

UN Global Compact - Communication on Progress William Demant Holding A/S

12. May 2011



Message from the CEO

Setting high ethical standards in our way of doing business is an integral part of our corporate mission statement. Within our natural sphere of interest, we readily contribute to tackling 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."

On that background, it was a natural next step for us to join the UN Global Compact initiative in the spring 2010 pledging the Group to globally embrace, support and enact the principles of human rights, labour rights, environmental protection and anti-corruption. Based on this initiative, we have systematised our corporate social responsibility (CSR) efforts and are now using a globally recognised framework for reporting our policies, activities and results.

In line with the requirements of the Global Compact initiative we will annually issue a report on our work with CSR, our Communication on Progress. This document constitutes our first Communication on Progress and we continue to be committed to support the Global Compact initiative and its principles.

Niels Jacobsen
President & Chief Executive Officer

Systematising our CSR efforts

In 2008, a process was initiated with a view to documenting that CSR principles are firmly anchored in William Demant Holding (WDH) and to facilitating that this corporate business philosophy would be more actively reflected in both internal and external communication. Further objectives were:

- Assessing the need for formal policies
- Identifying processes where CSR could be further integrated.

The main finding of this process was a strong track record of fundamental business values that have guided management and employees. This has historically contributed to WDH's attractiveness as workplace, business partner and investment object. Also, we found:

- No immediate exposure to risks associated with unethical business practice
- Strong culture guiding employee behaviour more than written policies and guidelines
- Strong, but informal, review of business conduct among cooperation partners, most notably suppliers
- A growing number of external stakeholders asking for clearly stated company policies and systematic actions within the field of CSR.

Based on these findings, it was decided to formalise WDH's approach to corporate responsibility through the development of more transparent principles and policies and to extend the existing supplier code of conduct.

Policies and procedures

WDH is founded on a value-based corporate culture and limited use of written guidelines. Nonetheless we decided, based on the findings listed above, to prepare a policy on corporate social responsibility to facilitate the clarification of attitudes, organisational anchoring and prioritisation across business units and cultures. Secondly, a formal policy would ease the communication of corporate aspirations and initiatives to stakeholders, who often expect formal policies within this field.

We have specified our key corporate responsibilities and contributions in 14 principles covering four focus areas:

- Corporate governance – ensuring that we maintain an accountable and efficient management structure characterised by a high level of transparency and responsibility
- People and society – ensuring that we contribute to the growth of society, while respecting basic human rights and maintaining a safe and engaging working environment
- Environmental protection – ensuring that we limit any adverse impacts on the external environment
- Business ethics – ensuring that we generate our business results in an honest and fair manner.

The principles provide guidance for management and all employees. Moreover, the policy is distributed to relevant business partners and an obligation to conduct their business in respect of the 14 principles is, where relevant, incorporated into contracts with third parties.

We have also formulated a comprehensive business ethics policy and an extensive code of conduct for suppliers, all of which are available on our website.

People and society

WDH supports the Universal Declaration of Human Rights and ILO's Declaration of Fundamental Principles and Rights at Work. These declarations are vested and strongly enforced in Danish legislation and our corporate culture. We therefore see the greatest potential for improvements in these areas of our work with potential and existing suppliers outside Denmark, e.g. in Asia and other relevant regions.

Responsible supply chain management

Our interaction with suppliers is guided by relevant procedures in our certified quality management system, which includes a supplier code of conduct aiming to help suppliers improve their social and environmental standards. The code currently covers all suppliers of hearing aid components and aims to expand coverage to the whole WDH group. The enforcement of the code is secured through a systematic integration of human and labour rights, environmental concerns and business ethics standards in our supplier selection and evaluation procedures.

The code sets specific terms for the suppliers' business practice based on the main principles contained in the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the Eight Fundamental ILO Conventions and the United Nations Convention against Corruption.

At this point, over 190 suppliers of components and packaging have signed an agreement to comply with our code of conduct. This group of suppliers accounts for about 85-90% of our total purchases.

Since 2010, all existing and new hearing component suppliers, who fulfil a few specific materiality criteria, have been subject to a thorough review of their business practice. 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 the assessment of a potential new supplier exposes a high risk of breach of our code, an audit must be performed before any further dialogue with the supplier can be initiated. If the risk is considered medium, an audit must be performed before final approval of the supplier, and if the risk is considered low, corporate responsibility is integrated into the dialogue with the supplier,

but no audit is required. In practice, a site visit is almost always carried through before a supplier is approved. Existing suppliers are also evaluated according to this risk assessment. Medium-risk suppliers are audited once every 18 months and high-risk suppliers are audited once every 12 months.

In 2010, we carried out 28 CSR audits of which 26 audits were performed by an external auditing firm with participation from our own team. 25 action plans for corrective actions were made in cooperation with WDH and suppliers where issues were found.

We will actively combat child labour and forced labour, and we have strict criteria for compliance with international conventions. For instance, a checklist with more than 130 questions has been prepared by our organisation in China responsible for supplier cooperation in Asia. Based on this checklist, a score is derived from the audit.

We prefer to work with suppliers with a high score and have set up systems for follow-up and action planning if the findings of the audit are not favourable. As an example of the outcome of an audit action plan one of our suppliers in China has now implemented more regular short breaks in addition to the longer lunch or dinner break. One of the results is an absolute increase in production. This has led the supplier to a new and different understanding for the employees where the typical way of increasing the output in this area is to merely increase the pressure on the workforce.

If problems are revealed with an existing supplier, our first option is always to cooperate with the supplier to improve conditions. If, however, a supplier fails to improve identified conditions, we reserve the right to terminate the cooperation. So far, no contracts have been terminated due to ethical misconduct, but a number of potential suppliers have been rejected based on a site visit.

A substantial part of our raw materials, components and packaging derive from China, and in our CSR efforts we therefore provide special attention to the Asian region. In April 2010, WDH hosted a CSR summit in China for Asian suppliers where our position on CSR was emphasized, experiences were discussed and representatives from the Danish embassy in China presented the Danish-Chinese approach to CSR.

Environmental protection

We have identified our main environmental aspects to be the use of chemical substances, the handling of electronic waste, the use of packaging and energy consumption for equipment and facilities, but the environmental footprint of our activities is limited as very few materials are used for the manufacture of hearing aids. For instance, a hearing aid weighs just 2-6 grams. Additionally, the major part of our production is the assembly of finished components. Waste from our production and offices is separated in appropriate fractions and disposed of with a view to maximising recycling to the greatest extent possible.

Product raw materials

We have implemented the requirements set out in the EU Restriction of Hazardous Substances (RoHS) Directive in our main hearing aid factories located in Denmark and Poland. The RoHS Directive bans six substances (lead, cadmium, mercury, hexavalent chromium, PBB and PDBE) from products put on the EU market, but our approach means that these selected hazardous substances are excluded from all our products worldwide.

Furthermore, in 2010 we established our own 'Restricted List' which in addition to RoHS also includes substances covered by the EU directives REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) and CLP (Classification, Labelling and Packaging of substances and mixtures).

In August 2010, we sent this comprehensive list of restricted substances to our 451 suppliers. The allowed use of each substance was rated from 'no use' to a maximum level, and by the end of 2010, suppliers accounting for 50% of our total purchase value had responded with information about which substances they use and how much.

Reducing packaging

Since 2009, we have worked on making unit packaging uniform and reducing the pack sizes. In 2010, this has reduced our consumption of packaging materials by about one third. As a positive side effect, the customers' handling and storage of our products has been eased.

Our packaging is made from recycled materials.

Climate and CO2 emissions

Since 2008, we have chosen to report corporate carbon dioxide (CO2) emissions and climate strategies through the Carbon Disclosure Project (CDP), which enables a comparison with other companies. From 2009, our annual carbon dioxide emissions have been reported for the countries in which production takes place. The emission in 2010 was 3.3 tonnes per employee, quite a low level for a manufacturing company. WDH is a company in growth, and from 2009 to 2010 the overall emission level increased less than 5% compared to an increase in revenue of more than 20%. Power consumption accounted for about 85% of corporate carbon dioxide emissions, heating of buildings for about 9% and company cars for about 6%.

WDH does not participate in any trading schemes and has not set any corporate reduction targets due to the already low energy consumption level. However, the ongoing reduction of energy consumption is part of the responsibility of local facility management at our sites. At the headquarter in Denmark the electricity consumption has dropped 10% in 2010 in spite of an increased number of employees at the location. This is due to the installation of new energy saving servers, new cooling unit in the server room, tighter control of the overall ventilation system and change to low-energy light bulbs.

Business ethics

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.

We do not offer, give, accept or receive bribery in any form and we discourage facilitation payments.

While all employees must comply with the laws and regulations of the country in which they operate, employees may be confronted with dilemmas while striving to balance this requirement with local cultures and customs. In such cases, it may be conducive to consult international conventions and guidelines to find an appropriate solution. This also implies that local customs, which have served as a guideline in the past, may be considered inadequate and/or inappropriate.

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.

Finally, according to the policy we will incorporate 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.

Oticon Foundation

The Oticon Foundation is the largest shareholder in WDH with an ownership share of 55-60%. The Oticon Foundation every year sponsors over DKK 50 million on social and educational programs, publications, conferences, cultural activities and campaigns – the receivers being both researchers, hearing-care professionals and the general public.

Final words

The number of enquiries from investors and other key stakeholders in relation to our corporate responsibility policies rose moderately in 2010, and we expect this trend to continue. With our participation in CDP and our Global Compact commitment, we wish to emphasise that we will prioritise and further develop these activities over the next years.