

CSR

STATUTORY REPORT ON
CORPORATE SOCIAL
RESPONSIBILITY
CF. SECTION 99a OF THE DANISH
FINANCIAL STATEMENTS ACT



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CSR 2019

Brødrene A & O Johansen A/S
Rørvang 3 - 2620 Albertslund
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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 2019 and covers the accounting period from 1 January to 31 December 2019.

AO is a knowledge-based IT and logistics enterprise. Our customers are primarily in Denmark, and most of our purchases are made in Europe.

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

AO complies with current legislation and international conventions in the countries and communities where we operate.

We want to be a responsible company that observes 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 CLIMATE, AND SOCIAL 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 environmental and climate issues.

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.

In 2020, we will start working on having our policies and social responsibility goals reflect the UN goals that are relevant to us, so that by 2021 we can set goals that make our contribution to the selected world goals visible.

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

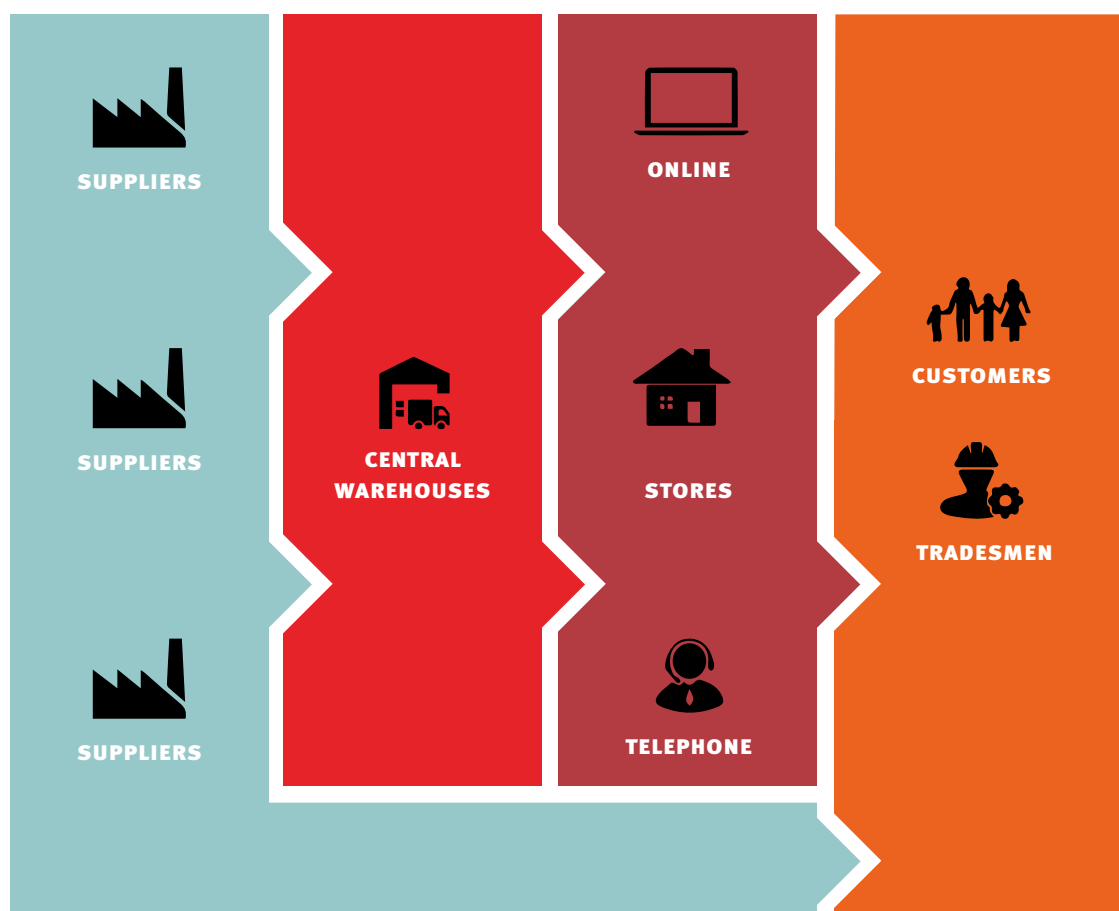
AO is a knowledge-based IT and logistics enterprise with a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

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 guidance 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, smartphone apps and self-service solutions in our 50 stores 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 direct social impact on the environment and climate is limited. Nevertheless, we have chosen to work actively to make a positive difference and reduce our negative impact on the environment.

In Denmark and Sweden, we are environmentally certified according to DS/EN ISO 14001:2015, and in 2019 we were once again recertified by DNV.

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, work processes 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 – bigger consignments, less haulage and fewer number of kilometres driven in the service of the company (driving in company cars and mileage allowance)

as the most significant.

ENVIRONMENTAL INITIATIVES AND ACTIONS, INCLUDING RISKS

In the latter half of 2019, we have strengthened our environmental and energy work and linked it even more to our management system. We have confidence that this will filter through to the entire organisation and deliver long-term results.

Remote reading of heat and electricity has been established in more than 95% of our locations. In the remaining stores it has not been possible to install remote reading units, and they will therefore continue doing manual readings. Remote reading of heat and electricity in our Danish locations started to give results in 2019, and we are experiencing a growing local awareness.

Our nationwide agreement on waste collection makes it possible to differentiate various types of waste at all AO locations and to optimise the number of collections by monitoring the fill levels of waste containers. Thus, the number of transports to and from the stores in connection with the disposal of waste is reduced. Small quantities of specific waste types generated at the locations are no longer being collected. Instead, this waste is being disposed of by being sent to the central warehouse together with returns that are to be returned anyway. From here the waste is disposed of with all relevant waste from the central warehouse

In the central warehouse all diesel trucks have been phased out. Instead, electric trucks have been purchased. In 2019, we continued our replacement of outdated lighting fixtures with modern and energy-saving LED lighting in several of our locations.

In 2019, we have also 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.

We have continued working on reducing the number of kilometres driven in the service of the company, including finding relevant and accessible performance indicators for our efforts. The latter has proved to be a major challenge as we do not have separate private driving records for our company cars, and it has proved difficult to find accurate key figures for the increase in Skype meetings. Regardless, our work in this area will continue in 2020.

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_2020. In addition, see below under "CSR and business partners".

In our stores we advise our customers on environmentally friendly products, and in many of our stores we offer free return of light sources, pumps from Grundfos, batteries, vitreous china and PVC through the "WUP-PI" scheme. Through energy optimisation in our stores we will also be at the forefront in our efforts to save energy, and at the same time we will make our customers aware of 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, changes in work processes, new locations, new transport methods or new transport patterns, etc., 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 waste and recycling, energy consumption in the form of electricity and heat, and transport. It is therefore not surprising that these three areas have priority in our work to minimise environmental risks.

ENVIRONMENTAL AND CLIMATE KEY FIGURES AND RESULTS FOR 2019

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 2019.



WASTE

IN 2019, WE OBTAINED THE FOLLOWING RESULTS:

With the new Danish national agreement on waste collection, focus on recycling more than 75% of the total amount of waste generated at AO's central warehouse and logistics centre continued in 2019. 90% of the total amount of waste was recycled (2018: 87% at the central warehouse in Albertslund and the logistics centre in Horsens). Our goal for 2019 was therefore achieved.

It was an objective to recycle more than 40% of the waste volumes in AO's stores. In 2019 we have recycled 36% of the waste volumes in AO's stores (2018: 38%). Our goal is therefore not achieved. The reason for the low recycling rate is that some stores also in 2019 have accepted receipt of used toilets etc. (non-recyclable) from our customers. Adjusted for this, the recycling rate for our stores is 39%.

In 2019, it was our goal to optimise the filling rate of waste containers in our Danish stores in order to reduce the number of collections by more than 10%. It has not been possible to find the necessary data for 2018, due to the fact that some of our stores were not covered by the nationwide agreement on waste collection during the whole of 2018. Consequently, it has not been possible to determine the development in the number of collections, and we are, therefore, unable to ascertain whether our goal has been met. In 2019, we started implementing individual waste collection frequencies at each location, so that the actual waste collection needs are reflected.

In 2019, our goal was to increase our recycling and sale of disposable pallets by 10%, so that as few reusable pallets as possible are disposed of as waste. We had a very low level in 2018, and in 2019 we succeeded in doubling sales. Our goal for 2019 was therefore achieved. In 2020, we will continue our efforts to increase the recycling and sale of disposable pallets.



ENERGY CONSUMPTION

IN 2019, WE OBTAINED THE FOLLOWING RESULTS:

For the period 2018-2020, our overall goal was to reduce our energy consumption in AO Denmark by 15%.

Remote reading of heat and electricity was established in 95% of all locations in the course of 2018. Consequently, it is only as of 2019 that we can monitor our total consumption. In 2019, we reduced our total measured energy consumption by 5%, compared to the measured consumption in 2018, where not all stores were connected to remote reading systems in the first half of the year. Based on this, it is our assessment that we have reduced our consumption by a minimum of 5% compared to 2018.

It has also been a goal to have five major energy-saving projects implemented in 2019. This has been achieved primarily by replacing conventional light sources with LEDs in a number of locations.



TRANSPORT

IN 2019, WE OBTAINED THE FOLLOWING RESULTS:

In 2019, we continued having 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 2019, the number of pick-up orders increased by 22% compared with 2018. This must be seen in relation to a revenue growth of 6%. The goal for 2019 is hereby achieved.

In 2019, it was also a goal that the development in the number of drops (physical deliveries) should be less than the development in revenue. Compared with 2018, physical deliveries increased by 5% in 2019, whereas revenue increased by 6% compared with 2018. Based on this, our goal for 2019 has been achieved.

In 2019, we focused on reducing the number of kilometres driven in the service of the company by offering Skype solutions and having a policy for car-pooling. We cannot, however, measure a direct decrease in the number of kilometres driven in company cars in the service of the company. This is attributable to the fact that the mileage consists of two parts: private mileage and business mileage. Consequently, we cannot substantiate that our goal of a 10% reduction has been achieved.

On the other hand, we can ascertain that the fuel consumption per driven kilometre has been reduced as we drive 5% longer per litre of fuel.

WE ARE GENERALLY SATISFIED WITH THE RESULTS ACHIEVED IN 2019.



EXPECTATIONS FOR 2020

In 2020, we will continue to focus on waste and recycling, energy consumption (heat and electricity), and transport in order to minimise our environmental and climate impact. In 2020 we will continue to work determinedly to benchmark our stores against each other regarding waste sorting and the number of kilos of waste per m³, and we will endeavour to share knowledge stemming from local activities that can contribute to increasing the fill levels of waste containers. We expect that our increased focus on waste will strengthen the local initiatives on waste sorting, recycling and reducing the number of collections.

Through local follow-up on energy consumption and comparisons between our stores, we will try to reduce our energy consumption (electricity and heat) in 2020. We expect that this will enhance the individual employee's awareness of AO's resource consumption, thus leading to a reduction in energy consumption both locally and overall.

Finally, in connection with the renegotiation of several of our transport agreements in 2020, we will focus on ensuring that as many environmentally sustainable solutions as possible are used. By continuing our focus on Skype meetings and carpooling we will work on reducing the number of kilometres driven in the service of the company.

OUR ENVIRONMENTAL AND CLIMATE GOALS FOR 2020 ARE THE FOLLOWING:

WASTE:

A recycling rate of more than 85% 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 total waste volumes in AO's stores.

Optimising fill levels of waste containers in the stores, thus reducing the number of collections by more than 10%.

An increase in the recycling and sale of disposable pallets by 10%, so that as few reusable pallets as possible are disposed of as waste.

ENERGY CONSUMPTION:

The total energy consumption (electricity and heat) is to be reduced by 15% in the period from 2018 to 2020, i.e., an isolated reduction of at least 5% in 2020.

The implementation of five major energy-saving projects in AO.

TRANSPORT:

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

The development in the number of drops (physical deliveries) is less than the development in revenue.

The development in the total quantity of driven kilometres in company cars is less than the development in revenue growth.



SOCIAL CONDITIONS AND WORKING CONDITIONS

POLICY

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

The employees are our most important asset and vital to our success and results. It is therefore important for AO to provide a responsible, safe and healthy work environment, where our employees can thrive, and where there is focus on continuous development of our employees' personal and professional skills, so that they are able to meet the changing market needs.

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.

AO also 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. Therefore, on 4th December 2019, the Board of Directors approved a policy for diversity in the company's management. The policy is available at: https://ao.dk/om-ao/investor-relations/in-english/company-profile/diversity_policy_2020.

In accordance with section 139a of the Danish Companies Act, we have also 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 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/download/regnskabsdata/2019/gender_composition_of_management_report_2019.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_2020.

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.

The Working Environment Committee has strong focus on employee safety and health. 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.

In 2019, we focused on avoiding lifting injuries at our central warehouse in Albertslund, and in that connection we invested in lifting gear and renovated our goods reception area, so that there is no longer the same need for manual lifts.

In 2019, the Working Environment Committee worked on making workplace environment a more integrated part of operations management

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 competent resources and develop necessary 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.

KEY FIGURES AND RESULTS FOR SOCIAL AND WORKING CONDITIONS IN 2019

In 2019, we 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.

TRAINING AND GENDER COMPOSITION

THE FOLLOWING RESULTS HAVE BEEN ACHIEVED IN CONNECTION WITH THE MEASURABLE INITIATIVES IN 2019:

In 2019, our objective was that each employee, on average, should have 2.2 course days. This objective has been more than reached, as the average number of course days per employee was 2.9 days in 2019

In 2019, our objective was to have a number of trainees corresponding to 3% of AO's workforce. In 2019 we employed 15 new trainees corresponding to 2.4% of the workforce at the end of the year (2018: 13 trainees corresponding to 2.0%). We are very selective in our hiring of trainees, and therefore our goal was not reached in 2019.

In 2019, AO's gender composition at other management levels, not including the Board of Directors, constituted 11% women and 89% men (2018: 11% women and 89% men) against an overall gender composition in AO of 19% women and 81% men (2018: 19% women and 81% men). Our objective for 2019 was to achieve a distribution of 11% women and 89% men at other management levels and an unchanged overall gender composition in AO. Both were achieved in 2019. The Executive Board still consists of two women corresponding to 40% (2018: 40%) and three men corresponding to 60% (2019: 60%).

In 2019, 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 have a positive effect.

In 2019, the average proportion of women participating in management courses was 10%, which is at the same level as in 2018.



WORKING ENVIRONMENT

THE FOLLOWING RESULTS HAVE BEEN ACHIEVED IN CONNECTION WITH THE MEASURABLE INITIATIVES IN 2019:

In 2019, the number of occupational injuries per 100 employees constituted 2.5 occupational injuries, hereof 47% involving a day's absence or less (2018: 3.6 occupational injuries per 100 employees, hereof 55% involving a day's absence or less). The objective for 2019 was to reduce the number of occupational injuries by 30% to an acceptable level of approximately 2.5 occupational injuries per 100 employees. The goal for 2019 was achieved.

The objective for 2019 was a sickness absence of a maximum of 3.5%. In 2019, the sickness absence rate totalled 3.9% (2019: 4.3%). The sickness absence has been reduced compared with 2018, but unfortunately not enough to achieve the 2019 target. The reason for the reduction in sickness absence is due to rapid follow-up on absenteeism, but a simultaneous increase in long-term illnesses has meant that we do not reach the 2019 target.

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 2019, WE DID NOT MEET OUR IMPORTANT GOALS FOR ABSENTEEISM, PRIMARILY DUE TO SEVERAL LONG-TERM ILLNESSES. WE WILL INCREASE OUR FOCUS ON THE LEVEL OF SICKNESS ABSENCE IN 2020.

EXPECTATIONS FOR 2020

In 2020, our focus on the employees' well-being and development will continue, and our objectives are the following:

TRAINING AND GENDER COMPOSITION:

Average number of course days per employee: 2.5 days. In 2020, there will be continued focus on individual competency development, so that AO's high level of training activities is maintained.

Trainees will constitute approximately 3% of AO's workforce. We have chosen to maintain the objective for 2020, as we believe that it is important to add new talents and skills to AO on a regular basis and to make sure that we at any time have competent employees trained within the industry.

In 2020, we have chosen to maintain a target figure for the proportion of women managers at other management levels which is at the same level as in 2019 (11%).

WORKING ENVIRONMENT:

The target for the level of sickness absence is set at a maximum of 3.5%. We will continue to monitor the development closely, and further initiatives to reduce the level of sickness absence will be implemented, if the intended effect is not realised.

In 2020, the number of occupational injuries is to be reduced by 10% corresponding to 2.25 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 complies 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".

In 2019, no goals regarding the above were set, and no activities were made. No activities are planned for 2020, but we regularly assess the need for it.



ANTI-CORRUPTION AND BRIBERY

POLICY

AO complies 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.

We are aware of the fact that our trade with suppliers may constitute a potential risk in relation to the compliance with generally accepted rules on corruption and bribery, 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".

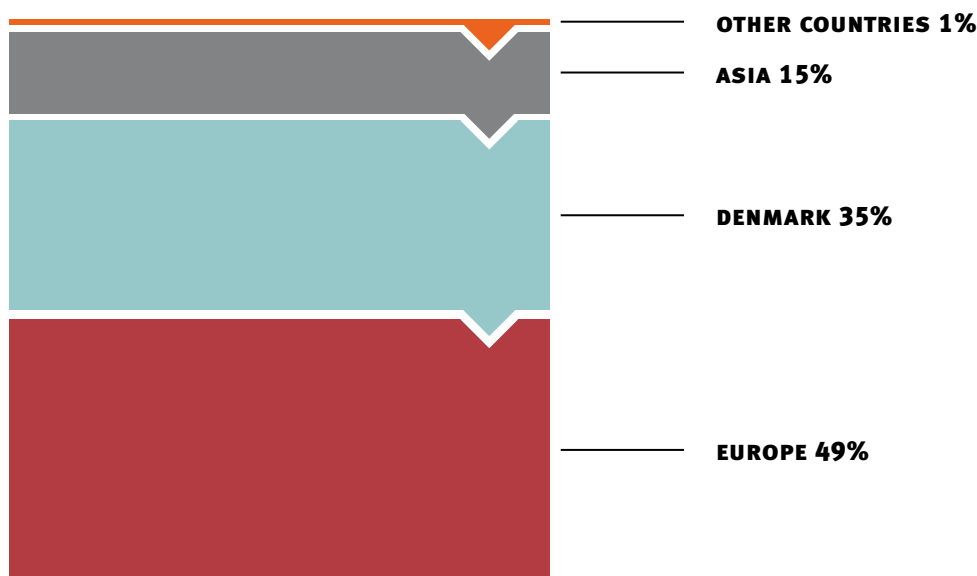
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CSR AND BUSINESS PARTNERS

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 2019, 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 16% (2018: 12%) of AO's purchasing of goods from all suppliers. Purchases from countries outside of Europe have been increasing in 2019 because of a more significant focus on primarily electric equipment and components. We are constantly monitoring the development.

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 set of rules is intended to be used as a matching of expectations between AO and our suppliers.

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. In 2019, the Code of Conduct was updated, and, inter alia, the provisions on bribery and anti-corruption were tightened.

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_2020.

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 2020, we will continue to monitor and assess the need for further action in this area.



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