INTERIM REPORT H1 2019/20

1 JUNE 2019 – 30 NOVEMBER 2019

Bang & Olufsen A/S
Bang & Olufsen Allê 1
DK-7600 Struer

Tel. +45 9684 1122
www.bang-olufsen.com
Reg. number: 41257911

BANG & OLUFSEN

Q2 HIGHLIGHTS

“It was a disappointing quarter as revenue declined 31% compared to last year, which was a larger decline than expected. The results were impacted by the ongoing transition towards a demand-driven retail model and the relatively low number of product launches in the previous quarters. Despite the drop in revenue, we achieved a positive free cash flow thanks to our work to reduce working capital. It is evident that we have to make changes to our sales and marketing setup and move closer to customers and partners. These changes will take time, but we have already initiated sales and marketing initiatives to address the challenges. In combination with several product launches in the coming quarters, the changes will contribute to improving our results in the second half of the financial year. In April, we will present a three-year strategy plan, outlining how we will ensure stronger long-term financial performance through increased consumer focus, specific sales initiatives, stronger and more frequent product releases and cost optimisations”, says CEO Kristian Teär.

REVENUE, DKK MILLION	GROWTH IN LOCAL CURRENCIES	EBIT MARGIN, EXCL. SPECIAL ITEMS	FREE CASH FLOW, DKK MILLION
627	(31)%	(9.8)%	32

Financial highlights Q2 2019/20

Revenue for Q2 was DKK 627m, corresponding to a decline of 31.0% (-31% in local currencies) compared to the same quarter last year. Revenue was impacted by the transition to a demand-driven sales model and the ongoing reduction of retail inventory. Revenue in Q2 was supported by two product launches.

The gross margin was 42.5%, down by 6.7pp from last year. Excluding the effect of currency hedges, gross margin declined by 4.6pp. The decline was primarily related to sales of end-of-life products and sell-out allowances which supported the inventory reduction at retail level.

Capacity costs declined by 3.7% compared to last year. Administration expenses for the quarter was impacted by severance costs. Excluding special items, capacity costs declined by 5.1% due to lower distribution and marketing costs partly related to company-owned stores which have since been sold.

EBIT margin was negative 12.1%, impacted by lower revenue and gross margin, partly offset by lower capacity costs. Excluding special items, the EBIT margin was negative 9.8%.

Free cash flow in the quarter was DKK 32m compared to a negative DKK 84m last year. The free cash flow was mainly impacted by the positive development in net working capital.

Follow-up on strategic initiatives

The company launched the planned products in Q2.

The number of store openings and upgrades of in-store presence was lower than expected, largely related to a few retail partners. The plan for the full year is maintained.

Continued improvements of sell-out insights with 44% of European monobrand stores supplying data that are verified for analysis.

Financial highlights H1 2019/20

Revenue for H1 was DKK 1,046m, corresponding to a decline of 30.7% compared to last year (negative 31% in local currencies). The revenue decline reflects the transition to a demand-driven retail model and efforts to reduce retail inventory.

The gross margin decreased to 40.1% from 48.3% last year. Excluding the effect of currency hedges, gross margin declined by 5.9pp. The decline was primarily related to the sales of end-of-life products at lower prices.

Capacity costs declined by 4.9% compared to last year. Administration expenses were negatively impacted by severance costs. Excluding special items, capacity costs declined by 5.7%.

EBIT margin was negative 19.6%, adversely impacted by the lower revenue and gross margin. Excluding special items, EBIT margin was negative 18.2%.

Free cash flow was negative DKK 174m (negative DKK 189m). The free cash flow was primarily impacted by lower operating profit. Change in net working capital was DKK 10m compared to negative DKK 270m in last year, reflecting the focus on reducing net working capital.

Outlook

The outlook is unchanged compared to the adjusted outlook presented in the announcement released on 17 December 2019.

- Revenue growth (local currencies): Decline by 13-18%
- EBIT margin (excluding special items): Minus 4-9%
- Free cash flow: Negative DKK 100-150m

The company is preparing a three-year strategy plan that will be presented at a Capital Market Day on 3 April 2020.

Please address any enquiries about this announcement to:
Investor contact, Martin Egenhardt,
tel.: +45 5370 7439
Press contact, Jens Gamborg,
tel.: +45 2496 9371

Bang & Olufsen will host a webcast on 14 January 2020 at 10:00 CET. The webcast can be accessed through our website, https://investor.bang-olufsen.com

FINANCIAL HIGHLIGHTS

	2nd quarter		YTD	
(DKK million)	**2019/20**	2018/19	**2019/20**	2018/19
Income statement:				
Revenue	627	909	1,046	1,510
EMEA	312	538	491	824
Americas	35	69	70	111
Asia	209	241	357	464
Brand Partnering & Other Activities	71	61	128	111
Gross margin, %	42.5	49.2	40.1	48.3
EMEA, %	38.3	47.2	35.6	45.8
Americas, %	45.9	49.8	37.1	47.0
Asia, %	30.4	42.5	27.5	42.7
Brand Partnering & Other Activities, %	95.8	93.4	94.5	92.8
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	(50)	121	(137)	159
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(21)	145	(95)	193
Earnings before interest and tax (EBIT)	(77)	90	(206)	95
Financial items, net	1	(5)	(5)	(16)
Earnings before tax (EBT)	(76)	85	(211)	79
Earnings for the year	(60)	68	(166)	63
Financial position:				
Total assets	2,341	2,834	2,341	2,834
Share capital	432	432	432	432
Equity	1,242	1,623	1,242	1,623
Cash	298	800	298	800
Net interest-bearing deposit*	42	636	42	636
Net working capital	400	393	400	393

	2nd quarter		YTD	
(DKK million)	**2019/20**	2018/19	**2019/20**	2018/19
Cash flow:				
– from operating activities	68	(37)	(117)	(126)
– from investment activities	(36)	(47)	(57)	(63)
Free cash flow	32	(84)	(174)	(189)
– from financing activities	(9)	(144)	(20)	(166)
Cash flow for the period	23	(228)	(194)	(355)
Key figures:				
EBITDA-margin, %	(3.4)	15.9	(9.1)	12.8
EBIT-margin, %	(12.1)	9.9	(19.6)	6.3
Return on assets, %	(2.6)	2.4	(7.1)	2.2
Return on invested capital, excl. Goodwill, %	(4.5)	21.4	(17.1)	28.0
Return on equity, %	(4.9)	4.1	(13.4)	3.9
Full time employees at the end of the period	895	975	895	975
Stock related key figures:				
Earnings per share (EPS), DKK	(1.5)	1.6	(4.0)	1.5
Earnings per share, diluted (EPS-D), DKK	(1.4)	1.6	(4.0)	1.5
Price/Earnings	(90.7)	84.4	(32.7)	90.4
Revenue per share, DKK	15.4	21.1	25.6	35.0
Revenue per share, diluted, DKK	15.2	21.1	25.3	35.0

For definitions, refer to section 7.7 in the Annual Report 2018/19

* Impacted negatively by lease liabilities of DKK 186 million in Q2 due to the implementation of IFRS 16.

MANAGEMENT REPORT FOR Q2

The transition to a demand-driven retail model and the relatively low number of product launches in the previous quarters had an adverse impact on sales and revenue. Revenue declined by 31% in local currencies to DKK 627m and the EBIT margin excluding special items was negative 9.8%. Free cash flow was DKK 32m. The effect of the transition to a demand-driven retail model was bigger than expected, and consequently, the company adjusted the full-year outlook on 17 December 2019. The company will at a Capital Market Day on 3 April 2020 present a three-year strategy plan, outlining how to ensure stronger long-term financial performance.

HIGHLIGHTS Q2 2019/20

Revenue was impacted by the transformation to a demand-driven sales model and the ongoing reduction of retail inventory. It was therefore expected that the financial performance also in the second quarter of 2019/20 would be below last year, although the revenue decline of 31% was higher than expected.

Sales in September and October were in line with the company's estimates, while sales in November were considerably lower than expected and the full-year outlook for 2019/20 was thus adjusted on 17 December 2019.

The company continues to focus on becoming more consumer demand-driven, previously having had a wholesale distributor focus. Due to the performance in Q2, a number of new initiatives will be launched in order to improve sales already in the current financial year, which will include the establishment of new sales and marketing programmes, an improved sales and distribution network, an increase in resources and competences in the sales organisation, and more product-focused marketing.

In Q2, the company successfully launched the products planned for the quarter, and in the coming quarters the sales execution in connection with product launches will be a key focus. The number of store upgrades was lower than expected. During the second half of the year, new and improved fixtures will continue to be rolled out in top-tier stores. The effect of these upgrades will be monitored through sell-out insight, supporting the development towards a detailed product-by-product sell-out tracking.

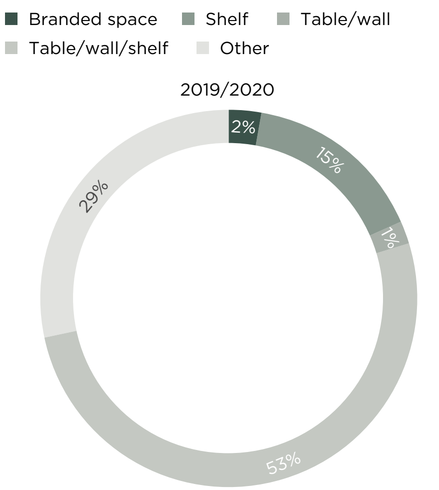
Until the publication of the financial report for Q3 2019/20, management and the Board of Directors will work on a three-year plan which will be presented at a Capital Market Day on 3 April 2020 following the release of the financial results for Q3 2019/20.

Distribution development

During Q2, the number of monobrand stores declined by nine, primarily related to EMEA but partly offset by an increase in Asia.

During the quarter, the overview of multibrand points of sale has been revisited. This was done to identify to which stores the company are actively selling products, and to get an overview of the type of instore presence that Bang & Olufsen has. The changed methodology has resulted in a revision of the total

MULTIBRAND POINTS OF SALE



number of multibrand points of sale. Comparable numbers for Q1 have been adjusted.

Based on adjusted figures, the number of multibrand points of sale increased by 17 across all three regions.

FINANCIAL PERFORMANCE Q2 2019/20

Revenue

Revenue in Q2 2019/20 was DKK 627m (DKK 909m) equivalent to a decline of 31.0% compared to last year and negative 31% in local currencies. The revenue decline was related to product sales which was down by 34%, whereas revenue from Brand Partnering & Other Activities increased by 16.4% to DKK 71m.

Last year, revenue was boosted by sell-in initiatives, which drove an inventory build-up at the retailer level. Consequently, revenue was expected to decline in Q2 2019/20 as focus has been on driving sell-out activities and reducing retail inventory. Revenue in September and October was in line with expectations, and the decline was thus primarily related to November sales. The-lower-than-expected revenue in November was attributed to several factors.

Sales to consumers were not satisfactory, resulting in continued high inventories with certain key partners and further impacted by sales through unauthorised channels. Revenue was also impacted by increased competition within the earphones category.

The misalignment between sales and production in 2018/19 has resulted in more end-of-life products than what would normally be expected. This has resulted in a higher relative share of revenue from sales of end-of-life products. To reduce the risk of cannibalisation of the primary channels, a continued focus has been to sell these products through targeted channels.

Points of sale

	Monobrand		Multibrand	
	End Q2 19/20	End Q1 19/20	End Q2 19/20	End Q1 19/20
EMEA	381	392	1,899	1,891
Americas	25	26	546	542
Asia	95	92	1,274	1,269
Total	**501**	**510**	**3,719**	**3,702**

Staged

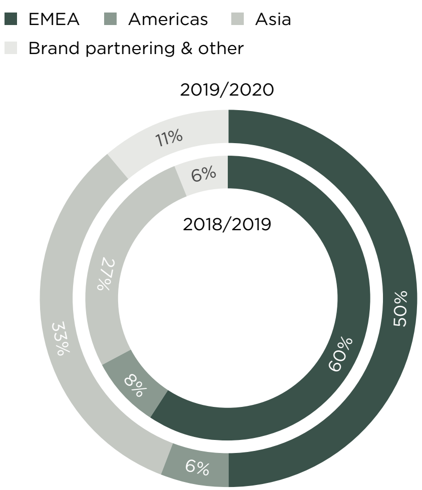
Revenue declined by 14% to DKK 263m (DKK 307m). The decline was related to EMEA whereas both Asia and Americas delivered growth.

Revenue in Q2 last year was impacted by sell-in incentives on among others Beovision Eclipse TV's and Beolab 50 speakers, whereas focus this year has been on depleting retailer inventories through sell-out allowances.

In Q2 this year, revenue was supported by the launch of Beovision Harmony in October and Beosound Stage in November, which in total generated revenue of approx. DKK 95m including display units.

In contrast to previous TV launches, screens for the new Beovision Harmony

REVENUE PER SEGMENT (%)



are invoiced directly by LG to the retailers instead of being invoiced by Bang & Olufsen, thus resulting in lower revenue for the company. Had Beovision Harmony been sold to retailers by Bang & Olufsen including a screen, the revenue would have been approx. 6% higher.

Flexible Living

Revenue fell by 47% to DKK 83m (DKK 156m). Beosound Edge was launched in Q2 last year with an initial revenue of approx. DKK 30m partly related to display units. However, the other products in the Flexible Living category also saw lower sales impacted by the efforts to reduce retailer inventories.

On-the-go

Revenue was down by 45% to DKK 210m (DKK 385m). Sales of Bluetooth speakers and headphones and earphones declined.

Revenue from earphones declined by 38% due to the increased competition within the true-wireless earphones market.

Headphone sales declined by 49%, primarily related to Beoplay H9. Revenue from Bluetooth speakers declined by 38%.

Gross profit

Gross profit was DKK 266m (DKK 447m) equivalent to a gross margin of 42.5% (49.2%). Excluding the effect of currency hedges, gross margin declined by 4.6pp.

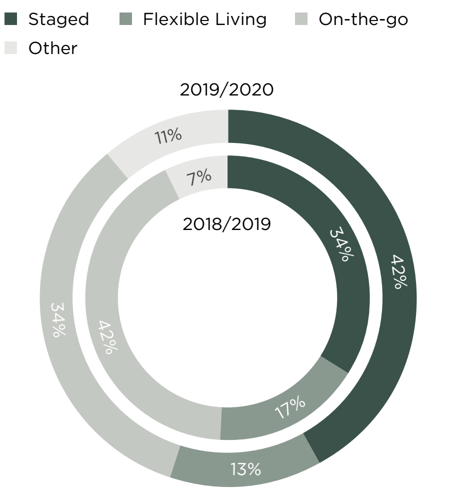
The decline was across all product categories, whereas Brand Partnering & Other Activities delivered a higher gross margin due to growth in licensing income. Part of the decline was related to allocation of production-related capacity costs, which relatively accounts for a higher share when revenue declines.

To support the depletion of retail inventory on certain products, the company has supported retailers with sell-out allowances impacting margin negatively. Furthermore, due to the lowered expectations to sales for the full year as announced on 17 December, the company has made a provision for component liabilities, which mainly impacted the On-the-go category. The provision impacted gross margin negatively by approx. 4pp.

Finally, sales of end-of-life products at lower margins further impacted margin negatively.

Gross margin	Q2 2019/20	Q2 2018/19	H1 2019/20	H1 2018/19
Staged	46.3%	51.8%	44.7%	49.7%
Flexible Living	45.9%	48.7%	44.0%	48.2%
On-the-go	18.1%	40.3%	18.2%	39.7%
Brand Partnering & Other Activities	95.8%	93.4%	94.5%	92.8%
Total	**42.5%**	**49.2%**	**40.1%**	**48.3%**

REVENUE PER CATEGORY (%)



Capacity costs

Capacity costs were DKK 343m (DKK 357m), corresponding to a decrease of 3.7%. Costs were impacted by special items related to severance costs to the previous CEO and previous EVP of Brand and Markets, a total of approx. DKK 15m. Excluding special items, capacity costs declined by 7.9%.

Distribution and marketing costs were DKK 215m and declined by DKK 24m compared to Q2 last year. The decline was, to a large extent, impacted by the divestment of company-owned stores in China since last year, as well as a focus on instore upgrades where part of the costs are capitalised.

Development costs were DKK 72m which was DKK 7m lower than Q2 last year. The decline was related to lower amortisation charges and impairment losses, as well as higher capitalisations. The incurred development costs were unchanged compared to last year.

Administration costs were DKK 56m (DKK 39m). Excluding special items related to severance costs, administration costs increased by DKK 2m related to the employment of new members to the Executive Management Team.

EBIT

EBIT was negative DKK 77m (positive DKK 90m) equivalent to an EBIT margin of negative 12.1% (9.9%). The development in the margin reflects the decline in revenue combined with lower gross margin, partly offset by lower capacity costs. Excluding special items, EBIT margin was 9.8%.

Financial items

Net financial items were DKK 1m against negative DKK 5m last year. The development was primarily driven by change in market value in currency hedges.

Earnings

Earnings before tax were a loss of DKK 76m (profit of DKK 85m). Income tax was an income of DKK 16m (expense DKK 17m) and Earnings after tax were hence a loss of DKK 60m (profit of DKK 68m).

Cash flow and balance sheet

Free cash flow was DKK 32m (negative DKK 84m) impacted by a positive cash flow from operating activities partly offset by investing activities.

Cash flow from operating activities was DKK 68m (negative DKK 37m) supported by a positive change in net working capital of DKK 111m, whereas EBITDAC was negative DKK 22m.

The free cash flow was positively impacted by IFRS 16 (leases) with DKK 9m.

Cash flow from investing activities was negative DKK 36m (DKK 47m). The cash flow was impacted positively by the divestment of a building to Phillips-Medisize (previously Medicom) amounting to DKK 14m. Excluding divestments, investments was primarily related to the development of new products and technology platforms as well as investment in in-store fixtures.

Cash flow from financing activities was negative DKK 9m (negative DKK 144m). Cash flow from financing activities last year was impacted by share buy-backs and settlement of share options.

Repayment of lease liabilities in accordance with IFRS 16 impacted cash flow from financing activities negatively with DKK 9m.

Net working capital

Net working capital amounted to DKK 400m, which was a decrease of DKK 111m in Q2 2019/20.

Trade receivables increased by DKK 55m, reflecting seasonality in sales but partly offset by a reduction in overdue payments by proactively working with retail partners. Trade payables grew by DKK 63m, reflecting the production of new products where Q1 had very limited production. The continued focus on reducing the company's inventory resulted in a further decline of DKK 28m. Other liabilities grew during the quarter primarily due to severance accruals.

Equity

Equity was DKK 1,242m compared to DKK 1,325m end of August 2019. The decline was driven by the Q2 result, foreign exchange rate adjustments, and fair value adjustments of derivatives.

Net interest-bearing deposits

Net interest-bearing deposits amounted to DKK 42m compared to DKK 12m in Q1 2019/20. The increase was mainly related to the positive development in the free cash flow.

Adjusting for capitalised lease liabilities according to IFRS 16, net interest-bearing deposits was DKK 228m (DKK 636m) and the cash position at the end of Q2 was DKK 298m (DKK 800m).

FINANCIAL PERFORMANCE H1 2019/20

For the first six months of 2019/20, revenue was down by 30.7% (-31% in local currencies) and amounted to DKK 1,046m (DKK 1,510m). Revenue was adversely impacted by short-term actions to support sell-out and reduction of retail inventory, including sell-out allowances.

The gross margin declined by 8.2pp to 40.1% (48.3%). Excluding the effects of currency hedges, the gross margin declined by 5.9%. Due to the lowered expectations to sales for the full year as announced on 17 December, the company has made a provision for component liabilities, which most significantly impacted the On-the-go category. This provision impacted gross margin negatively by 2.4pp. Furthermore, the margin was impacted by sales of end-of-life products at lower margins. Moreover, allocation of production related capacity costs to cost of goods sold relatively accounted for a higher share as revenue declined.

Capacity costs were DKK 626m (DKK 658m). Costs were impacted by severance costs to the previous CEO and previous EVP of Brand and Markets which totalled approx. DKK 15m. Excluding special items, capacity costs declined by 7.0%. The decline was mainly related to lower distribution and marketing costs.

EBIT was negative DKK 206m (DKK 95m) equivalent to an EBIT margin of negative 19.6% (positive 6.3%). In addition to the above-mentioned special items, last year's EBIT was impacted positively by other operating income of DKK 24m primarily relating to a legal dispute.

Earnings before tax were a loss of DKK 211m (profit of DKK 79m). Income tax was an income of DKK 45m (expense of DKK 16m) and Earnings after tax were hence a loss of DKK 166m (profit of DKK 63m).

Free cash flow was negative DKK 174m (negative DKK 189m), negatively impacted by the development in EBITDA whereas net working capital had a positive impact.

PROGRESS ON KEY STRATEGIC PRIORITIES FOR 2019/20

In Q2 2019/20 focus has been on launching products, upgrading monobrand stores and multibrand points of sale while continue getting improved insights into sell-out performance and focusing on sell-out initiatives.

Launch of new products in Q2 and additional product launches planned for H2
Bang & Olufsen launched the two planned products and product upgrades during the second quarter.

The company maintains the product launch plan for this and the coming year, and new products and upgrades will be launched in both third and fourth quarter of this financial year. In the second half of the year, a greater focus will be on improving sales execution in connection with product launches.

Upgrading stores
One of the key focus areas in Q2 was to upgrade the instore presence to improve sales in the top-tier stores. The biggest effort has been in EMEA where a total of 62 stores and points of sale have been opened or upgraded.

The company has opened four pilot stores with the aim of testing the effects of store upgrades and staff training. Due to a delay with a few partners, the company did not reach the expected number of upgrades in branded spaces. These upgrades are expected to be finalised during Q3. The total number of store openings and upgrades for the year remains in line with what has been announced.

	Q2 2019/20	Q3 2019/20	Q4 2019/20
New products	• Beovision Harmony 77'' • Beosound Stage	• Flexible Living	• On-the-go
Upgrades, models and variants	• Beovision Harmony 65'' • Beoplay H4 • Autumn/Winter colour collection	• On-the-go • New colour and material collection • Stardust collection	• Staged • On-the-go

Q2	EMEA	Americas	Asia	Total
Openings	16	4	5	25
Relocations	1	1	1	3
Pilot stores	4			4
Upgrades	41		17	58
Total	**62**	**5**	**23**	**90**

Improved insights into sell-out performance

In the past, sell-out data has been limited and based on various indicators. Based on these comparable numbers, sales in Q2 in European monobrand stores was down by 2% compared to last year.

The company is improving the sell-out insight at the product level. Currently, close to 85% of European monobrand stores are reporting sell-out data of which 44% is validated. However, the data does not include a full year, so year-over-year comparisons are not possible yet.

The month-by-month sell-out data shows that the ambition to deplete retailer inventories has to a large extent been successful. Since sell-out has been lower than expected in the first six months the depletion is taking longer than anticipated.

Sell-out insight will support a tighter alignment between sales and marketing, and the improved insight into consumer sales will furthermore support future growth and, to a greater extent, guide production planning. Inclusion of data for the remaining monobrand stores and the multibrand network is progressing as planned.

EMEA

Channel development

In Q2, a total of 62 stores were opened or upgraded. The total number of monobrand stores declined in the quarter which was mainly related to Europe.

As previously described, the methodology used for counting multibrand points of sale was changed during the quarter. Based on adjusted figures, the number of points of sale increased by eight.

Revenue

Revenue was DKK 312m (DKK 538m) equivalent to a decline of 42.0% (negative 42% in local currency).

The decline was seen in both monobrand and multibrand. Revenue from the company's own e-commerce platform was down compared to the same period last year, which was due to Bang & Olufsen was not participating in Black Friday on its own e-com platform unlike last year.

Staged

Revenue was down 24% year-over-year. The decline was primarily related to Beovision TV's and speakers like Beolab 50. The decline reflects the previous mentioned sell-in activities last year, whereas this year has been focused on normalising retail inventory and sell-out. The launch of Beovision Harmony and Beosound Stage resulted in a revenue of DKK 75m in Q2.

Flexible Living

Revenue was down by 55% year-over-year. Approx. half of the decline was related to Beosound Edge which was launched last year with display units and inventory build-up at the retail level. The remaining speakers in the category saw lower sales.

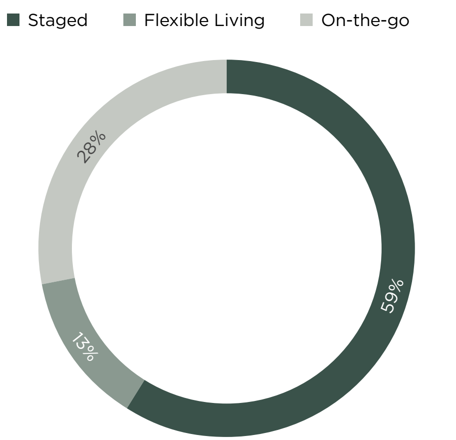
On-the-go

Revenue decreased by 49% year-over-year, which was equally spread across Bluetooth speakers and earphones and headphones. Within the earphone category, increased competition impacted revenue negatively.

Gross profit

Gross profit amounted to DKK 119m (DKK 254m) equivalent to a gross margin of 38.3% which was 8.9pp lower than last year. The margin was impacted by sales of end-of-life products at lower margin as well as sell-out allowances on certain products as well as the previously described provision for component liabilities.

EMEA



Financial performance H1 2019/20

For the first six months, revenue declined by 40.4% (negative 42% in local currency) to DKK 491m. Gross profit amounted to DKK 175m (DKK 377m) with a gross margin of 35.6% (45.8%).

(DKK million)	**Q2 2019/20**	Q2 2018/19	Change	**H1 2019/20**	H1 2018/19	Change
Revenue	312	538	(42.0)%	491	824	(40.4)%
Growth local currency	(42)%			(42)%		
Gross profit	119	254	(53.1)%	175	377	(53.6)%
Gross margin	38.3%	47.2%	(8.9)pp	35.6%	45.8%	(10.2)pp

AMERICAS

Channel development
In Q2, five stores were opened or upgraded. The total number of monobrand stores declined by one in the quarter.

The methodology for counting multibrand points of sale was changed during the quarter. Based on adjusted figures, the total number of multibrand points of sale increased by four.

Revenue
Revenue was DKK 35m (DKK 69m) corresponding to a 48.7% decline (negative 52% in local currency).

The decline was primarily seen in multibrand, where sell-out with the company's multibrand partners continued to be impacted by sales through unauthorised channels. This mainly impacted the On-the-go category.

Revenue from monobrand stores was down in the quarter. However, revenue from company-owned stores was slightly better compared to the same period last year. Revenue from the e-commerce platform was significantly down as the company did not participate in Black Friday on its own platforms.

Staged
Revenue grew by 23%. The increase was related to the launch of Beosound Stage and Beovision Harmony whereas revenue from Beovision Eclipse and Beolab 50 speakers declined.

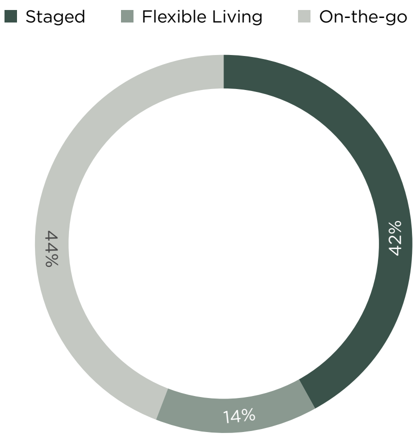
Flexible Living
Revenue was down by 48%. The decline was related to all products and further impacted by the launch of Beosound Edge last year and included sales of display units.

On-the-go
Revenue decreased by 66%. The decline was mainly related to earphones as sales through unauthorised channels continued to materially impact pricing in the market.

Gross profit
Gross profit amounted to DKK 16m (DKK 34m) equivalent to a gross margin of 45.9% compared to 49.8% in the same quarter last year. The decrease was related to changed product mix.

(DKK million)	Q2 2019/20	Q2 2018/19	Change	H1 2019/20	H1 2018/19	Change
Revenue	35	69	(48.7)%	70	111	(36.5)%
Growth local currency	(52)%			(37)%		
Gross profit	16	34	(52.9)%	26	52	(50.0)%
Gross margin	45.9%	49.8%	(3.9)pp	37.1%	47.0%	(9.9)pp

AMERICAS



Financial performance H1 2019/20
For the first six months, revenue declined by 36.5% (negative 37% in local currency) to DKK 70m. Gross profit amounted to DKK 26m (DKK 52m) with a gross margin of 37.1% (47.0%).

ASIA

Channel development
In Q2, 15 stores were opened or upgraded. The total number of monobrand stores grew by three stores in Australia, Japan and South Korea.

The methodology for counting multibrand points of sale was changed during the quarter. Based on adjusted figures, the total number of multibrand points of sale increased by five in Q2.

Revenue
Revenue was DKK 209m (DKK 241m) corresponding to a 13.2% decline (negative 10% in local currency).

The decline was primarily related to the multibrand channel impacted by the decline in the On-the-go category.

The revenue from monobrand declined by approx. 5%, which was related to the loss of retail margin from company-owned stores which has been divested since Q2 last year.

Revenue last year was negatively impacted by the transition to a new master dealer in Australia and New Zealand which resulted in a restart of the markets. Revenue from those markets was higher this year, although the new start-up has been slower than originally anticipated.

Staged
Revenue was up by 58% primarily related to the launch of Beovision Harmony and Beosound Stage, compared to the same quarter last year. The revenue from speakers was down due to lower sales of Beolab 50 speakers whereas other speakers delivered growth.

Flexible Living
Revenue was down by 20% compared to the same period last year. Except for Beoplay A9, the decline was seen in all products and further impacted by the launch of Beosound Edge last year which included sell-in of display units.

On-the-go
Revenue declined by 24%. The decline was driven by both Bluetooth speakers and earphones and headphones.

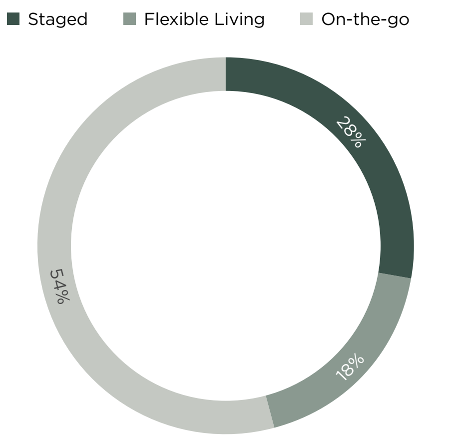
The decline in revenue from earphones was mainly related to Beoplay H5 whereas revenue from Beoplay E8 2.0 outweighed the decline in Beoplay E8 1.0. Within headphones, the decline was exclusively related to Beoplay H9i which posted high revenue in Q2 last year.

Gross profit
Gross profit was down by 38.2% and amounted to DKK 63m (DKK 102m) equivalent to a gross margin of 30.4% which was 12.1pp lower than Q2 last year. The decrease in gross margin was mainly related to the On-the-go category which was impacted by destocking at lower margins as well as the previously described provision for component liabilities.

Financial performance H1 2019/20
For the first six months, revenue declined by 23.2% (negative 20% in local currency) to DKK 357m. Gross profit amounted to DKK 98m (DKK 197m) with a gross margin of 27.5% (42.7%).

(DKK million)	**Q2 2019/20**	Q2 2018/19	Change	**H1 2019/20**	H1 2018/19	Change
Revenue	209	241	(13.2)%	357	464	(23.2)%
Growth local currency	(10)%			(20)%		
Gross profit	63	102	(38.2)%	98	197	(50.3)%
Gross margin	30.4%	42.5%	(12.1)pp	27.5%	42.7%	(15.2)pp

ASIA



BRAND PARTNERING & OTHER ACTIVITIES

Bang & Olufsen has established partnerships with innovative companies like HARMAN and HP. Partnerships help increase the awareness of the Bang & Olufsen brand. Other activities include aluminium component production for third parties.

Revenue

Revenue grew by 15.2% (15% in local currency) to DKK 71m (DKK 61m).

The growth was driven by higher revenue from Brand Partnering whereas revenue from aluminium components produced for third parties was slightly lower than Q2 last year.

Gross profit

Gross profit amounted to DKK 68m (DKK 57m) up by 19.3% and equivalent to a gross margin of 95.8% compared to 93.4% last year. The improved margin was due to the growth in revenue from licencing income.

Financial performance H1 2019/20

For the first six months revenue grew by 15.0% (15% in local currency) to DKK 128m. Gross profit amounted to DKK 121m (DKK 103m) with a gross margin of 94.5%.

(DKK million)	Q2 2019/20	Q2 2018/19	Change	H1 2019/20	H1 2018/19	Change
Revenue	71	61	15.2%	128	111	15.0%
Growth local currency	15%			15%		
Gross profit	68	57	19.3%	121	103	18.4%
Gross margin	95.8%	93.4%	2.4pp	94.5%	92.8%	1.7pp

KEY EVENTS

September 2019

LAUNCH OF FIRST SOUNDBAR – BEOSOUND STAGE

Beosound Stage is the first soundbar that brings the Bang & Olufsen Signature Sound to any TV. The simple, elegant frame is available in natural aluminium, bronze tone aluminium or smoked oak. The frame runs all the way around the speaker and houses a seamless-integrated engraved sensory control panel. The soundbar was available in the first stores in late November 2019 and is sold through both monobrand and multibrand channels.

October 2019

KRISTIAN TEÄR APPOINTED NEW CEO

On 8 October, Bang & Olufsen appointed Kristian Teär as new CEO. Kristian Teär has most recently been in the Swiss company Logitech as Vice President and Head of EMEA. Kristian has previously held executive positions in BlackBerry as Global Chief Operating Officer and Sony Ericsson as Executive Vice President with global responsibility for sales and marketing and as regional President at Ericsson for Southeast Asia, German-speaking Europe and Central America.

October 2019

FLANNELS FLAGSHIP STORE WITH B&O SOUND

Bang & Olufsen delivered the sound system providing the musical backdrop to luxury multibrand retailer Flannels new flagship store on Oxford Street in London. Instead of a hidden sound system, Bang & Olufsen were commissioned to showcase over 45 speakers across four floors. The store's brand portfolio spans the emerging designers and luxury's biggest names. A selection of Bang & Olufsen products within On-the-go and Flexible Living is sold through the store as well.

KEY EVENTS

October 2019

BEOPLAY H4 2ND GEN LAUNCHED

The second generation of the Beoplay H4 headphone launched with an updated design and new features such as added Voice Assistant. The launch debuted a series of commissioned images by French artist, documentarist and fashion photographer Viktor Vauthier documenting Parisian hip and luxury street culture in Bang & Olufsen's Paris flagship store.

October 2019

RIMOWA X BEOPLAY H9i WINS TRAVEL AWARD

The collaboration with premium luggage maker RIMOWA was recognised by Surface Magazine by winning one of their prestigious 2019 Travel Awards.

October 2019

POP-UP AT ESQUIRE TOWNHOUSE

As the official sound and vision partner of Esquire Townhouse, a pop-up members' club in London, Bang & Olufsen delivered an immersive brand experience for the guests. A few select members from the press were invited to see the Beosound Stage for the first time.

October 2019

BEOVISION HARMONY

Beovision Harmony, which was unveiled at Milan Design Week in April 2019, was available in stores as planned in October in a 77'' version. A 65'' version of Beovision Harmony was launched in November, expanding Bang & Olufsen's portfolio of TV's.

October 2019

NEW BRAND COLLABORATION DANIEL ARSHAM AND SELFRIDGES

Bang & Olufsen entered into a collaboration with high-end department store Selfridges and American artist Daniel Arsham who has redesigned Beoplay A9. The limited-edition speaker features an image of a blue moon derived from an original painting by Arsham.

October 2019

IMPROVE HEALTH AND LIFE QUALITY THROUGH SOUND

Together with Soundfocus, Wavecare and Aalborg University, Bang & Olufsen is part of the research project Isobel (Interactive Sound Zones for Better Living). Isobel fit the company's CSR strategy by using Bang & Olufsen's core capability within sound to help improve quality of life. The company will contribute in research as well as creating awareness of the positive effect sound can have on people's health and well-being.

KEY EVENTS

October - November 2019

LIFESTYLE POP-UP STORES IN KEY CITIES

In the period from October to December, Bang & Olufsen was present with pop-up stores or shop-in-shops in key cities. These have among others been in Harrods in London, Iseton in Tokyo, FNAC Termes, Le Bon Marché and Gallerie Lafayette in Paris, KaDeWe in Berlin, Magasin du Nord in Copenhagen and MixC in Shenyang, China.

November 2019

BANG & OLUFSEN'S WEBSITE WON GOLD AWARD

Bang & Olufsen's website won a Gold Award for 'Best use of digital from the retail sector' at the London based Digital Impact Awards which has a long-standing reputation in the digital community as the leading event honouring the best corporate digital work.

November 2019

BANG & OLUFSEN REDUCES CO_2 EMISSION BY 800 TONNES PER YEAR

In November, the headquarters in Struer transferred its heating source from a gas fired heating system to central heating in an effort to reduce CO_2 emission.

November 2019

NEW ORGANISATIONAL STRUCTURE TO STRENGTHEN GLOBAL SALES FOCUS

Bang & Olufsen has made changes to the company's organisational structure to strengthen the global sales focus. This entailed that regional VP's of sales reports directly to CEO Kristian Teär. Due to the changes, John Mollanger, EVP for Brand & Markets, decided to leave Bang & Olufsen. The Board of Directors appointed Christian Birk as EVP for Marketing, Digital & Customer Experience and member of the Executive Management Board.

December 2019

NEW FLAGSHIP STORE IN TOKYO

A new flagship store in Tokyo's exclusive Ginza district was opened. The store design is a collaboration between bang & Olufsen's own design and the acclaimed, emerging Japanese architect Daisuke Motogi. Fusing the essence of Bang & Olufsen's design heritage with Japanese elements, the Ginza store taps into the contemporary dynamism of Tokyo.

OUTLOOK FOR 2019/20

The company expects revenue to decline by 13-18% in local currencies, a negative EBIT margin of 4-9% and negative free cash flow between DKK 100-150m. The outlook is unchanged compared to the revised outlook for 2019/20 issued on 17 December 2019.

Revenue
Revenue is expected to decline by 13%-18% in local currencies.

The expectations for the full year are based on the launch of a number of initiatives in the second half of 2019/20 in order to improve sales and marketing. This will include the establishment of new sales programmes, an improved sales and distribution network, an increase in resources and competences in the sales organisation and more product-focused marketing.

The initiatives will be focused from a geographical market perspective, but with an attention to addressing the full market potential within both mono- and multibrand, business-to-business and e-commerce.

Unauthorised sales and continued inventory reductions with certain partners is expected to have a negative impact in the second half of the year.

Revenue in the second half is, however, expected to be supported by full effect from the product launches in Q2 and by new product launches. The effect from product launches are still expected to be highest in Q4.

EBIT margin
The company expects the EBIT margin to be minus 4-9% excluding special items.

Free cash flow
Free cash flow is expected to be negative DKK 100-150m, and the company thus expects free cash flow in the second half of the year to be positive.

The company will maintain its focus on the development in working capital.

Compared to last year, the implementation of IFRS 16 (leases) will have a positive effect on the free cash flow of around DKK 36m.

Uncertainties
The outlook is based on the exchange rates prevailing at the date of announcement. The company's currency sensitivity is shown in note 6.2 in the annual report 2018/19.

Furthermore, the expectations for the year are subject to the transition of the retail setup and a subsequent improved performance from the sales and marketing activities, as well as on the successful launch of a number of new products. Delays either in the transition or in product launches will have an adverse impact on the company's financial performance.

The outlook excludes impacts from potential oneoff aperiodic items.

SAFE HARBOUR STATEMENT

The report contains statements relating to the expectations for future developments, including future revenues and operating results, as well as expected business-related events. Such statements are uncertain and carry an element of risk since many factors, of which some are beyond Bang & Olufsen's control, can mean that actual developments will deviate significantly from the expectations expressed in the report. Without being exhaustive, such factors include among others general economic and commercial factors, including market and competitive matters, supplier issues and financial issues in the form of foreign exchange, interest rates, credit and liquidity risk.

MANAGEMENT'S STATEMENT

The Board of Directors and the Executive Management Board have today discussed and approved the Q2 Interim Report of Bang & Olufsen A/S for the period 1 June – 30 November, 2019.

The interim report, which has not been audited or reviewed by the Company's auditor, is presented in accordance with IAS 34 Interim Financial Reporting, as adopted by the EU, and additional Danish requirements for interim financial reporting for listed companies.

It is our opinion that the interim report gives a true and fair view of the Group's assets, liabilities and financial position at 30 November 2019, and of the results of the Group's operation and cash flow for the period 1 June 2019 – 30 November 2019. Further, it is also our opinion that the management's report includes a fair review of the developments in the Group's activities and financial situation, the result for the period, and the financial position in general, as well as describing the most significant risks and uncertainties affecting the Group.

Besides that which is disclosed in the interim report, there are no changes in the Group's most significant risks and uncertainties have occurred relatively to that which was disclosed in the consolidated annual report for 2018/19.

Struer, 14 January 2020

Executive Management Board:

Kristian Teär
President & CEO

Nikolaj Wendelboe
CFO

Christian Birk

Snorre Kjesbu

Board of Directors:

Ole Andersen
Chairman

Juha Christen Christensen
Deputy Chairman

Anders Colding Friis

Brian Bjørn Hansen

Britt Lorentzen Jepsen

Dorte Vegeberg

Jesper Jarlbæk

Joan Ng Pi O

M. Claire Chung

Mads Nipper

Søren Balling

Tuula Rytilä

INCOME STATEMENT

		2nd quarter		YTD		Year
(DKK million)	Notes	**2019/20**	2018/19	**2019/20**	2018/19	2018/19
Revenue		**627**	**909**	**1,046**	**1,510**	**2,838**
Production costs		(361)	(462)	(626)	(781)	(1,461)
Gross profit		**266**	**447**	**420**	**729**	**1,377**
Development costs	3	(72)	(79)	(151)	(159)	(321)
Distribution and marketing costs		(215)	(239)	(385)	(429)	(875)
Administration costs		(56)	(39)	(90)	(70)	(146)
Other operating income		-	-	-	24	24
Operating profit (EBIT)		**(77)**	**90**	**(206)**	**95**	**59**
Financial income		6	2	9	4	7
Financial expenses		(5)	(7)	(14)	(20)	(33)
Financial items, net		1	(5)	(5)	(16)	(26)
Earnings before tax (EBT)		**(76)**	**85**	**(211)**	**79**	**33**
Income tax		16	(17)	45	(16)	(14)
Earnings for the year		**(60)**	**68**	**(166)**	**63**	**19**
Earnings per share						
Earnings per share (EPS), DKK		(1.5)	1.6	(4.1)	1.5	0.5
Diluted earnings per share (ESP-D), DKK		(1.5)	1.6	(4.0)	1.5	0.5

STATEMENT OF COMPREHENSIVE INCOME

	2nd quarter		YTD		Year
(DKK million)	**2019/20**	2018/19	**2019/20**	2018/19	2018/19
Earnings for the year	**(60)**	**69**	**(166)**	**64**	**19**
Items that may be reclassified subsequently to the income statement:					
Foreign exchange adjustment of foreign entities	(5)	3	(4)	1	4
Fair value adjustments of derivatives	(18)	(24)	(7)	(25)	(94)
Value adjustments of derivatives reclassified in:					
Revenue	4	(1)	7	(1)	(5)
Production costs	(4)	17	(7)	30	69
Tax on other comprehensive income	4	2	2	(1)	7
Items that will not be reclassified subsequently to the income statement:					
Actuarial gains/losses on defined benefit plans	-	-	-	-	1
Tax on other comprehensive income	-	-	-	-	-
Other comprehensive income for the year, net of tax	**(19)**	**(3)**	**(9)**	**4**	**(18)**
Total comprehensive income for the year	**(79)**	**66**	**(175)**	**68**	**1**

STATEMENT OF FINANCIAL POSITION

Assets

(DKK million)	Notes	30/11/19	30/11/18	31/5/19
Goodwill		44	44	44
Acquired rights and software		19	9	14
Completed development projects		95	156	116
Development projects in progress		52	34	54
Intangible assets		**210**	**243**	**228**
Land and buildings		85	104	89
Plant and machinery		46	49	57
Other equipment		10	5	10
Leasehold improvements		2	2	2
Tangible assets in course of construction and prepayments		30	17	9
Right-of-use assets		152	-	-
Tangible assets		**325**	**177**	**167**
Investment properties		**-**	**15**	**-**
Non-current other receivables		**45**	**31**	**27**
Deferred tax assets		**353**	**240**	**261**
Total non-current assets		**933**	**706**	**683**
Inventories		**557**	**425**	**596**
Trade receivables		430	764	566
Tax receivable		17	13	14
Other receivables		51	92	53
Prepayments		34	34	22
Total receivables		**532**	**903**	**655**
Cash		**298**	**800**	**492**
Assets held for sale		**21**	**-**	**36**
Total current assets		**1,408**	**2,128**	**1,779**
Total assets		**2,341**	**2,834**	**2,462**

Liabilities

(DKK million)	Notes	30/11/19	30/11/18	31/5/19
Share capital		432	432	432
Translation reserve		17	18	21
Reserve for cash flow hedges		-	32	5
Retained earnings		793	1,141	961
Total equity		**1,242**	**1,623**	**1,419**
Lease liabilities		146	-	-
Pensions		15	14	15
Deferred tax		52	8	11
Provisions		31	27	36
Mortgage loans		67	155	69
Other liabilities		16	24	11
Deferred income		0	17	15
Total non-current liabilities		**327**	**245**	**157**
Lease liabilities		40	-	-
Mortgage loans		4	9	3
Provisions		58	46	49
Trade payables		536	505	710
Tax payable		8	1	7
Other liabilities		95	348	79
Deferred income		31	57	38
Total current liabilities		**772**	**966**	**886**
Total liabilities		**1,099**	**1,211**	**1,043**
Total equity and liabilities		**2,341**	**2,834**	**2,462**

STATEMENT OF CASH FLOW

		2nd quarter		YTD		Year
(DKK million)	Notes	**2019/20**	2018/19	**2019/20**	2018/19	2018/19
Operating profit (EBIT)		(77)	90	(206)	95	59
Depreciation, amortisation and impairment		55	55	110	98	190
Operating profit before depreciation, amortisation and impairment		**(22)**	**145**	**(96)**	**193**	**249**
Other non-cash items		(8)	8	(16)	(38)	(50)
Change in net working capital	4	111	(179)	10	(270)	(310)
Interest received		2	4	5	4	7
Interest paid		(9)	(8)	(14)	(8)	(18)
Income tax paid		(6)	(7)	(6)	(7)	(9)
Cash flow from operating activities		**68**	**(37)**	**(117)**	**(126)**	**(131)**
Purchase of intangible non-current assets		(33)	(30)	(52)	(40)	(96)
Purchase of tangible non-current assets		(18)	(20)	(23)	(27)	(58)
Sales of tangible non-current assets		14	-	14	1	1
Other cash flow from investing activities		1	3	4	3	12
Cash flow from investing activities		**(36)**	**(47)**	**(57)**	**(63)**	**(141)**
Free cash flow		**32**	**(84)**	**(174)**	**(189)**	**(272)**
Repayment of lease liabilities		(8)	-	(18)	-	-
Repayment of loans		(1)	(2)	(2)	(6)	(97)
Purchase of own shares		-	(131)	-	(145)	(279)
Settlement of matching share programme		-	(11)	-	(15)	(15)
Cash flow from financing activities		**(9)**	**(144)**	**(20)**	**(166)**	**(391)**
Change in cash and cash equivalents		**23**	**(228)**	**(194)**	**(355)**	**(663)**
Cash and cash equivalents, opening balance		275	1,028	492	1,155	1,155
Cash and cash equivalents, closing balance		**298**	**800**	**298**	**800**	**492**

STATEMENT OF CHANGES IN EQUITY

(DKK million)	Share capital	Translation reserve	Reserve for Cash flow hedges	Retained earnings	Total
Equity 1 June 2019	**432**	**21**	**5**	**961**	**1,419**
Earnings for the year	-	-	-	(166)	(166)
Foreign exchange adjustment of foreign entities	-	(4)	-	-	(4)
Fair value adjustments of derivatives	-	-	(7)	-	(7)
Value adjustments of derivatives reclassified in:					
Revenue	-	-	7	-	7
Production costs	-	-	(7)	-	(7)
Income tax on items that will be reclassified to the income statement	-	-	2	-	2
Comprehensive income for the year	**-**	**(4)**	**(5)**	**(166)**	**(175)**
Share-based payment	-	-	-	(2)	(2)
Equity 30 November 2019	**432**	**17**	**-**	**793**	**1,242**
Equity 1 June 2018	**432**	**17**	**29**	**1,232**	**1,710**
Earnings for the year	-	-	-	63	63
Foreign exchange adjustment of foreign entities	-	1	-	-	1
Fair value adjustments of derivatives	-	-	(25)	-	(25)
Value adjustments of derivatives reclassified in:					
Revenue	-	-	(1)	-	(1)
Production costs	-	-	30	-	30
Income tax on items that will be reclassified to the income statement	-	-	(1)	-	(1)
Comprehensive income for the year	**-**	**1**	**3**	**63**	**67**
Share-based payment	-	-	-	(9)	(9)
Purchase of own shares	-	-	-	(145)	(145)
Equity 30 November 2018	**432**	**18**	**32**	**1,141**	**1,623**

NOTES

1 Accounting policies, judgements and significant estimates

The Group's interim consolidated financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board (IASB) as endorsed by the EU and additional disclosure requirements in the Danish Financial Statements Act.

Except as stated below, the accounting policies and critical accounting estimates and judgements are consistent with those applied in the consolidated financial statements for 2018/19 in notes 1.1 and 1.2 of the Annual Report, to which reference is made.

Changes in accounting policies
The Group has implemented the latest International Financial Reporting Standards (IFRS) and amendments effective as of 1 January 2019 endorsed by the EU.

Of the standards and amendments implemented, only IFRS 16 Leases has a material impact on the Group's Financial Statements.

IFRS 16 - Leases
IFRS 16 has been implemented as of 1 June 2019. The Group has transitioned to IFRS 16 in accordance with the modified retrospective approach. Accordingly, prior period comparative figures are not restated.

The Group recognised all operating leases, with the few exemptions listed below, on the balance sheet as assets with a corresponding lease liability. The lease liability is equal to the discounted value of all future lease payments. The lease assets corresponds to the lease liability adjusted by the amount of any prepaid or accrued lease payment recognised in the statement of financial position immediately before the date of application.

The Group has elected to use the following exemptions, as proposed by the standard:

- Not to recognise lease contracts for which the lease terms ends within 12 months as of the date of the initial application, and lease contracts for which the underlying asset is of low value.
- Apply only one discount rate to a portfolio of leases with similar characteristics.
- Not to reconsider if existing contracts are, or include, a lease.
- Initial direct costs have been excluded from the measurement of the right-of-use asset.
- Use of hindsight, to determine the lease term, if a contract contains options to extend or terminate the contract.

1 Accounting policies, judgements and significant estimates – continued

The Group has reviewed its lease arrangements, which mainly comprise leases of buildings, premises and cars. Several buildings and premises are subleased, and the subleases are classified as financial leases, these arrangements result in recognised lease receivables. The impact for the Group in respect of leases, including those subleased, is an increase in tangible assets due to recognition of right-of-use assets, increased financial receivables and recognised lease liabilities.

When assessing the future lease payments, payments which are fixed or variable have been included dependent on an index or a rate. Non-lease components in the contracts are excluded from the lease liability.

When assessing the life of the leases, agreements that can be prolonged or terminated prematurely by the lessee have been reviewed to establish the period in which the Group with reasonable certainty will utilise the underlying asset. The review was done on a contract-by-contract basis.

Upon implementation, the recognised right-of-use assets and financial receivables increase the Group's assets by DKK 193 million with a corresponding lease obligation recognised as a financial liability. The measurement is based on the interest rate implicit in the lease or incremental borrowing rate, and use of the available knowledge for determining the lease term at the time of the determination. The weighted average discount rates applied for land and buildings, cars, and other are 5.72%, 5.82%, and 5.00% respectively.

As a consequence of the new standard, the presented EBITDA has increased compared to the previous lease standard, IAS 17. The impact on EBIT is insignificant. Over the lease period, the impact on earnings is neutral, but a timing effect occurs due to the interest expenses varying with the remaining debt.

In the cash flow statement, the interest component of the lease payments will be presented as cash flow from operating activities, while the major part of the cash flow will be presented as cash from financing activities, positively impacting the free cash flow. The total cash flow for the period is not impacted.

The impacts on the financial statements are shown in the appendix.

Implementation impact

(DKK million)	31 May 2019	Increase (+) Decrease (-)	1 June 2019
Right-of-use assets	0	+160	160
Other receivables, current and non-current	0	+33	33
Lease liability, current and non-current	0	+193	193

Differences between the operating lease commitments at 31 May 2019 disclosed in the 2018/19 Annual Report and lease liabilities recognised in the opening balance at 1 June 2019 in accordance with IFRS 16 are specified as followed:

(DKK million)	
Operating lease commitments 31 May 2019	**140**
Adjustment for expected lease periods longer than the non-terminable period	87
Discounting of cash flow	(31)
Short-term and low-value leases recognised as an expense	(3)
Lease liability recognised 1 June 2019	**193**
Non-current	156
Current	37

IFRIC 23 - Uncertainty over Income Tax Treatments

The Group follows the guidelines in IFRIC 23, which clarifies the accounting for uncertain tax positions.

IFRIC 23 specifically addresses whether an entity considers each uncertain tax position separately or together with one or more other uncertain tax positions. The approach that better predicts the resolution of the uncertainty is followed, and uncertain tax positions are measured at the most likely outcome.

IFRIC 23 has been implemented as of 1 June 2019, and the provision for uncertainties in relation to tax treatments is now recognised on a gross basis, and not as previously at a net amount, whereas total assets have increased by DKK 16m and total liabilities have increased by DKK 17 million, hence the net impact is DKK 1 million.

2 Segment information

(DKK million)	EMEA	Americas	Asia	Brand Partnering and other activities	All
			2nd quarter		
2nd quarter 2019/20					
Revenue	**312**	**35**	**209**	**71**	**627**
Production costs	(193)	(19)	(146)	(3)	(361)
Gross profit	**119**	**16**	**63**	**68**	**266**
Gross margin	*38.3%*	*45.9%*	*30.4%*	*95.8%*	*42.5%*
2nd quarter 2018/19					
Revenue	**538**	**69**	**241**	**61**	**909**
Production costs	(284)	(35)	(139)	(4)	(462)
Gross profit	**254**	**34**	**102**	**57**	**447**
Gross margin	*47.2%*	*49.8%*	*42.5%*	*93.4%*	*49.2%*

(DKK million)	Staged	Flexible	On-the-go	Brand Partnering and other activities	All
			2nd quarter		
2nd quarter 2019/20					
Revenue	**263**	**83**	**210**	**71**	**627**
Production costs	(141)	(45)	(172)	(3)	(361)
Gross profit	**122**	**38**	**38**	**68**	**266**
Gross margin	*46.3%*	*45.9%*	*18.1%*	*95.8%*	*42.5%*
2nd quarter 2018/19					
Revenue	**307**	**156**	**385**	**61**	**909**
Production costs	(148)	(80)	(230)	(4)	(462)
Gross profit	**159**	**76**	**155**	**57**	**447**
Gross margin	*51.8%*	*48.7%*	*40.3%*	*93.4%*	*49.2%*

2 Segment information (continued)

(DKK million)	EMEA	Americas	Asia	Brand Partnering and other activities	All
			YTD		
YTD 2019/20					
Revenue	**491**	**70**	**357**	**128**	**1,046**
Production costs	(316)	(44)	(259)	(7)	(626)
Gross profit	**175**	**26**	**98**	**121**	**420**
Gross margin	*35.6%*	*37.1%*	*27.5%*	*94.5%*	*40.1%*
YTD 2018/19					
Revenue	**824**	**111**	**464**	**111**	**1,510**
Production costs	(447)	(59)	(267)	(8)	(781)
Gross profit	**377**	**52**	**197**	**103**	**729**
Gross margin	*45.8%*	*47.0%*	*42.7%*	*92.8%*	*48.2%*

(DKK million)	Staged	Flexible	On-the-go	Brand Partnering and other activities	All
			YTD		
YTD 2019/20					
Revenue	**367**	**134**	**417**	**128**	**1,046**
Production costs	(203)	(75)	(341)	(7)	(626)
Gross profit	**164**	**59**	**76**	**121**	**420**
Gross margin	*44.7%*	*44.0%*	*18.2%*	*94.5%*	*40.1%*
YTD 2018/19					
Revenue	**515**	**226**	**658**	**111**	**1,510**
Production costs	(259)	(117)	(397)	(8)	(781)
Gross profit	**256**	**109**	**261**	**103**	**729**
Gross margin	*49.7%*	*48.2%*	*39.7%*	*92.8%*	*48.2%*

3 Development costs

	2nd quarter		YTD		Year
(DKK million)	**2019/20**	2018/19	**2019/20**	2018/19	2018/19
Incurred development costs before capitalisation	68	68	128	127	269
Hereof capitalised	(29)	(24)	(42)	(34)	(79)
Incurred development costs after capitalisation	39	44	86	93	190
Capitalisation (%)	*42.3%*	*35.3%*	*32.7%*	*26.4%*	*29.5%*
Total amortisation charges and impairment losses on development projects	33	35	65	66	131
Development costs recognised in the consolidated income statement	**72**	**79**	**151**	**159**	**321**

4 Change in net working capital

(DKK million)	**30/11/2019**	31/05/2019	YTD change 30/11/2019	YTD change 30/11/2018	Change in 2018/19
Trade receivables	430	566	136	(256)	(56)
Trade payables	(536)	(710)	(174)	128	56
Inventory	557	596	39	(65)	(244)
Other net working capital	(51)	(42)	9	(77)	(66)
Total	**400**	**410**	**10**	**(270)**	**(310)**

5 Distribution of revenue

Revenue from the sale of goods is recognised at the point in time when the control of goods and products is transferred to the customer, which generally takes place on delivery.

Royalty and license fees are recognised when earned according to the terms of the license agreements.

6 Seasonality

Due the composition of the Bang & Olufsen's business, some degree of seasonality in revenue occurs. Historically Q2 has realised the highest revenue driven by the seasonal nature. Overall second half has higher revenue than first half.

7 Related parties

Related parties with significant interests
Other related parties of Bang & Olufsen with significant interest include the Board of Directors, the Executive Management Board, and their close family members. Furthermore, related parties also include companies in which these parties have control or significant interests.

Transactions with related parties
Bang & Olufsen did not enter into any significant transactions with members of the Board of Directors or the Executive Management Board, except for compensation and benefits received because of their membership of the Board of Directors, employment with Bang & Olufsen or shareholdings in Bang & Olufsen.

8 Matching shares

The Remuneration Committee of the Board of Directors has implemented a matching share programme (MSP) as a variable component in compensation offered to the Executive Management Board and key employees. The participating employees are given the opportunity to acquire shares in Bang & Olufsen A/S at their own cost, which after three years of ownership will provide the right to receive 1-5 matching shares per investment share, depending on fulfillment of certain performance criteria.

The programme is accounted for on an accruals basis over the three-year vesting period, as it is a condition that the employee has not resigned before vesting. The accounting value is the value of the maximum number of matching shares to be granted times the probability of the shares vesting. This probability is adjusted every year until vesting. To a limited extent, Bang & Olufsen A/S has purchased treasury shares to cover the obligation for the outstanding matching shares. The shares are recognised directly in the equity. The holding of treasury shares totalled 2,340,440 shares at 31 May 2019 (22,999 shares at 31 May 2018).

8 Matching shares (continued)

The fair value of Matching Shares is DKK 43.6 per share based on the share price at the time of grant (31 May 2019: DKK 132.8). Staff costs recognised in the income statement regarding share-based payments were DKK 2 million at 30 November 2019, the entire amount relating to the MSP (31 May 2019: DKK 4 million of which all related to the MSP).

Accounting policies
Share-based incentive programmes, in which the Executive Management Board and selected other key employees are given the right to receive shares in the parent company (equity-settled programmes), are measured at the fair value of the equity instruments at grant date and are recognised in the income statement as part of staff costs during the period when the employees become entitled to buy the shares.

The existing share-based incentive programme gives Bang & Olufsen an option to settle in cash, however as it is expected programmes will be settled in shares, the programmes will be accounted for as equity-settled programmes.

9 Derivative financial instruments

Derivative financial instruments comprise primarily of foreign exchange contracts used to cash flow hedge the foreign exchange risk related to future transactions. The derivatives are measured at fair value in accordance with level 2 in the fair value hierarchy (IFRS 7) using valuation techniques that apply market data such as exchange rates, credit risk, and volatility.

See note 6.4 in the Annual Report 2018/19 for an overview of the foreign exchange contract types.

10 Subsequent events

Other than that which is set out above or elsewhere in these consolidated interim financial statements, we are not aware of events subsequent to 30 November 2019 which are expected to have a material impact on the Group's financial position.

APPENDIX

INCOME STATEMENT - IFRS 16 LEASES IMPACT

	30/11/2019		
(DKK million)	Before IFRS 16 - Leases	Impact	After IFRS 16 - Leases
Revenue	**1,046**	**-**	**1,046**
Production costs	(626)	-	(626)
Gross profit	**420**		**420**
Development costs	(151)	-	(151)
Distribution and marketing costs	(387)	2	(385)
Administration costs	(90)	-	(90)
Other operating income	-	-	-
Operating profit (EBIT)	**(208)**	**2**	**(206)**
Financial income	8	1	9
Financial expenses	(9)	(5)	(14)
Financial items, net	(1)	(4)	(5)
Earnings before tax (EBT)	**(209)**	**(2)**	**(211)**
Income tax	44	1	45
Earnings for the year	**(165)**	**(1)**	**(166)**

APPENDIX

STATEMENT OF FINANCIAL POSITION - ASSETS - IFRS 16 - LEASES IMPACT YTD

(DKK million)	30/11/2019 Before IFRS 16 - Leases	Impact	After IFRS 16 - Leases
Goodwill	44	-	44
Acquired rights and software	19	-	19
Completed development projects	95	-	95
Development projects in progress	52	-	52
Intangible assets	**210**	**-**	**210**
Land and buildings	85	-	85
Plant and machinery	46	-	46
Other equipment	10	-	10
Leasehold improvements	2	-	2
Tangible assets in course of construction and prepayments for tangible assets	30	-	30
Right-of-use assets	-	152	152
Tangible assets	**173**	**152**	**325**
Non-current other receivables	**24**	**21**	**45**
Deferred tax assets	**313**	**40**	**353**
Total non-current assets	**720**	**213**	**933**
Inventories	**557**	**-**	**557**
Trade receivables	430	-	430
Tax receivable	17	-	17
Other receivables	41	10	51
Prepayments	34	-	34
Total receivables	**522**	**10**	**532**
Cash	**298**	**-**	**298**
Assets held for sale	**21**	**-**	**21**
Total current assets	**1,398**	**10**	**1,408**
Total assets	**2,118**	**223**	**2,341**

STATEMENT OF FINANCIAL POSITION - LIABILITIES - IFRS 16 - LEASES IMPACT YTD

(DKK million)	30/11/2019 Before IFRS 16 - Leases	Impact	After IFRS 16 - Leases
Share capital	432	-	432
Translation reserve	17	-	17
Reserve for cash flow hedges	-	-	-
Retained earnings	794	(1)	793
Total equity	**1,243**	**(1)**	**1,242**
Lease liabilities	-	146	146
Pensions	15	-	15
Deferred tax	14	38	52
Provisions	31	-	31
Mortgage loans	67	-	67
Other non-current liabilities	16	-	16
Deferred income	-	-	-
Total non-current liabilities	**143**	**184**	**327**
Lease liabilities	-	40	40
Mortgage loans	4	-	4
Provisions	58	-	58
Trade payables	536	-	536
Tax payable	8	-	8
Other liabilities	95	-	95
Deferred income	31	-	31
Other current liabilities	**732**	**40**	**772**
Total liabilities	**875**	**224**	**1,099**
Total equity and liabilities	**2,118**	**223**	**2,341**

APPENDIX

STATEMENT OF CASH FLOW - IFRS 16 - LEASES IMPACT YTD

	30/11/2019		
(DKK million)	Before IFRS 16 - Leases	Impact	After IFRS 16 - Leases
Operating profit (EBIT)	(208)	2	(206)
Depreciation, amortisation and impairment	94	16	110
Operating profit before depreciation, amortisation and impairment	**(114)**	**18**	**(96)**
Other non-cash items	(16)	-	(16)
Change in net working capital	10	-	10
Interest received	5	-	5
Interest paid	(10)	(4)	(14)
Income tax paid	(6)	-	(6)
Cash flow from operating activities	**(131)**	**14**	**(117)**
Purchase of intangible non-current assets	(52)	-	(52)
Purchase of tangible non-current assets	(23)	-	(23)
Sales of tangible non-current assets	14	-	14
Other cash flow from investing activities	-	4	4
Cash flow from investing activities	**(61)**	**4**	**(57)**
Free cash flow	**(192)**	**18**	**(174)**
Repayment of lease liabilities	-	(18)	(18)
Repayment of loans	(2)	-	(2)
Purchase of own shares	-	-	-
Settlement of matching share programme	-	-	-
Cash flow from financing activities	**(2)**	**(18)**	**(20)**
Change in cash and cash equivalents	**(194)**	**-**	**(194)**
Cash and cash equivalents, opening balance	492	-	492
Cash and cash equivalents, closing balance	**298**	**-**	**298**

ADDITIONAL INFORMATION

For further information, please contact:
Investor contact, Martin Egenhardt, tel.: +45 5370 7439
Press contact, Jens Gamborg, tel.: +45 2496 9371

FINANCIAL CALENDAR

Financial statements

2 April 2020	Interim report (3rd quarter 2019/20)
3 April 2020	Capital market day
7 July 2020	Annual report 2019/20

Safe Harbour statement
The report contains statements relating to expectations for future developments, including future revenue and earnings, as well as expected business-related events. Such statements are uncertain and carry an element of risk since many factors, of which some are beyond Bang & Olufsen's control, can mean that actual developments will deviate significantly from the expectations expressed in the report. Without being exhaustive, such factors include among others, general economic and commercial factors, including market and competitive matters, supplier issues and financial issues in the form of foreign exchange, interest rates, credit, and liquidity risks.

About Bang & Olufsen
Bang & Olufsen is a global luxury-lifestyle brand founded in 1925 in Struer, Denmark by Peter Bang and Svend Olufsen whose devotion and vision remains the foundation for the company. The rich heritage built around the relentless determination to create products that push the boundaries of audio technology continues to place the company at the forefront of audio innovation. Today, every Bang & Olufsen product is still characterised by the unique combination of beautiful sound, timeless design, and unrivalled craftsmanship. The company's innovative and progressive audio products are sold worldwide in Bang & Olufsen monobranded stores, online and in multi-branded stores. The company employs around 900 people and operates in more than 70 markets and Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.

For additional information: please visit www.bang-olufsen.com.

Bang & Olufsen A/S
Bang & Olufsen Allé 1
DK-7600 Struer
Denmark

Tel. +45 9684 1122
www.bang-olufsen.com
Comreg: 41257911