

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

This statutory report on corporate social responsibility for Brødrene A & O Johansen A/S (hereinafter called "AO") is part of the Management's Review in the Annual Report for 2016 and covers the accounting period from 1 January to 31 December 2016.

AO wants to comply with current legislation and international conventions in the countries and communities where we operate. AO operates primarily in Denmark, and the greater part of our purchases is made in the EU.

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

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

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

This choice has been made on the basis of an analysis of CSR related risks and our social impact in the local communities in which we operate. In our opinion, all the countries in which we operate are well-regulated in relation to environment, social conditions, working conditions, human rights, and anti-corruption. On this basis, we have concluded that we can make a positive difference, both internally and externally, primarily by working with the environment.

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

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

AO's Business Model

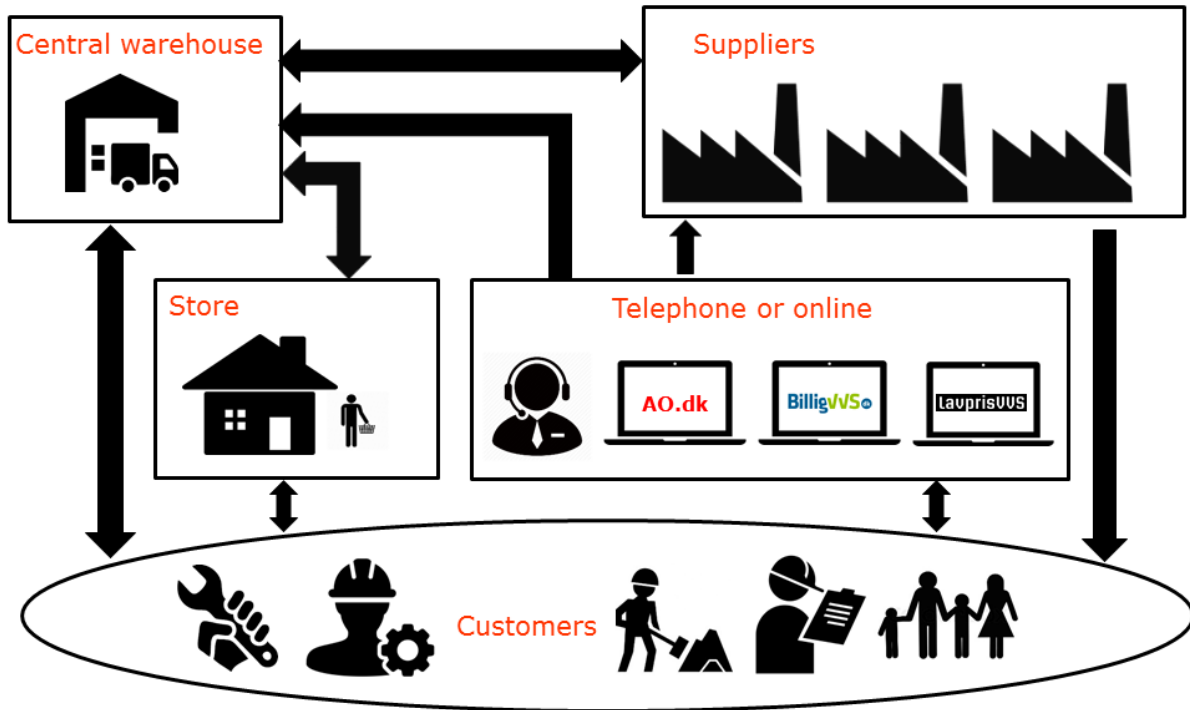
AO is a knowledge-based IT and logistics enterprise with a wide technical range of heating, plumbing and sanitary ware products, electrical equipment and components, water supply and drainage products, and tools.

The key concept is one-stop shopping where the 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.

AO's business is directed toward the professional market, the DIY market and the private market. Through an efficient storage and distribution system AO is able to effect prompt deliveries to professional tradesmen, private individuals, municipalities, utilities and public institutions.

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

AO's business model is illustrated below:



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

Environment

Policy

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

We focus on reducing the most **significant** environmental and climate impacts and has identified

- transport – costs and deliveries to customers through AO's stores
- waste – reduction and recycling
- energy consumption – electricity and heat.

as the most significant.

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

Environmental initiatives and actions, including risks

AO's administration and central warehouse in Albertslund and logistics centre in Horsens are environmentally certified according to DS/EN ISO 14001. The same also applies to the rental and service functions and the storage facilities at Herstedvang 6 in Albertslund, and all AO stores.

AO's environmental objectives for 2016 were defined as:

- The supply of goods to customers through the Company's stores is to be increased annually by 6% (related transport costs are to be reduced accordingly).
- The development of transport costs is equal to or less than the development in revenue.
- Total energy consumption at AO's administration and storage facilities (electricity and heat) is to be reduced annually by 6%.
- AO recycles more than 70% of its total waste.

Every year in June, AO reviews the environmental initiatives and actions made by the Company in the past year, and new objectives for the coming year are determined.

The results of the review are reported in an environmental statement. The environmental statement for 2016 is available at: <http://ao.dk/globalassets/1-om-ao/fakta-om-ao/miljoredegorelse-ao-2015-lhu.pdf>. (In Danish only).

In addition, AO encourages both suppliers and customers to reduce their environmental and climate impacts. For suppliers, this is done prior to the conclusion or renewal of a business agreement by means of an environmental assessment of each individual supplier based on a simple questionnaire. When a business agreement has been concluded, the supplier commits himself to observe AO's Supplier Conduct for Suppliers, which is available at <https://ao.dk/om-ao/investor-relations/in-english/company-profile/supplier-code-of-conduct>. In addition, see below.

Among other things, AO encourages its store customers to use the "WUPPI" scheme for the recycling of PVC products.

AO does not have any formalised processes for "due diligence" regarding the environment but evaluates potential environmental consequences in connection with all new major investments, new locations, transport methods/patterns, or the like, and include them as an integral part of the basis for decision.

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

Environmental key figures and results for 2016

The Company's environmental objectives and actions are reported in the annual environmental statement.

As AO is part of the target group for the new energy audit imposed on all businesses with more than 250 employees, all AO stores were certified according to ISO14001 in the spring of 2016.

This has created a stronger focus on the Company's total consumption of energy, and in the second half of 2016 an agreement was concluded with EnergiData regarding registration and control of the energy consumption in the individual AO stores in Denmark. The registered data will be used to check up on the local consumption of electricity, heat and water.

A nationwide agreement on waste collection was also concluded in 2016. In addition to the central warehouse in Albertslund and the logistics centre in Horsens, the agreement covers all stores. Data will be collected to make the total quantities of waste visible, including recycled materials, thus facilitating a more detailed and local follow-up.

In the second half of 2016, AO tested a delivery collection system in Køge, where the customers were able to pick-up ordered goods in the store 24 hours a day. If the concept involves less direct deliveries to the customers and more or major deliveries to the stores, it is expected that the concept can contribute to a reduction in total transport costs for both AO and its customers. The concept will be evaluated in 2017 with a view to implementing it in all of AO's stores.

In 2016, the Company achieved the following results:

Transport

- In 2016, there was continued focus on using AO's stores as a focal point for the customers to collect pick-up orders, thus enabling the Company to use its transport capacity more effectively and to reduce the number of direct transports to the customers. In 2016, the number of pick-up orders increased by 14% compared with 2015. This increase also has to be seen in proportion to a revenue increase of 9%. The objective for 2016 has thus been achieved.
- In 2016, total transport costs increased by 13%, whereas the increase in revenue constituted 9 %. The reason is, among other things, a larger share of online orders combined with a marginal decrease in purchase order sizes (basket size). The objective for 2016 has therefore not been achieved.

Waste

- In 2016, focus was also on waste separation with a view to recycling as much as possible of the total amount of waste. Among other things, systematic sorting of disposable pallets has been established, so that they can be either reused or sold. The total amount of waste in Albertslund and Horsens declined by 18%. In 2016, 84% (2015: 86%) of the total waste in Horsens and Albertslund was recycled. The Company's objective to recycle more than 70% of the total amount of waste generated has therefore also been achieved in 2016.

Energy consumption

- In 2016, the energy consumption at Rørvang was affected by a major warehouse renovation which took place during most of the second half of 2016 and involved an installation of a mini-load system. This meant that large parts of the warehouse were transformed into a building site, resulting in extra energy consumption. In 2016, the total energy consumption decreased by 4% compared to 2015, and the goal of a reduction of 6% has therefore not been achieved. The result is, however, considered satisfactory in consideration of the warehouse renovation.

We are generally satisfied with the results achieved in 2016. In 2017, we will focus on having waste separation and energy consumption measured in AO's 49 stores.

Work expectations for 2017

In 2017, our focus on transport, waste, and energy consumption will continue in order to minimise our environmental and climate impact. We expect that the agreement with EnergiData regarding the measurement and registration of local energy consumption will increase our employees' focus on consumption and contribute to the preparation of action plans for the reduction of total and local consumption.

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

The environmental objectives for 2017 are the following:

Transport:

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

Waste:

- A recycling rate of more than 70% of the total waste generated in our central warehouse, logistics centre and stores.
- Launching of a benchmarking database on waste and recycled materials for the 49 individual stores.

Energy consumption:

- Total energy consumption in AO's administration and central warehouse (electricity and heat) is to be reduced by 6% compared with 2016.
- Disclosure of energy consumption benchmarking data for each individual store. Data on electricity and heat consumption will be collected from all 49 stores.
- Disclosure of the energy consumption in certain central warehouse and office sections in order to clarify the relationship between revenue and energy consumption and to implement energy saving measures.

Social conditions and working conditions

Policy

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

In keeping with Danish Act No. 1383 of 23 December 2012 on the introduction of rules regarding target figures and policies for the gender composition of the supreme management body and the reporting thereof, the Company has set target figures for the supreme management body and prepared a policy to increase the proportion of the underrepresented gender at the Company's other management levels in Denmark. See

the Statutory Report on the Gender Composition of Management at <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2016/statutory-report-on-gender-composition-2016.pdf>. It is AO's plan 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 AO's opinion, it will strengthen the business and its results in the short run as well as the long run.

AO has no written comprehensive policy regarding social conditions and working conditions. Management believes that AO's intentions and policies are communicated to each individual employee through the daily management, the employee handbook and the policies contained herein, and the work of the Working Environment Committee. On these grounds, we believe that there is no need for a comprehensive policy for the area.

Social and employee-related initiatives and actions, including risks

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

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

Workplace assessments are conducted on a regular basis, where both the physical and psychological environment are in focus. On the basis of these assessments, a comprehensive plan for the entire company and a more detailed plan for each individual department are drawn up.

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

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

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

Annually, we employ 10-15 trainees in order to make sure that we, at any time, have skilled employees trained within the industry.

In 2016, AO's objectives and key figures for the most significant social conditions and working conditions were as follows:

Training and gender composition:

- Average number of course days: 2.2 days. We want to maintain a high level of individual competency development. To us it is important that the employees' skills are developed, so that their full potential is used, and their value on the labour market is strengthened.
- The gender composition at other management levels, not including the Board of Directors, constitutes 10% women and 90 % men. In the long run, we want that the gender composition at all management levels shall reflect the overall gender composition of the Company's workforce. In our opinion, it will strengthen the activities of the Company and its results.

Working environment

- Number of occupational injuries per 100 employees: 4.0 occupational injuries, hereof at least 50% involving less than a day's absence. We focus a lot on providing a healthy and secure working environment with focus on the prevention of accidents and injuries.
- Sickness absence: 3%. We want a good working environment with high job satisfaction and low sickness absence.
- Green "Smileys" from the Danish Working Environment Authority at all locations, meaning that no enforcement notices have been issued. AO places great emphasis on the working environment. It is therefore important to us that we meet the rules and regulations of the Danish Working Environment Authority, and that we do not receive any enforcement notices.

In keeping with Danish Act No. 1383 of 23 December 2012 on the introduction of rules regarding target figures and policies for the gender composition of the supreme management body and the reporting thereof, the Company has set target figures for the supreme management body and other management levels. See the Statutory Report on the Gender Composition of Management at <https://ao.dk/globalassets/1-om-ao/investor-relations/english/financial-statements/2016/statutory-report-on-gender-composition-2016.pdf>.

The above-mentioned policies and actions are an integral part of our day-to-day management/culture and are developed concurrently with AO's strategies.

Key figures and results for social conditions and working conditions in 2016

In 2016, we have worked on many fronts with social conditions and working conditions. It has not been possible to measure many of the initiatives, but all have contributed to securing good working conditions and the well-being of the individual at the workplace.

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

Training and gender composition:

- Average number of course days per employee (not including BilligVVS): 2.3 days (2015: 2.2 days). Thus, the number of course days has increased 5% compared with 2015. The objective has therefore been achieved

- The Company's gender composition at other management levels, not including the Board of Directors, constitutes 9% women and 91% men against an overall gender composition in AO of 18% women and 82% men (2015: other management levels 9% women and 91% men, and an overall gender composition in AO of 19% women and 81% men). However, the average proportion of women participating in management courses was 14% in 2016, and we hope that this will have an indirect influence on the proportion of women at other management levels in the coming years.

Working environment:

- Number of occupational injuries per 100 employees: 3.0 occupational injuries, hereof 47% involving less than a day's absence (2015: 4.7 occupational injuries per 100 employees, hereof 50% involving less than a day's absence). In 2016, the number of occupational injuries was reduced by 35% which is very positive considering the fact that there was a considerable amount of construction work at the central warehouse in Albertslund and that the warehouse contained more products than usual due to the transfer of stock from the logistics centre in Horsens. Both elements have contributed to clutter, increased traffic and challenges in connection with the separation of walking and driving traffic. In spite of the above, the objective for the reduction of occupational injuries has been achieved in 2016.
- Sickness absence: 3.1% (2015: 2.8%). In 2016, sickness absence was negatively affected by a few employees on long-term sick leave. The objective for 2016 has therefore not been met.
- We have obtained green "Smileys" from the Danish Working Environment Authority at all locations. In 2016, we received a single enforcement notice from the Danish Working Environment Authority, and it was complied with immediately. The objective of not receiving any enforcement notices has therefore not been met.

We are satisfied that the implemented initiatives and actions in 2016 have resulted in the fact that the set targets for the average number of course days and the number of occupational injuries and sickness absence have been achieved in 2016.

Essentially, the gender composition at other management levels is unchanged compared to 2015. Consequently, we will make a review of the planned actions and initiatives for 2017 with a view to estimating whether further initiatives have to be made in order to achieve a future gender composition at all management levels that reflects the overall gender composition of the Company's workforce.

In 2017, we will closely monitor the working environment, especially in the individual stores, and make sure that the rules and regulations of the Danish Working Environment Authority are fully complied with.

Work expectations for 2017

In 2017, our focus on the employees' well-being and development will continue. Among other things, a workplace assessment for administration employees in Albertslund was conducted at the end of 2016, and the information from this assessment is expected to be used in a concrete action plan for 2017. In addition, workplace assessments are of course conducted in the individual stores, central warehouse, and logistics centre on a regular basis.

The objectives for 2017 are the following:

Training and gender composition:

- Average number of course days per employee: 2.2 days. In 2017, there will be continued focus on individual competency development, so that AO's high level is maintained even after the merger with Billig VVS ApS.
- Unchanged gender composition in the Company, but with an increase in the proportion of women at other management levels, not including the Board of Directors, to 11% women and 89% men.

Working environment:

- The number of occupational injuries is to be reduced by 10% to 2.7 occupational injuries per 100 employees.
- Sickness absence is to be maintained at 3%. In 2017, initiatives for the reduction of sickness absence will be implemented, among other things, by means of a quick follow-up on employee absenteeism.
- Green "Smileys" from the Danish Working Environment Authority to all locations. No enforcement notices.

Respect for human rights

Policy

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

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 both recognised and respected by both businesses and the civilian populations.

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

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

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

Anti-corruption and bribery

Policy

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

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

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

In 2016, no targets related to anti-corruption and bribery were determined, and no activities were made. No activities are planned for 2017, but we regularly assess the need for it.

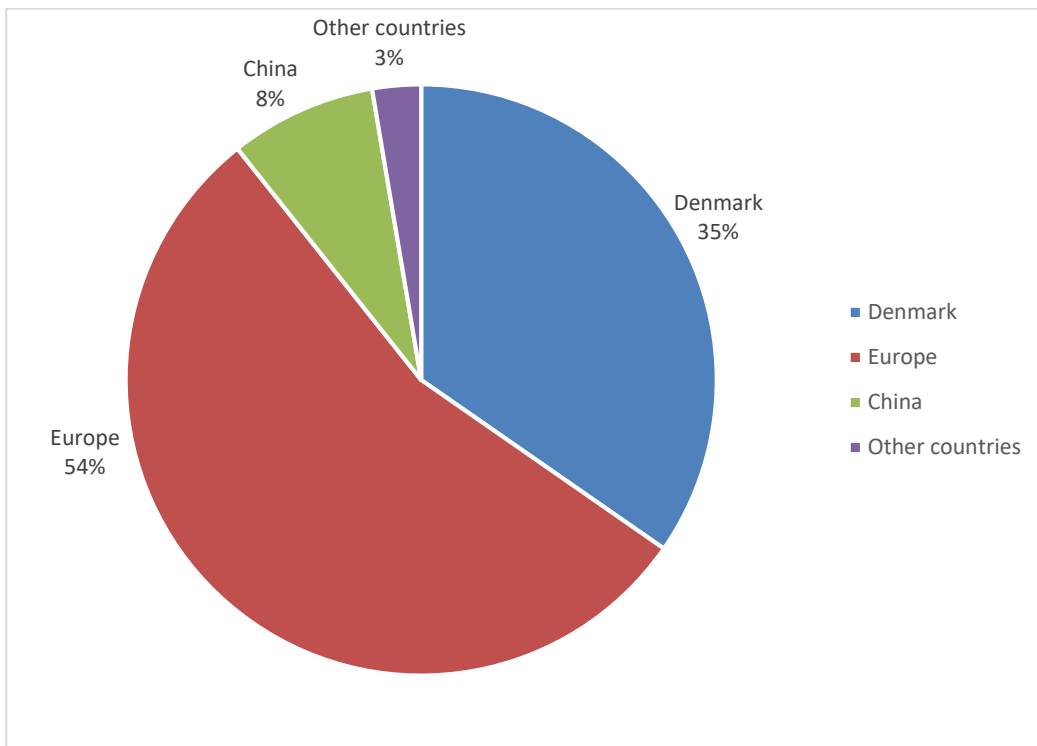
We are, however, aware of the fact that our trade with suppliers may constitute a potential risk in relation to corruption and bribery primarily in connection with direct and indirect purchases made from countries where local legislation on the area is not clear, or where such legislation is not recognised, 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".

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 2016, AO's purchases of goods were divided up by country of origin in the following way:



We assess that our risk is relatively limited and that it relates primarily to purchases from China and other countries outside of Europe, corresponding to approximately 10% of AO's purchases from all suppliers.

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

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

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

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

In 2017, we will continue to monitor and assess the need for further action in this area.