial efforts that touch upon many layers of the organisation to achieve this goal.

There is no doubt that our joining the Global Compact initiative, our participation in the Carbon Disclosure Project and our generally increased focus on communication on responsibility all testify to the fact that this work is a priority and will be further developed in future.

Table: UN Global Compact CoP 2012

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Focus areas	Corporate governance (WDH-specific)	Human rights	Labour rights	Environmental protection	Anti-corruption
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 we 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 our 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 of 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 through 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 through 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 rights.</p>	<p>Highlighted projects:</p> <p>1. Restricted list initiative</p> <p>2. 'Waste Academy for employees</p> <p>3. Reduce printed marketing material</p> <p>4. Offshore windmill farm.</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 anti-corruption.</p> <p>Business ethics policy.</p>

Focus areas	Corporate governance (WDH-specific)	Human rights	Labour rights	Environmental protection	Anti-corruption
Results and goals	<p>We have developed a comprehensive Statutory Report on Corporate Governance 2012, describing and reviewing the William Demant 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>229 suppliers of components and packaging have signed the code of conduct. About 90% of our total purchases are made through this group of suppliers.</p> <p>Based on the code, we carried through 24 CSR audits in 2012. No co-operation agreements were suspended due to deviations.</p>	<p>Re 1: In the William Demant restricted list initiative, substances are categorised in four classes, ensuring full transparency on the use of hazardous substances and ensuring compliance with relevant directives.</p> <p>Re 2: WasteAcademy offers tailor-made education in how to handle and optimise waste issues. By completing e-learning sessions 'students' are kept up-to-date on the latest developments on the subject.</p> <p>Re 3: Results on different aspects of the project: Reduced printed proof impressions by 80%. All printed materials are FSC-labelled. All printing companies on our list of vendors are certified according to acknowledged environmental standards. Use of chemicals (e.g. UV varnish) close to elimination. All in-house printers are connected to a recycle solution.</p> <p>Goal: To reverse ratio between off- and online material to 30% off-line and 70% on-line.</p> <p>4. The William Demant share of the offshore windmill farm will from 2015 produce more than five times the total corporate consumption of electricity in green power.</p>	<p>229 suppliers of components and packaging have signed the code of conduct. About 90% of our total purchases are made through this group of suppliers.</p> <p>Based on the code, we carried through 24 CSR audits in 2012. No co-operation agreements were suspended due to deviations.</p>