ANNUAL REPORT 2018/19

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

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

BANG & OLUFSEN

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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 products are sold worldwide in Bang & Olufsen monobrand stores, online and in multibrand stores. The company employs around 900 people and operates in more than 70 markets. Bang & Olufsen's shares are listed on NASDAQ Copenhagen A/S.

BANG & OLUFSEN'S CORE CAPABILITIES

SOUND, DESIGN & CRAFTSMANSHIP

BEAUTIFUL SOUND

All products are created to deliver the most seamless and powerful sound experience no matter the circumstances – natural, authentic and as the artist intended, regardless of size or shape.

TIMELESS DESIGN

Design starts by seeking true innovation to make each product better. Innovation is the inspiration that drives form and expression and the end result is design that is performance-driven and magical.

UNRIVALLED CRAFTSMANSHIP

Only materials of the highest quality are used in Bang & Olufsen products. From pearl-blasted aluminium, authentic leather, Scandinavian wood and the fabrics that cover the products, the company's commitment to craftsmanship is unique.

2018/19 AT A GLANCE

A difficult year, transitioning from a wholesale focus to a consumer centric approach. A slower than expected transformation of the go-to-market setup combined with fewer product launches resulted in a decline in revenue. However, the established asset-light operating model, based on strong partnerships enabled the company to lift gross margin and remain profitable.

REVENUE SPLIT

REGION

EMEA	Americas	Asia	Brand Partnering & Other Activities
51%	8%	33%	8%

PRODUCT CATEGORY

Staged	Flexible Living	On-the-go	Brand Partnering & Other Activities
34%	16%	42%	8%

REVENUE, DKK MILLION	GROSS MARGIN	EBIT MARGIN
2,838	48.5%	2.1%
∨ 13.6%	∧ 4.9pp	∨ 1.6pp

BUSINESS DEVELOPMENT

522 monobrand stores
Fewer stronger cluster partners, ensuring better consistency in consumer experience and focusing on high-traffic locations close to related retail

4,782 multibrand Points of Sale
Prioritising department stores, travel retail, selected consumer electronics shops and selected etailers that cater to consumers looking for luxury lifestyle products

New eCom platform launched in EMEA and the Americas facilitating omnichannel features and driving on- and offline trafic

Positive impact of more asset-light and agile operating model based on strong partnerships

SOCIETAL CONTRIBUTION

Partnered with Sound Hub Denmark to support 16 sound and technology startups, completed more than 10 initiatives to help and promote STEM competencies for young people and hosted the annual Innovation Camp for students all over the world

Reduced CO_2 emissions in own building portfolio by 6.5% through a number of energy savings initiatives

RESPONSIBLE EMPLOYER

Around 900 employees worldwide, 28 different nationalities in Denmark alone

Bang & Olufsen named one of the 20 most attractive employers in Denmark among young talents according to Universum's 2019 report

LETTER TO SHAREHOLDERS

Ole Andersen Chairman

Henrik Clausen President & CEO

Dear shareholders,
This was a disappointing year for Bang & Olufsen. Due to difficulties related to the sales and distribution network combined with fewer product launches we failed to deliver on our expectations for the year and had to downgrade our financial guidance three times in the second half of the year.

Revenue declined 13.6% compared to last year and our EBIT margin dropped to 2.1%. Thanks to our asset-light operating model, the impact on our EBIT margin was partly mitigated by an improved gross margin of 48.5%. The shortfall in revenue adversely impacted our profitability and net working capital, which resulted in a negative free cash flow of DKK 272 million and consequently, the Board of Directors decided to terminate the ongoing share buyback programme after we had reached the minimum level for our net cash position.

The results are clearly not satisfactory. The strategic changes we have initiated are necessary for us to develop and sell innovative products to our consumers and deliver long-term profitable growth. However, we have underestimated the short-term execution risk related to the transition of the sales and distribution network to a more retail-driven model. Furthermore, we released fewer new products than in previous years, which also impacted us.

A consumer-centric approach to our sales and distribution network
The Bang & Olufsen brand remains our most important asset and delivering the right consumer experience across all touchpoints is critical in order to build brand equity and deliver profitable growth.

For many years Bang & Olufsen has operated as a wholesale company. We have opened thousands of multibrand points of sale, often through distributors, but with little control of the consumer experience and channel performance. This created a potential risk of diluting the long-term value of our brand. During the year, we therefore closed down a number of non-performing points of sale with little recurrent sales and instead focused on retail segments that cater to consumers looking for luxury lifestyle products.

In order for Bang & Olufsen to be recognised as a luxury lifestyle brand, it is necessary to move to a more consumer-driven model. We need an omnichannel approach to our consumer interaction and will take ownership of the in-store and online brand experience in order to gain control the commercial decisions in terms of where and how our products are presented to consumers.

We have not yet succeeded in this transition and recognise it is in large parts down to execution. We have not been fast enough in expanding our presence with targeted multibrand retailers nor have we opened enough new monobrand stores or shops-in-shop in high-traffic areas in key markets. In addition, we have been adversely impacted by high inventory levels at our retailers, which resulted in lower-than-expected revenue in our monobrand network, especially in EMEA. In the multibrand network, we saw third-party excess inventories moving to unauthorised channels at discounted prices, significantly impacting the multibrand network in all regions.

To support a more consistent consumer experience going forward, we strengthened our contractual framework during 2018/19. This has already improved our ability to monitor sell-out data and retail inventory levels. It also enables us to monitor market misconduct, with the objective of significantly reducing issues with products in unauthorised channels going forward.

Furthermore, we have spent significant resources on building the organisation, strengthening the top management team as well as regional management teams which have had a temporary impact on the organisation's effectiveness. Lastly, we have invested significant resources in upscaling digital competencies which among other things has resulted in improved data insights supported by our new eCom platform launched In March.

A strong pipeline of products based on our core capabilities

We took a conscious decision to launch fewer new products in 2018/19 and support our product offering through reinvigorating exciting products by adding new technology or by offering a broader pallet of colours, materials and finishes. In hindsight, our product launch plan for 2018/19 proved to be inadequate.

One of our product innovations was to upgrade speakers to support multiroom functionality with Airplay 2 and several products now also feature Google Assistant. Early in the financial year, we launched our new Beosound Edge, a true manifestation of the company's core capabilities of sound, design and craftsmanship, which have received a number of prestigious design awards.

The merger of the B&O Play and Bang & Olufsen brands was an opportunity to align our product design line as well as developing a new technical platform, instead of working with separate platforms. Therefore, we have invested in the development of new cross-product platforms on which our future products will be based. This will make us more efficient, from both a product development and a financial performance point of view. We expect that this will also significantly improve our time to market and hence frequency in product launches.

We have already announced our new Beovision Harmony TV, which will be available in October 2019. This is the second TV model we have co-developed with LG and yet further testament to the efficiency of our partnership model. We have already seen strong reviews and solid consumer interest.

Expectations for 2019/20

In 2019/20, we expect to deliver single-digit revenue growth, an EBIT margin above the 2018/19 EBIT-margin of 2.1%, and a positive free cash flow. The outlook reflects that we believe that Bang & Olufsen has an untapped growth potential but also that there is a need for us to address several key challenges in 2019/20.

A key focus area will be the continuing transition of the sales and distribution network to a more consumer-driven model. This includes ensuring that inventories at retailers are normalised. The negative effect we saw in the second half of 2018/19 in particular is also expected to adversely impact our financial performance in the first part of 2019/20.

We expect to launch more products across all categories compared to last year. This will have a positive effect on revenue, though most products will be launched during the second half of the financial year and consequently impact in the fourth quarter is most significant. Ensuring successful launches combined with a more consumer-driven go-to-market approach based on insights will enable us to drive revenue and build brand equity in key markets.

Our employees are a key part of our ability to deliver on the transformation and expectations for 2019/20. A key priority for the year will therefore be to continue building capabilities, strengthen the organisation and simplify processes.

Skilled and motivated employees are crucial to succeed, and while we did manage to bring down the number of cases of stress-related absences in 2018/19, we saw a slight decline in overall employee engagement across the company. We are addressing this, and we want to express our sincere gratitude to each and every one of our employees, who have worked hard through a difficult year. Without their passion, pride and persistence, we will never be able to deliver on our strategy.

BUSINESS MODEL

■ Internal value streams
■ Partner-driven value streams

CONSUMERS

The ambition is to place the consumer at the centre of everything – by constantly improving the value delivered to consumers, Bang & Olufsen strives to become the most desired audio brand in the world.

PRODUCT INNOVATION

Create progressive and innovative products based on the core capabilities of sound, design and craftsmanship, together with key technology partners and external designers.

Key partners (ex)

- Selected designers
- HARMAN
- LG
- Google/Apple

MANUFACTURING

Ensure high quality products through own aluminium processing, and together with production partners drive efficiency throughout the value chain.

Key partners (ex)

- Tymphany
- Merry
- LG
- TongIN

RETAIL

Omnichannel setup ensuring branded retail experience throughout global network of monobrand and multi-brand stores and own eCom platform. Collaboration with global logistics partners ensures timely delivery and brand partnerships/collaborations create brand exposure to new consumer groups.

Key partners (ex)

- Multibrand retailers
- Master dealers
- Cluster partners (monobrand)
- HP
- Saint Laurent
- RIMOWA

ASSET-LIGHT AND SCALABLE OPERATING MODEL

Bang & Olufsen's operating model builds on partner collaboration in everything from design to production and distribution. Advanced innovative features in top-range products flow to the rest of the portfolio.

The asset-light operating model enables Bang & Olufsen to adapt to changes and makes operations and the financial performance more robust.

STRATEGY & OUTLOOK

STRATEGY

Bang & Olufsen aspires to become the most desired audio brand in the world. The company aims to strengthen its position as a luxury lifestyle brand through the continuous development of innovative products based on its core capabilities of sound, design and craftsmanship and a stronger consumer-centric approach. Based on an agile and asset-light operating model, the company expects to return to profitable growth in the coming financial year.

STRATEGIC THEMES

BRAND

Strengthen luxury lifestyle position

PRODUCTS & INNOVATION

Focus on sound, design and craftsmanship, strong lifecycle management and industry standard compatibility

DISTRIBUTION & CHANNELS

Targeted go-to-market approach, online and offline

COMPETENCIES & PROCESSES

Reduce complexity and build capabilities within key areas

The company's strategy is centred around four strategic themes; Brand, Products & Innovation, Distribution & Channels and Competencies & Processes. Among the key priorities for the coming years is the ambition to continue to strengthen the company's position as a luxury lifestyle brand across all consumer touchpoints via a strong omnichannel focus. This includes improving brand and marketing communication, transitioning to a more retail-driven sales and distribution network, ensuring successful launches of upcoming products as well as simplifying internal processes.

BRAND

Luxury lifestyle positioning

Bang & Olufsen's aspiration is to become the most desired audio brand in the world. To achieve this, the company will continue to strengthen the luxury lifestyle positioning and continue to create innovative and progressive products based on its core capabilities of sound, design, and craftsmanship. Being a luxury brand entails putting the consumers experience at the centre of technology and ensuring meticulous attention to detail in products as well as in the broader consumer experience.

The products created will cater to the target consumers whose lifestyles involve prioritising curated experiences and appreciating the added value of superior sound, design and craftsmanship.

Strengthening brand equity

The Bang & Olufsen brand continues to be the company's biggest asset, and strengthening the brand awareness – especially in growth markets outside Europe – remains a key priority.

In 2018/19, the company started to operate under a single brand, Bang & Olufsen. This single-brand approach was gradually implemented during the year across marketing, product packaging, in-store visual merchandising, digital platforms and other touchpoints. The more unified execution has been well received by both brand partners and consumers and has ensured a more consistent consumer experience at all touchpoints.

Bang & Olufsen will continue to focus on building and driving brand awareness across all touchpoints through added emphasis on improving content creation, a more localised go-to-market approach and insights-driven brand-building activities.

Leveraging brand partnerships and collaborations

In recent years, the company has entered into brand partnerships with some of the largest and most innovative companies in the world, such as HP, HARMAN and LG. Brand partnerships have become a key part of the business and a platform for exposing potential consumers to the brand and the core capabilities of Bang & Olufsen.

Brand partnering is an integral part of the company's strategy to drive brand awareness and provide access to complementary capabilities within technology. In addition to brand partnerships, Bang & Olufsen continues to engage in brand collaborations with like-minded brands and artists. In 2018/19, the company executed new collaborations with brands and artists such as RIMOWA and David Lynch that involved special product editions. Bang & Olufsen will continue to engage in these types of collaborations to develop as well as amplify brand experience and awareness.

PRODUCTS & INNOVATION

A consumer-centric approach
Bang & Olufsen has a consumer-centric approach to product development based on the company's core capabilities of sound, design and craftsmanship. Bang & Olufsen's focus is on launching innovative products that truly manifest these core capabilities and cater to three main use cases:

- **On-the-go**
- **Flexible Living**
- **Staged**

Strong product lifecycle management remains important for catering to the demanding requirements of the creative curators. This entails updates to colours, materials and finishes as well as ensuring that products are always innovative and have a leading position within their use cases.

The digital engagement with consumers is also a key driver of future growth. Therefore, Bang & Olufsen will ensure a consistent approach to the way consumers interact with products through apps and different product platforms. To create the right consumer experience, all Bang & Olufsen products must emanate luxury in the way they are installed, used and serviced.

Future products will be based on technology ecosystems to ensure industry standard compatibility. In 2018/19,

PRODUCT CATEGORIES

ON - THE - GO	FLEXIBLE LIVING	STAGED
Products that are mobility based, built around nomadic use cases. This includes both immersive and social experiences	Products for consumers who want flexibility in use and placement in domestic settings	Products used in stationary settings for immersive listening or viewing experiences
		

Bang & Olufsen launched its first products with Google Assistant and Apple Airplay 2. The company also introduced wireless charging in its On-the-go category. In 2019/20, an upgraded technical product platform will be finalised, which will allow the company to develop all future products more efficiently – both in terms of innovation and financially.

DISTRIBUTION & CHANNELS

Targeted approach to driving retail
The potential to increase brand awareness and market penetration remains significant in many markets. Therefore, the company will maintain the level of its marketing spend in the coming years. The spend will be a combination of digital activation as well as spending on asset creation, CRM and other key marketing activities – all for the purpose of manifesting the brand position as a luxury lifestyle brand and driving traffic and sales across all channels.

The company is focused on key metropolitan areas across all regions, aiming to achieve scale in building awareness. To emphasise and strengthen the brand position, the company will concentrate its brand activities in key trend cities like: London, New York, Paris, Shanghai and Tokyo. This includes plans to open a flagship store in each of these cities. The first flagship store opened as a pop-up in New York and is scheduled to fully open in 2019.

The company will strengthen brand consistency through an updated retail design at all retail touchpoints, including new retail concepts for the multibrand channel. The goal is to create a more unified visual expression of the company's brand positioning towards consumers.

The company operates in three different regions; EMEA (Europe, Middle East and Africa), Asia and the Americas.

In EMEA, the main focus is to create strong clusters of stores in key locations and enhance consistency across monobrand and multibrand retail and online channels. Within EMEA, Europe is the most penetrated market and has the highest brand recognition. A key priority in 2018/19 was the rollout of a new contractual framework to all European monobrand partners, creating a better foundation for a more consistent brand experience, terms & conditions and product merchandising. In addition, the new setup will enable better insights into sell-out performance, which is a prerequisite for becoming more retail-driven.

In Asia, focus will be on growing key countries through strong partnerships and based on the competent and focused local organisations established in those markets over the last two years. In 2018/19, five new monobrand partners were established in China and 19 new monobrand stores were opened in high-traffic locations. To support the growth in Japan, a new management team has been appointed to support a master dealer. A change of retail partner in Australia and New Zealand in 2018/19 had a significant negative effect on performance. The new partner is expected to develop this market further with new store openings over the coming years.

In the Americas, a new management team was onboarded in 2018/19 and a clean-up of the multibrand channel initiated, which meant large reductions of non-performing points of sale. The focus for the coming years will be to build presence in key urban areas across the USA and Canada.

Improving distribution and channels
The company is working towards creating a more seamless brand experience across both physical and digital channels. In addition, to ensure greater consistency of visual expression, the company is also implementing a stronger omnichannel focus on order fulfilment

and service. To become successful, it is a prerequisite that the company moves from a wholesale focus on "sell-in" to a more retail-driven "sell-out" focus.

Monobrand continues to play an essential role in the company's overall sales and brand positioning. To succeed and be profitable, this requires a distribution setup with fewer, but stronger partners that operate in clusters and have the scale to deliver a consistent consumer experience and drive an efficient retail business. A key driver for revenue growth in monobrand will be increased focus on Flexible Living and On-the-go products.

Multibrand stores that attract consumers searching for a luxury lifestyle product offering, such as department stores, airport retailers, selected consumer electronics retailers, and selected e-tailers drive significantly higher revenue per store and support a much more consistent brand experience than pure consumer electronics and telecom retail stores. Therefore, the multibrand retail presence is being prioritised towards these areas and a more direct approach to multibrand including new retail concepts for the multibrand channel is being implemented. The level of direct engagement will depend on the multibrand partner. The company will engage directly with large key multibrand partners without the use of distributors. For tier two multibrand partners, Bang & Olufsen will engage with each partner but involve dedicated distributors in each market to support among others the logistics. A number of more opportunistic multibrand partners will be serviced through selected distributors.

A new e-commerce platform was launched in spring 2019. The company expects that this platform over time will enable increased e-commerce across all product categories and strengthen omnichannel features and functionality that ensure closer integration between on- and offline channels. The increased digital interaction is already impacting how the company operates as it has led to a deeper understanding of consumers and their needs and ensure real-time and more contextual consumer engagement.

CHANNEL OVERVIEW

	PURPOSE
MONOBRAND	• Give the full brand experience • Cater for consumers already familiar with the brand and special requests • Expose new consumers to luxury lifestyle experience brand execution
MULTIBRAND	• Manifest the brand and build brand equity to target consumers • Attract new consumers in high street locations • Drives sales volume
ONLINE	• Meeting consumers in their own space and time • Support the consumer journey across all omnichannel touchpoints • Brand digital interface and experience

COMPETENCIES & PROCESSES

Reduce complexity and build capabilities in key areas
For the growth and profitability potential of the transformed operating model to materialise, it is essential that the company continues to strengthen its competencies within areas such as product creation and design, brand, retail execution, digital and software.

The company made several key senior management and key role recruitments within these areas in 2018/19, including Snorre Kjesbu, EVP and Head of Product Creation, and Nikolaj Wendelboe, EVP and CFO, who both joined the Executive Management Board during Q4 2018/19.

The company is also focused on strengthening the consumer-facing digital touchpoints, product platforms and Group IT infrastructure as part of the company's digital transformation. Ensuring a strong global supply chain will also be a priority for the coming years.

OUTLOOK FOR 2019/20

The company expects to deliver single-digit revenue growth, an EBIT margin above the 2018/19 EBIT margin of 2.1%, and positive free cash flow.

Revenue
The company expects to deliver single-digit revenue growth in 2019/20 at constant currencies.

For both the monobrand and multibrand channels, the focus will be on improving the distribution performance by continuing the transition of the sales and distribution network to a more consumer-driven model.

In the second half of 2018/19, revenue was negatively impacted by high inventories at retail level. The company's results are expected to be affected by the continuing efforts to normalise retailer inventories, especially in the first part of 2019/20. All regions will likely be affected, Asia most significantly.

Furthermore, the company expects the negative revenue performance by monobrand stores, especially in EMEA, in the second half of 2018/19 to continue into the first part of 2019/20, adversely impacting growth.

The revenue outlook is supported by several planned product launches, starting with the new Beovision Harmony TV, which as previously announced is scheduled for launch in October 2019. Product launches are expected to have a positive impact mainly in the second half of 2019/20 and especially in Q4.

Overall, revenue growth is expected to be negative in the first half of 2019/20, whereas the second half is anticipated to be supported by product launches.

EBIT margin
The company expects the EBIT margin to be above the 2018/19 EBIT margin of 2.1%.

The EBIT margin is expected to be lifted by higher revenue and a gross margin increase, excluding currency effects. Additionally, the implementation of IFRS 16, relating to leases, is expected to lift the EBIT margin by around 1 percentage point.

Compared to 2018/19, currency effects are expected to reduce the EBIT margin by 2 percentage points, primarily related to USD.

OUTLOOK 2019/20

	Actual 2018/19	Outlook 2019/20
Revenue growth	(13.6)%	Single-digit growth (constant currencies)
EBIT margin	2.1%	Above 2018/19
Free cash flow	DKK (272) million	Positive

Free cash flow

The company expects free cash flow in 2019/20 to be positive.

The company's net working capital position increased during 2018/19. It is the ambition to reduce the net working capital position in 2019/20, which would have a positive impact on cash flows. However, the free cash flow in the first half of 2019/20 is expected to be negatively impacted by the seasonality of the business.

In 2015, Bang & Olufsen sold its automotive business to HARMAN. The acquisition price included a prepayment, which has been gradually offset by licensing fees. It is expected that the prepayment will be fully offset during Q2 2019/20, resulting in future licensing payments being fully cash positive to the company.

Furthermore, the implementation of IFRS 16 will have a positive effect on the free cash flow of approximately DKK 30 million.

Mid-term guidance

Due to the uncertainty related to the transition of the sales and distribution network to a more retail-driven model, the company has decided not to provide mid-term guidance for now.

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.

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

The outlook excludes impacts from potential one-off 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 subject to uncertainty and carry an element of risk since many factors, some of which are beyond Bang & Olufsen's control, may cause actual developments to deviate significantly from the expectations expressed in this report. Without being exhaustive, such factors include among other things 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.

RESULTS

KEY EVENTS

July 2018

LG SIGNATURE EDITION SMARTPHONE

LG Signature Edition smartphone with audio tuned by Bang & Olufsen and sold with a pair of Beoplay H9i headphones.

August 2018

BEOSOUND 1 AND 2 WITH GOOGLE ASSISTANT

BeoSound 1 and 2 launched with Google Assistant. Advanced smart speaker functionality for controlling other smart home devices.

August 2018

BEOSOUND EDGE

Award winning Beosound Edge, a powerful wireless speaker with Active Bass Port, a ground-breaking acoustic technology.

August 2018

BEOPLAY E8 RACING GREEN

The Beoplay E8 in British Racing Green from the world of car racing.

August 2018

BEOPLAY E8 PINK

Beoplay E8 earphones launched in pink.

September 2018

AUTUMN/WINTER 2018 COLLECTION

Collection with a range of limited-edition headphones, speakers, and earphones in the colours Dark Plum, Terracotta, and Limestone.

September 2018

COLLABORATION WITH SINGAPORE AIRLINES

Singapore Airlines enhanced customer experience, making Beoplay H9i available to first class travellers.

September 2018

COLLABORATION WITH AMERICAN AIRLINES

American Airlines providing Beoplay H9i headphones to first and business class consumers.

September 2018

BEOPLAY E6 SAND

Beoplay E6 earphone in sand colour.

October 2018

SPEAKER COLLECTION WITH ARTWORK BY DAVID LYNCH

A special edition speaker collection with artwork by David Lynch. The speaker collection featured selected images and details from the “War Between the Shapes” series, and from the “Paris Suite” lithographs.

October 2018

THE BRONZE COLLECTION

Limited-edition Bronze Collection of the most popular multiroom speakers with inspiration from the architectural and interior trends of using warm colours and contrasting materials.

Oktober 2018

HP SPECTRE FOLIO

Laptop made of genuine leather and incorporating a four-speaker audio experience tuned by Bang & Olufsen.

November 2018

BEOLAB 50 AND BEOVISION ECLIPSE IN PIANO BLACK

Beolab 50 and Beovision Eclipse in Piano Black adding a dynamic, balanced glossy surface and distinct details.

November 2018

BENTLEY CONTINENTAL CONVERTIBLE GT

Optional audio system for Bentley Continental Convertible GT seamlessly integrated into the car, while a 1,500-watt Beocore amplifier, digital signal processing and 16 active speakers provide authentic sound.

December 2018

BEOPLAY A1 & E8 LATE NIGHT BLUE

Beoplay E8 and A1 Late Night Blue, part of the Special Edition Collection, with a wider collection of colour variants.

December 2018

POP-UP STORE OPENED IN NEW YORK

The new company-owned flagship store in SoHo, New York pre-opened as a pop-up.

January 2019

BEOPLAY E8 2.0

Second generation of the popular wireless earphones with improvements to the design as well as features requested by consumers, including Qi wireless charging and improved battery.

February 2019

LAUNCH OF NEW ECOM PLATFORM

New digital platform ensuring an improved consumer experience to help drive traffic to both on- and offline retail network.

February 2019

STARDUST BLACK SPECIAL EDITION

Beoplay A9, H9i and E8 in Stardust Black available in China to celebrate the Chinese New Year.

March 2019

SNORRE KJESBU APPOINTED AS HEAD OF PRODUCT CREATION & FULFILMENT

Snorre Kjesbu was named Head of Product Creation & Fulfilment and member of the Executive Management Board. He brings experience with product development, innovation and technology.

March 2019

SPRING/SUMMER 2019 COLLECTION: SCANDINAVIAN SUMMER

Collection for selected earphones, headphones and speakers and accessories with limited-edition colours including Clay, Pine and Sky.

March 2019

BANG & OLUFSEN AND RIMOWA EXPLORE THE LINK BETWEEN SOUND AND TRAVEL

Bang & Olufsen and RIMOWA created a pair of limited-edition Beoplay H9i headphones in warm light grey, housed in a signature RIMOWA aluminium case.

April 2019

MILAN DESIGN WEEK

Bang & Olufsen participated in Milan Design Week. Together with Dutch designer, Germans Ermičs, B&O created a unique speaker concept entitled “The Circle of Fifths”, for Wallpaper*s exhibition ‘Handmade’ and the designer, Rossana Orlandi, showcased a selection of the Bronze Collection.

April 2019

BEOVISION HARMONY

Beovision Harmony was unveiled at Milan Design Week. With inspiration from the Capri series from the 1950s and 60s the two front speaker panels housing the sound system fan out and the screen rises to the perfect viewing height when turned on.

May 2019

NIKOLAJ WENDELBOE APPOINTED AS NEW CFO

Nikolaj Wendelboe was named CFO and member of the Executive Management Board. Nikolaj brings extensive financial and senior management experience.

May 2019

4TH GENERATION BEOPLAY A9 WITH VOICE CONTROL

The fourth-generation Beoplay A9 features Google Assistant, Active Room Compensation, two additional full range drivers and a stronger streaming engine for faster performance.

May 2019

LAUNCH OF EARPHONES FOR AN ACTIVE LIFESTYLE

Beoplay E8 and E6 Motion include a range of silicon fins for a better fit during exercise. Exclusive to the two earphones, is the enhanced bass sound profile in the Bang & Olufsen app.

May 2019

BEOPLAY H9 WITH VOICE ASSISTANT

Beoplay H9 headphones with dedicated voice assistant button for Google Assistant or the default voice assistant on the streaming device. Increased playtime and new touch control details.

May 2019

CHINA: 19 STORES OPENED IN LUXURY DEPARTMENT STORES

During 2018/19, Bang & Olufsen strengthened its retail presence in Mainland China with 19 new stores in key locations.

KEY FIGURES

BANG & OLUFSEN A/S – GROUP

(DKK million)	**2018/19**	2017/18	2016/17*	2015/16*	2014/15*
Income statement:					
Revenue	2,838	3,285	2,954	2,633	2,356
Gross margin, %	48.5	43.6	38.1	36.1	24.6
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	170	291	25	(106)	(535)
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	249	397	199	46	(376)
Earnings before interest and tax (EBIT)	59	122	(129)	(202)	(807)
Financial items, net	(26)	(5)	(37)	(39)	(6)
Earnings before tax (EBT)	33	117	(166)	(242)	(803)
Earnings for the year	19	81	(117)	(208)	57
Financial position:					
Total Assets	2,462	2,921	2,847	2,832	3,449
Share capital	432	432	432	432	432
Equity	1,419	1,709	1,586	1,725	1,921
Net interest-bearing deposit/ (debt)	420	985	900	599	788
Net working capital	410	100	27	319	261

* The implementation of the new allocation model, see page 72, impacts gross margin, EBITDAC, EBITDA and EBITDA-margin for 2018/19 and 2017/18. Prior periods have not been adjusted.

(DKK million)	**2018/19**	2017/18	2016/17*	2015/16*	2014/15*
Cash flow:					
– from operating activities	(131)	248	352	(5)	55
– from investment activities	(141)	(163)	(45)	(182)	858
Free cash flow	(272)	85	307	(187)	913
– from financing activities	(391)	(9)	(17)	(223)	233
Cash flow for the period	(663)	76	291	(409)	1,146
Key figures:					
EBITDA-margin, %	8.7	12.1	6.7	1.8	(16.0)
EBIT-margin, %	2.1	3.7	(4.4)	(8.4)	(34.3)
NIBD/EBITDA ratio	1.7	2.5	(6.9)	(10.2)	(36.1)
Return on assets, %	0.8	2.8	(6.9)	(10.2)	(36.1)
Return on invested capital, excl. Goodwill, %	2.0	11.9	20.1	(4.1)	(41.5)
Return on equity, %	1.4	4.7	(7.0)	(11.4)	3.2
Headcounts at the end of the year	957	1,028	1,169	1,734	2,015
Stock related key figures:					
Earnings per share (EPS), DKK	0.5	1.9	(2.7)	(4.8)	1.3
Earnings per share, diluted (EPS-D), DKK	0.5	1.9	(2.7)	(4.8)	1.3
Price/Earnings	109.8	76.2	(38.0)	(13.3)	43.9
Revenue per share, DKK	69.5	76.1	68.4	61.0	54.6
Revenue per share, diluted, DKK	69.4	76.1	68.4	61.0	54.6

For definitions refer to section 7.7.

FINANCIAL REVIEW

Group revenue declined by 13.6% (12% in local currencies) to DKK 2,838 million. Despite revenue being significantly lower than last year, the asset-light operating model lifted the gross margin to 48.5%, and EBIT remained positive at a margin of 2.1%

Business highlights
A key focus during the year was to establish a go-to-market setup capable of delivering a luxury lifestyle consumer experience across all touchpoints. This transformation has been slower than expected which in all regions had a negative impact on revenue. Therefore, the result for the year was unsatisfactory.

Within the monobrand channel, efforts were on creating cluster partners for the purpose of relocating existing stores or opening new stores in key urban and high-traffic areas. In addition, new contracts have been rolled out to all monobrand partners in Europe providing a stronger foundation for a consistent consumer experience, product merchandising and terms and conditions going forward.

In Australia and New Zealand, a change of distributor resulted in a restart of the market. This had a significant negative impact on performance during the year. The new master dealer is in the process of reopening the market and by the end of the financial year five monobrand stores were up and running. In China, five new monobrand partners were established and 19 new monobrand stores in high-traffic locations were opened.

To strengthen the operation, a new global logistical setup for monobrand stores was implemented. The logistics were working as expected in the second half of the year, but the transition had an adverse impact on performance in Q2 due to initial operational difficulties.

Within the multibrand channel, focus has been on prioritising the parts of the retail segment that cater to consumers looking for luxury lifestyle products, like high-end department stores, travel retail, selected consumer electronics shops and selected etailers. Consequently, the number of multibrand points of sale has been reduced significantly to 4,782.

A new eCom platform was launched at the end of February 2019. Initial experiences have been promising, with higher traffic on the website and a better conversion rate. The new platform will ensure an improved consumer experience and is expected to drive traffic to both the on- and off-line retail network.

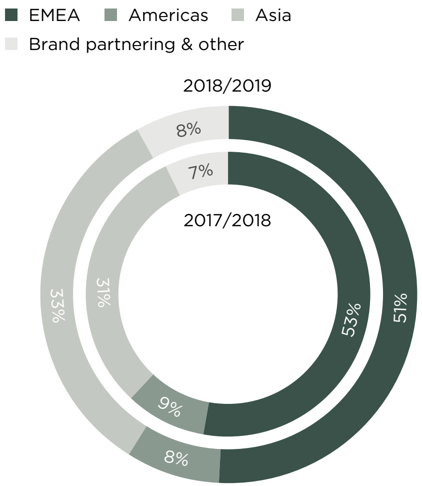
Revenue
Group revenue declined in all segments and amounted to DKK 2,838 million, equivalent to a reduction of 13.6% (12% in local currencies) .

A slower transformation of the monobrand and multibrand sales and distribution network coupled with fewer product launches compared to last year were the main reasons for the decline. High inventory at retail level resulted in lower sales to both monobrand stores and the multibrand network and also caused an increase in products sold through unauthorised channels, which subsequently pressured retail prices. The company is monotoring market misconduct in order to mitigate going forward.

POINTS OF SALE

	Monobrand		Multibrand	
(DKK million)	**31 May 2019**	31 May 2018	**31 May 2019**	31 May 2018
EMEA	405	448	2,566	3,673
Americas	26	26	751	1,479
Asia	91	91	1,465	1,553
Total	**522**	**565**	**4,782**	**6,705**

REVENUE PER SEGMENT (%)



Staged

Revenue in the Staged category was DKK 967 million against DKK 1,334 million last year, corresponding to a decline of 27.5%. Staged products are primarily sold through the monobrand network and was hence impacted by the transformation of the channel, which has taken longer than expected.

In addition, there were no new product launches in the Staged category, whereas last year saw the launches of the Beovision Eclipse TV and the Beolab 50 speaker. Furthermore, revenue in 2017/18 was supported by sales of discontinued TV's.

Flexible Living

Revenue in the Flexible Living category grew by 11.0% to DKK 442 million. The launch of Beosound Edge in combination with good performances by Beoplay A9 as well as Beosound 1 and 2 were the main drivers of revenue growth in the category.

On-the-go

Revenue in the On-the-go category declined by 8.8% to DKK 1,200 million. The On-the-go portfolio is to a large extent sold through multibrand channels, and the category was adversely impacted by the slow pace of transformation in combination with third-party inventories sold through unauthorised channels pressuring retail prices.

Revenue was supported by the launch of the Beoplay E6 earphone and good performances by key head- and earphone products such as Beoplay H9 and Beoplay E8. The sales of Bluetooth speakers contracted in 2018/19, and the category was down by close to 35% compared to last year.

Brand Partnering & Other Activities

Revenue from Brand Partnering & Other Activities amounted to DKK 229 million which was 3.8% less than last year. The decline was primarily due to lower revenue from aluminium components produced for third parties. Revenue from brand partnerships was higher supported by both HP and HARMAN, with the latter being positively impacted by Bang & Olufsen being offered as an option in more car models.

Gross profit

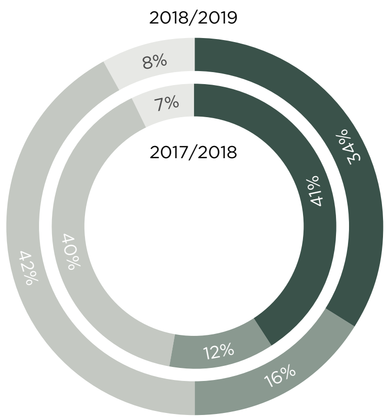
Gross profit fell by 3.9% to DKK 1,377 million, while the gross margin grew to 48.5% from 43.6% last year. The improvement was seen in all segments except the Americas which was impacted by a one-off effect related to Beoplay Earset.

The Beoplay Earset did not perform as expected and to support sales, the retail

GROSS MARGIN PER CATEGORY	**2018/19**	2017/18
Staged	50.4%	44.1%
Flexible Living	50.8%	46.2%
On-the-go	37.7%	35.0%

REVENUE PER CATEGORY
(%)

Staged Flexible Living On-the-go
Brand partnering & other



price was subsequently reduced, which had a negative impact on gross margin.

The improved gross margin was seen across all product categories, primarily driven by developments in product mix and tailwinds from the US dollar in particular.

The gross margin from Brand Partnering & Other Activities was 92.6% compared to 84.0% last year. The margin improvement was mainly driven by Brand Partnering, which represented a larger share of the segment following the decline in revenue from the lowermargin aluminium production for third parties.

Capacity costs
Capacity costs were DKK 1,342 million compared to DKK 1,328 million last year, corresponding to an increase of 1.1%. Excluding depreciation and amortisation charges, capacity costs were up by 8.4%.

Distribution and marketing costs were DKK 875 million, corresponding to an increase of DKK 86 million over last year. The increase was related to activities to drive brand awareness, strengthened digital platforms, and building capabilities within the company.

Administrative costs were DKK 146 million, up 16 million compared to last year. The increase was primarily related to a writedown of the value of the former head office in Struer which has been put up for sale.

Development costs declined by DKK 88 million to DKK 321 million compared to last year. The reduction was mainly related to a DKK 86 million drop in depreciation and amortisation charges.

Incurred development costs before capitalisation were DKK 269 million (of which DKK 79 million was capitalised) against DKK 297 million last year (of which DKK 106 million was capitalised). The drop in development costs was related to the first half of the year, whereas incurred development costs in the second half of the year were higher year on year, reflecting more products in the pipeline expected to be launched in 2019/20.

EBIT
EBIT was DKK 59 million against DKK 122 million last year, equivalent to an EBIT margin of 2.1% and 3.7% respectively. The margin decline reflects the lower revenue and higher capacity costs partly offset by the higher gross margin and lower depreciation and amortisation charges.

Net financial items
The Group’s net financial items were an expense of DKK 26 million compared to an expense of DKK 5 million last year. The increase in net financial expenses was primarily related to foreign exchange rate developments and a one-off accumulation of interest on a provision related to a legal dispute.

Earnings
Earnings before tax amounted to DKK 33 million against DKK 117 million last year. Tax was DKK 14 million against DKK 36 million last year.

Earnings after tax amounted to DKK 19 million against DKK 81 million last year.

Cash flow

The free cash flow was negative at DKK 272 million (2017/18: positive by DKK 85 million). The development was related to the lower cash flow from operating activities coming from shortfall in revenue and change in net working capital partly offset by a lower negative cash flow from investing activities.

Cash flow from operating activities were negative by DKK 131 million (2017/18: positive by DKK 248 million). The decline was primarily related to the lower earnings and the change in net working capital which had a negative effect of DKK 310 million compared to a negative effect last year of DKK 74 million.

Cash flow from investing activities were negative by DKK 141 million (2017/18: negative by DKK 163 million). Investments in 2018/19 were primarily related to the new eCom platform, the new product platforms and other product developments, whereas the investment level last year in addition was affected by investments to establish the new innovation lab at the Struer head office.

Cash flow from financing activities were negative by DKK 391 million (2017/18: negative by DKK 9 million). The significant increase was due to purchase of treasury shares, amounting to DKK 279 million of which DKK 264 million was related to the share buyback programme launched in September 2018 and terminated on 26 March 2019. Further, the company made a repayment of one loan and an extraordinary instalment on another in a combined amount of DKK 97 million.

Net working capital

Net working capital amounted to DKK 410 million which was DKK 310 million higher than last year.

The main reason for the increase was inventory growth of DKK 244 million to DKK 596 million, which was predominantly an effect of the lower-than-anticipated sales during the year.

Trade receivables amounted to DKK 566 million and trade payables were DKK 710 million. Both increased by DKK 56 million during the year.

Net interest-bearing deposits

Net interest-bearing deposits amounted to DKK 420 million compared to DKK 985 million last year. In addition to the negative free cash flow, the change in net interest-bearing deposits was related to the share buyback programme.

The cash position at the end of the year was DKK 492 million.

Events after the end of the reporting period

Apart from the events recognised or disclosed in the consolidated financial statements, no events have occurred after the reporting period that are believed to be of importance to the consolidated financial statements.

EMEA

During the past year, the company put major efforts into upgrading the EMEA distribution structure. The transformation involves establishing fewer and stronger monobrand partners in Europe. A contractual framework was rolled-out to all European monobrand partners, creating a better foundation for a more consistent consumer experience, product merchandising and terms and conditions going forward.

The multibrand setup has changed significantly during 2018/19 with the closing of more than 1,000 non-performing points of sale. Direct distribution to large multibrand-retailers such as Amazon was initiated and pop-up stores were opened in selected cities, including Amsterdam and Paris. The transformation speed of the multibrand retail category was slower than expected partially due to sales through unauthorised channels.

Revenue

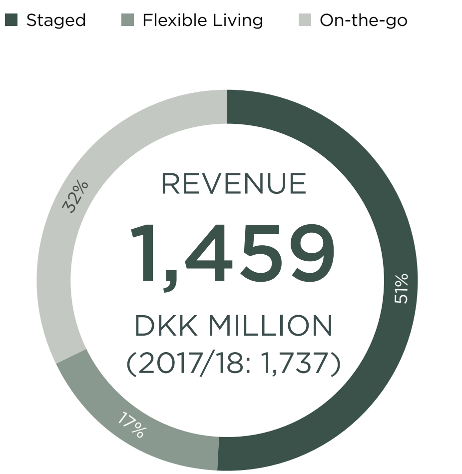
Revenue in EMEA was DKK 1,459 million, which was 16.0% less than last year (15% in local currencies). Most of the largest markets in EMEA reported lower revenue including Denmark, Germany, Switzerland, United Kingdom and Ireland whereas Eastern Europe delivered double-digit growth.

Staged

The staged category is the biggest product group in EMEA and accounted for more than 50% of revenue in the region. Revenue from the Staged category was down 28% compared to last year due to the slower-than-expected transformation of the monobrand network through which Staged products

(DKK million)	2018/19	2017/18	Change
Revenue	1,459	1,737	(16.0%)
Growth local currency	(15%)	2%	
Gross profit	672	687	(2.2%)
Gross margin	46.1%	39.5%	6.6pp

EMEA



GROSS MARGIN

46.1%

(2017/18: 39.5%)

POINTS OF SALE

Monobrand:
405 (448)

Multibrand:
2,566 (3,673)

primarily are sold. Also, no new Staged products were launched during 2018/19, as opposed to last year when the Beovision Eclipse TV and the Beolab 50 speakers were launched. In addition, last year's revenue was to a higher degree supported by sales of discontinued TV models.

Flexible Living

Revenue was up by 19% compared to last year, driven by key products such as Beosound 1 and 2, Beoplay A9 and M5. In addition, the introduction of the Beosound Edge more than offset lower revenue from discontinued products such as Beoplay A6. The A9 continued to be the best-selling speaker in the Flexible Living category, and revenue from the product increased by approximately 15% compared to last year.

On-the-go

On-the-go revenue was down by 4% primarily related to Bluetooth speakers which saw close to a 25% reduction in sales year on year. Partly offsetting the decline were higher sales from head- and earphones.

Growth in earphone and headphone revenue was mainly related to Beoplay E8 and Beoplay H9, as well as the introduction of Beoplay E6, partly offsetting loss of revenue from discontinued products.

Gross profit

Gross profit amounted to DKK 672 million, equivalent to a gross margin of 46.1% which was 6.6 percentage points higher than last year. The margin increase was driven by the improved margin on all product categories and partly offset by the On-the-go category accounting for a slightly higher share of the segment.

AMERICAS

The multibrand setup changed significantly during 2018/19 with the closing of non-performing multibrand points of sale. Multibrand distribution was developed with branded spaces opened in department stores such as Neiman Marcus, Holt Renfrew, Apple and Best Buy. The roll-out speed of the new multibrand retail setup was slower than expected and partially impacted by unauthorised sales of key On-the-go products.

New York City is being developed as direct retail, with a company-owned flagship store in SoHo, which opened as a pop-up store in December 2018.

Revenue

Revenue in the Americas was DKK 223 million against DKK 302 million last year corresponding to a 26.2% decline (-27% in local currencies).

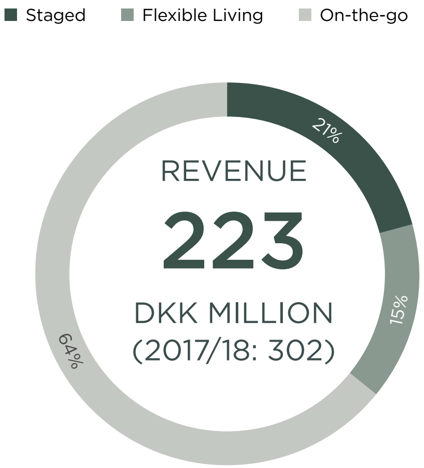
The primary reason for the decline in revenue was related to the transformation of the multibrand network. A significant number of multibrand points of sale opened in recent years have shown not to create sufficient recurring revenue after the initial opening. As revenue in the Americas has predominantly been from On-the-go products sold through the multibrand network, this has had a significant negative like-for-like impact on performance in 2018/19.

Staged

Revenue in the Staged category was down approximately 33% compared to last year. The lower revenue was mainly related to revenue in 2017/18 being

(DKK million)	2018/19	2017/18	Change
Revenue	223	302	(26.2%)
Growth local currency	(27%)	2%	
Gross profit	93	136	(31.6%)
Gross margin	41.5%	45.2%	(3.7pp)

AMERICAS



GROSS MARGIN

41.5%

(2017/18: 45.2%)

POINTS OF SALE

Monobrand:
26 (26)

Multibrand:
751 (1,479)

supported by the sales of discontinued TV models on unprofitable platforms. Beovision Eclipse TV delivered slightly higher revenue.

Flexible Living

Revenue was down by 4% compared to last year. Revenue from the launch of Beosound Edge failed to offset the loss of revenue from discontinued products such as the A6. Also, revenue from Beoplay A9 was slightly down from last year. Beosound 1 and 2 as well as Beoplay M5 all delivered revenue growth during the year.

On-the-go

On-the-go revenue fell by 28%, predominantly related to Bluetooth speakers which saw close to a 50% reduction in sales compared to last year. Within headphones, lower revenue streams from older models offset the growth in revenue from the Beoplay H9. Revenue from earphones was slightly down from last year, despite positive effects from the launch of new products like the Beoplay E6.

Gross profit

Gross profit amounted to DKK 93 million, for a gross margin of 41.5%, which was 3.7 ppts lower than last year. The contraction of the gross margin was related to Beoplay Earset.

ASIA

In China, five new monobrand partners were established and 19 new stores in high-traffic locations were opened and Bang & Olufsen's company-owned stores were taken over by new partners except for four stores in Hong Kong. To support the growth in Japan, which is one of the world's biggest luxury lifestyle markets, a new management team has been appointed to support the master dealer in Japan.

In Australia and New Zealand, a change of distributor resulted in a reset of the market as the new master dealer due to a legal dispute was unable to take over the existing network of stores. This had a significant impact on performance during the year. The new master dealer is in the process of reopening the market and by the end of the year five monobrand stores were opened.

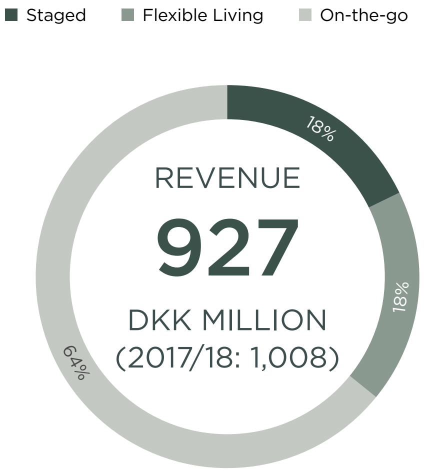
The number of multibrand points of sale was 1,465 at year end, which was 88 fewer than last year. There has been an ongoing online and multibrand focus on creating a more brand-consistent retail experience. The transformation of multibrand/etailers has focused on stronger brand execution. However, the transition has occurred at a slower pace than expected and was impacted negatively by products sold through unauthorised channels.

Revenue
Revenue in Asia was DKK 927 million against DKK 1,008 million last year corresponding to an 8.0% decline (6% in local currencies).

The reduction was primarily related to Australia and New Zealand. The latter was impacted by the change in the

(DKK million)	**2018/19**	2017/18	Change
Revenue	927	1,008	(8.0%)
Growth local currency	(6%)	45%	
Gross profit	400	410	(2.4%)
Gross margin	43.1%	40.6%	2.5pp

ASIA



GROSS MARGIN

43.1%

(2017/18: 40.6%)

POINTS OF SALE

Monobrand:
91 (91)

Multibrand:
1,465 (1,553)

distributor setup in the second quarter. Revenue from South Korea and China was up, with China growing 6.8%, supported by onboarding of new partners.

Staged

Revenue from the Staged category was down 22% compared to last year. The lower revenue was predominantly related to 2017/18 being supported by sales of discontinued TV's. Revenue from the Beovision Eclipse dropped slightly from last year.

Flexible Living

Revenue was down by 4% compared to last year. Beoplay A9 delivered double-digit growth for the year, while revenue from Beosound 1 and 2 was lower. Revenue from the launch of Beosound Edge did not fully offset the loss of revenue from discontinued models such as the Beoplay A6.

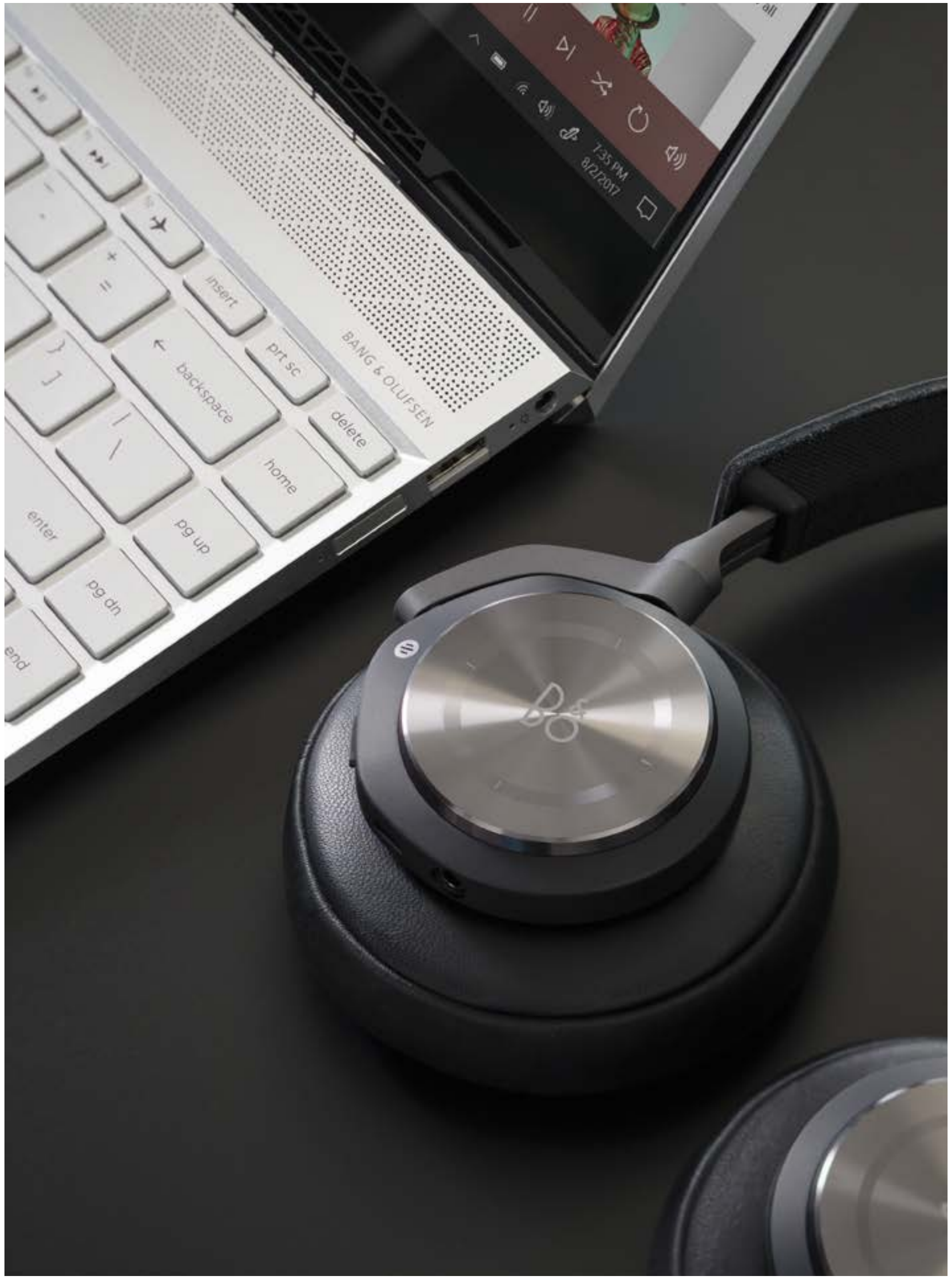
On-the-go

On-the-go revenue declined by 6% primarily related to Bluetooth speakers which saw a 20% decline compared to last year. Earphones delivered significant growth from the sale of Beoplay E8 as well as the launch of Beoplay E6. In the headphones category, the Beoplay H9 continued to deliver higher revenue but not enough to offset lower sales of older headphone models.

Gross profit

Gross profit was down by 2.4% and amounted to DKK 400 million, corresponding to a gross margin of 43.1% which was 2.5 percentage points higher than last year.

BRAND PARTNERING & OTHER ACTIVITIES



Brand Partnering is a key strategic priority for Bang & Olufsen and is based on established partnerships with innovative companies like LG, HARMAN, and HP. Partnerships help increase the awareness of the Bang & Olufsen brand. Other activities include aluminium component production for third parties.

Revenue

Reported revenue amounted to DKK 229 million against DKK 238 million last year, equivalent to a 3.8% decline (4% in local currencies).

The decline was primarily due to lower revenue from aluminium components produced for third parties. Partly offsetting this was higher revenue from brand partners.

Gross profit

Gross profit amounted to DKK 212 million, up by 6.0% and equivalent to a gross margin of 92.6% compared to 84.0% last year. The improved margin was predominantly a result of Brand Partnering representing a larger share of the segment.

(DKK million)	**2018/19**	2017/18	Change
Revenue	229	238	(3.8%)
Growth local currency	(4%)	6%	
Gross profit	212	200	6.0%
Gross margin	92.6%	84.0%	8.6pp

CORPORATE SOCIAL RESPONSIBILITY

In 2018/19, Bang & Olufsen made further progress in the company's efforts to increase the positive impact and minimise the negative impact by adopting more sustainable and socially responsible practices and launching several new initiatives.

A more detailed description of Bang & Olufsen's CSR strategy, targets, key initiatives and results achieved in 2018/19 along with the activities and objectives planned for 2019/20 can be found in Bang & Olufsen's Corporate Social Responsibility report 2018/19.

The report complies with sections 99a and 99b of the Danish Financial Statements Act, and it is available in its entirety on the Bang & Olufsen website at: https://www.bangolufsen.com/da/corporate/responsibility/corporate-social-responsibility.

BANG & OLUFSEN CSR STRATEGY

Last financial year, Bang & Olufsen launched a revised three-year CSR strategy. The strategy reflects the company's ambition to increase the positive impact and minimise the negative impact Bang & Olufsen has on the environment and society.

The strategy consists of four focus areas; Environmental & Climate Impact, Responsible Employer, Role in Society and Responsible Partner. Action plans have been developed for each commitment to ensure progress and for the next three years, Bang & Olufsen will work actively to achieve the KPIs set forward.

The strategy was developed on the basis of input from both internal and external stakeholders (e.g. consumers) and on an assessment of the societal and environmental impact of the company and existing efforts.

The CSR strategy provides a coherent framework for Bang & Olufsen, building on the company's core values and brand and guided by the 17 United Nations Sustainable Development Goals (SDGs). Bang & Olufsen is committed to the UN Global Compact principles, the ILO declaration on human rights, labour rights, environment and anti-corruption. Bang & Olufsen contributes to a number of SDGs, and the company will step up its efforts on two specific SDGs, namely "Good Health & Well-Being" and "Quality Education" (goals No. 3 and 4) in relation to the "Sound & Health" and "Future Innovators" commitments in the company's strategy.

Environmental & Climate impact

Bang & Olufsen is committed to minimising the adverse impact on the environment and climate from the company's own operations and its supply chain as well as to continuously reducing the environmental footprint of the company's products over their entire lifecycle.

Resource efficiency, serviceability and high-quality standards have been an integral part of the company's daily operations for years, and Bang & Olufsen has been widely recognised from a functional, aesthetical and a technological perspective for designing and creating long-lasting products. However, it is the company's ambition to do even more by creating more sustainable products while also improving the user experience. This will include exploring the use of more recycled materials, improved sourcing, better packaging and the introduction of more circular principles in the design of products.

Bang & Olufsen will work to reduce the CO_2 emissions of its operations by managing its energy consumption and environmental impact in accordance with the ISO 14001 standard.

Responsible employer

Bang & Olufsen wants to be recognised as a people-oriented and responsible company. This involves a strong focus on empowering the company's employees and helping them develop their competencies as well as promoting the health and well-being of people working at Bang & Olufsen. Ensuring that employees have the proper knowledge to perform their work in a safe manner also remains a priority. Bang & Olufsen respects employees' right to freedom of association and collective bargaining and the right to raise concerns without fear of retaliation.

Bang & Olufsen believes that diversity in general, including diversity of gender, culture, nationality and competencies strengthens the way the company operates. Consequently, the company is committed to fostering a diverse workplace that attracts and retains the best talents from all over the world. Further details can be found in the CSR report on https://investor.bang-olufsen.com

The company has set targets for female representation in both the Board of Directors and the senior management team, defined as the Executive Management Board and the Director+ group.

Senior management should consist of no less than 25% female members by 2021. In 2018/19, the share of female leaders in senior management roles increased to 19%. The senior management team has a diverse composition with a large share of international profiles, as 36% of senior management were non-Danish on 31 May 2019.

The Board of Directors believes that members should be chosen for their overall competences, and also recognises the benefits of a diverse board in respect of experience, culture and gender. In 2015, the Board of Directors set a target for female representation according to which the company's goal is to have two female members of the Board of Directors elected by the General Meeting by 2019.

Role in society

Bang & Olufsen operates in a responsible and transparent manner and is committed to creating value to all the company's stakeholders. The company will continue to share knowledge and making the company's expertise available to society and stakeholders, while continuing to support community initiatives in the societies in which the company operates. Towards 2020/21, the company will work to enhance two particular areas:

- Sound & Health: Bang & Olufsen aims to use its core capabilities within sound to help improve the quality

of life for people by contributing to research and helping to create awareness of the positive effect sound can have in health-related areas.
- Future Innovators: Help nurture and inspire the next generation to develop skillsets within areas such as technology engineering craftsmanship and design, which is related to the company's core capabilities. Bang & Olufsen aims to do that by sharing expertise, making the company's resources available and working with relevant institutions and partners

Responsible partner
Bang & Olufsen wants to ensure responsible supplier and retail relationships by integrating the company's environmental, social and ethical standards and by continuing to focus on impact and risk in its dialogue with key partners.

In particular, supply chain relationship is becoming an increasingly important aspect, given the ever-higher stakeholder expectations, and because Bang & Olufsen's business model is changing towards becoming more of a partner-based approach. Therefore, the company will continue its constructive dialogue with its supply chain based with a view to driving continuous improvements and based on the assumption that suppliers share Bang & Olufsen's commitments to international principles for human rights, labour rights, the environment and anticorruption.

In addition, Bang & Olufsen will work with retail partners to ensure that they live up to the ethical and social standards and expectations from all stakeholders.

CSR HIGHLIGHTS 2018/19

In 2018/19, Bang & Olufsen made good progress on several key focus areas in the CSR strategy.

The highlights were:

- The company reduced its CO_2 emissions and completed a comprehensive analysis of the environmental and climate impact of the company's products. Key recommendations from this analysis will be implemented during 2019/20.
- Employee engagement fell slightly. This was likely due to several organisational changes. Measures have been initiated to counter that development.
- Thanks to a focused effort, the company saw a decline in long-term illness caused by psychological work environment compared to last year.
- The company did not succeed in reducing the accident frequency enough to achieve the target for 2018/19.
- Bang & Olufsen saw an increase in female leaders in senior management roles, which is now at 19% and very close to the diversity target for the year.
- Bang & Olufsen supported 16 new start-ups as part of the company's partnership with Sound Hub Denmark. Also, the company initiated more than 11 new STEM-related initiatives to help inspire young people.
- While the company contributed with two new research initiatives related to sound and health, Bang & Olufsen did not identify a global organisation to partner with in order to raise awareness of the positive impact music may have on mental health.
- All tier 1 suppliers have now been certified and monobrand retail partners in EU signed the new data protection agreements as part of the GDPR programme.

OVERVIEW OF CSR RESULTS 2018/19

FOCUS AREAS	COMMITMENTS	TARGETS FOR 2018/19	RESULTS
ENVIRONMENTAL & CLIMATE IMPACT	**Resource efficient operations**	• Reduce CO_2 emissions by 5% at production facilities[1]	ACCOMPLISHED Emissions was reduced by 6.5% (275 tonnes Co_2)
	Sustainable products	• Initiate analysis to gain insights into the environmental and climate impact of the company's products in order to reduce footprint and begin to implement recommendations	PARTLY ACCOMPLISHED
		• Implement of RoHS 2 Directive	ACCOMPLISHED
RESPONSIBLE EMPLOYER	**Work life**	• Zero fatalities	ACCOMPLISHED
		• Number of long-term illness cases (full and part time) caused by psychological work environment must not exceed 6 cases (11 in 2017/18)	ACCOMPLISHED 6 cases
		• Accident frequency[2] must not exceed 2 (3.5 in 2017/18)	OBJECTIVE NOT ACCOMPLISHED 3
		• Improve employee engagement score, as measured by Ennova, from 71 to 73	OBJECTIVE NOT ACCOMPLISHED Score 70
	Diverse culture	• Increase percentage of women in management positions to at least 20%	OBJECTIVE NOT ACCOMPLISHED Increased to 19%

1 Equal to a reduction of 239 tonnes CO_2

2 Frequency is measured as accidents per 1 million work hours

OVERVIEW OF CSR RESULTS 2018/19

FOCUS AREAS	COMMITMENTS	TARGETS FOR 2018/19	RESULTS
ROLE IN SOCIETY	**Future innovators**	• To help at least 15 startups or SMEs by way of knowledge sharing and support through partnership with Sound Hub Denmark	ACCOMPLISHED 16 startups supported
		• Run at least 10 initiatives to help and promote STEM competencies for young people	ACCOMPLISHED 11 initiatives supported
	Sound & health	• Partner with global organisation to raise awareness of the positive impact music may have on mental health	NOT ACCOMPLISHED
		• Contribute to research in order to expand existing knowledge on how sound can impact health	ACCOMPLISHED
RESPONSIBLE PARTNER	**Supply chain**	• Receive certification from all tier 1 suppliers on compliance with the anti-corruption policy	ACCOMPLISHED
		• Initiate analysis to better understand the environmental and climate impact of supply chain and start to implement recommendations[3]	PARTLY ACCOMPLISHED
	Retailers	• Deploy compliance programme to 90% of monobrand retail partners in EU	ACCOMPLISHED 96% deployed

3 This analysis formed an integral part of the analysis on Sustainable Products.

Bang & Olufsen made solid progress on its CSR strategy in 2017/18. In 2019/20, the company will continue to execute on the strategy with a particular focus on sustainable products and packaging, working with key partners to reduce the company's environmental footprint and increase Bang & Olufsen's contribution to society.

CSR TARGETS 2019/20

ENVIRONMENTAL & CLIMATE IMPACT

- Continue to optimise energy consumption in building portfolio to reduce CO_2 emissions by at least 5%
- Reduce CO_2 emissions of own logistics system by 5-10%
- Implement new design guidelines for sustainable packaging during 2019/2020
- Start to explore new models for lifetime prolongation and use of recycled content in products

RESPONSIBLE EMPLOYER

- Increase focus on initiatives related to mental health
- Continue focus on promoting diversity and hiring a diverse workplace
- Improve share of women in senior management to at least 25%
- Improve employee engagement score from 70 to 72

ROLE IN SOCIETY

- Help at least 15 start-ups by way of knowledge sharing and support through partnership with Sound Hub Denmark
- Run at least 5 initiatives to help and promote STEM competencies for young people
- Continue work with 2 key research projects within sound and health
- Partner with global organisation to raise awareness of the positive impact music may have on mental health

RESPONSIBLE PARTNER

- Strengthen internal compliance function
- Complete revision of Code of Conduct and complete training of key stakeholders
- Strengthen training in and awareness of the procurement processes among employees
- Continue roll-out of updated contractual framework to retail partners

GOVERNANCE

CORPORATE GOVERNANCE

Bang & Olufsen has a two-tiered management structure. As per current practice in Denmark, responsibility is divided between the non-executive Board of Directors and the Executive Management Board, which are independent of each other. The Board of Directors determines the overall strategy and supervises Bang & Olufsen's activities, management and organisation, while the Executive Management Board is in charge of the day-to-day management. Members of the Executive Management Board do not serve on the Board of Directors.

The company's Board of Directors and Executive Management Board constantly strive to ensure transparency and accountability by building trusting relationships with shareholders, consumers, suppliers, employees and the local communities in which the company operates.

Compliance with the Recommendations on Corporate Governance

Bang & Olufsen is subject to the Recommendations on Corporate Governance as updated in November 2017 (the "Recommendations"), prepared by the Danish Committee on Corporate Governance.

The Board of Directors regularly reviews Bang & Olufsen's corporate governance framework and policies in relation to the Recommendations as well as any relevant statutory requirements and continuously assesses the need for adjustments. At 31 May 2019, Bang & Olufsen followed all Recommendations.

Bang & Olufsen has prepared a detailed Corporate Governance Report in accordance with Section 107b of the Danish Financial Statements Act, which includes a description of the composition of the Board of Directors and its work over the past year as well as a description of the main elements of the company's internal control and risk management system. The Corporate Governance Report can be found at https://investor.bang-olufsen.com.

Board of Directors

The Board of Directors currently has eleven members, eight of whom are elected by the shareholders. Three Board members are elected by the employees in accordance with the Danish Companies Act. The shareholder-elected members are elected for terms of one year while employee representatives are elected for terms of four years in accordance with current legislation. All shareholder-elected members are independent. For further information about the individual board members, please see the section 'Board of Directors' on pages 51-54.

Between eight and ten board meetings are held each year, with ad hoc meetings being held if necessary. In 2018/19, the Board of Directors held 13 meetings.

The Board of Directors believes that members should be chosen on the basis of their overall competencies, and also recognises the benefits of board diversity in respect of experience, cultural background and gender. Each year, the Board of Directors considers the skills and competencies that should be represented on the Board of Directors on the basis of a recommendation from the Nomination Committee. These skills are described in detail in the Company's Corporate Governance Report. For skills and competences possessed by each respective member of the Board of Directors, please see the section 'Board of Directors' on pages 51-54.

Board committees

The Board of Directors has established four committees: a Remuneration Committee, a Nomination Committee, an Audit Committee and a Technology Committee. The committees are tasked with preparing decisions and recommendations for assessment and approval by the Board of Directors. The committees report to the Board of Directors and each committee has a detailed charter setting out its most important tasks and responsibilities. The tasks and work of the committees are described in more detail in the Corporate Governance Report.

The table below illustrates Board meeting and committee attendance over the past year.

Board evaluation process

The Chairman of the Board of Directors conducts an annual board self-assessment and review of the Board's performance, addressing the effectiveness of the Board, the processes supporting its work, individual board members'

BOARD MEETING AND COMMITTEE ATTENDANCE AS PER 1 JUNE 2018

	BOARD MEETINGS ATTENDED	REMUNERATION COMMITTEE	AUDIT COMMITTEE	NOMINATION COMMITTEE	TECHNOLOGY COMMITTEE
Ole Andersen	13 of 13	3 of 3		2 of 2	
Juha Christensen	13 of 13	3 of 3			2 of 2
Albert Bensoussan	11 of 13		5 of 6		
Anders Colding Friis**	10 of 11		5 of 5		
Brian Bjørn Hansen*	13 of 13				
Geoff Martin*	11 of 13				
Ivan Tong Kai Lap	13 of 13		6 of 6		
Jesper Jarlbæk	13 of 13		6 of 6	2 of 2	2 of 2
Mads Nipper	10 of 13			2 of 2	
Majken Schultz	13 of 13	3 of 3			
Søren Balling*	13 of 13				

* Employee elected ** Appointed 23/8 2019

contributions, the Chairman's performance and the cooperation with the Executive Management Board.

Each year the individual members of the Board of Directors and Executive Management Board perform a self-evaluation by anonymously completing a comprehensive online questionnaire, which is then summarised by an external consultant. Ratings and comments are consolidated and shared with the Board of Directors followed by a Board discussion on potential improvements.

The Chairman presented the results of the evaluation to the Board of Directors in August 2018. According to the conclusion of the evaluation, the Board of Directors is generally well organised, well-functioning and work on the Board is characterised by an open and trusting relationship and cooperation both among the members of the Board and with the Executive Management Board. The self-assessment also concluded that the Board of Directors continues to demonstrate industry knowledge and experience which is well suited to support Bang & Olufsen's business and strategic direction.

The evaluation also identified certain areas for improvement within the following areas:

(i) increase focus on structured succession planning and talent development,
(ii) ensure that relevant inspiration and data is sought outside the Company in specific areas where experience or insight is currently limited, and
(iii) ensure that strong relations and cooperation are built between the Board of Directors and new members of the Executive Management Board.

Steps have been taken to achieve improvements within all of these areas. The Chairman has held individual meetings with each of the other members of the Board of Directors to review their performance.

Remuneration

The remuneration of the Board of Directors and the Executive Management Board is designed to support the strategic goals of the company and to promote value creation for the benefit of the company's shareholders and other stakeholders. Remuneration levels must ensure that the company is able to attract, motivate and retain highly qualified members for both the Executive Management Board and the Board of Directors.

The company's remuneration policy is reviewed annually by the Remuneration Committee and the Board of Directors. The remuneration policy as well as the full remuneration report for the financial year 2018/19 can be found at https://investor.bang-olufsen.com.

Board of Directors

The remuneration of members of the Board of Directors comprises a fixed annual base fee and fixed annual supplementary fees for the Chairman, the Deputy Chairman, and members and chairmen of permanent committees.

Members of the Board of Directors do not receive incentive-based remuneration. However, to align the interests of the Board of Directors with the company's shareholders, each member of the Board elected by the general meeting is obliged to invest in shares issued by the company not later than 12 months after the date of the member's election to the Board for an amount at least corresponding to the annual base fee paid to an ordinary member of the Board according to the most recent annual report and to keep such shareholding for as long as the individual is a member of the Board.

Executive Management Board

Members of the Executive Management Board are entitled to an annual remuneration in accordance with the remuneration policy which may consist of the following fixed and variable remuneration components:

REMUNERATION OF THE BOARD OF DIRECTORS 2018/19

(DKK thousand)	Annual fee	Remuneration Committee	Nomination Committee	Audit Committee	Technology Committee	Total 2018/19	Total 2017/18
Ole Andersen	900	75	75			1,050	1,050
Juha Christensen	450	75			75	600	524
Jesper Jarlbæk	300		75	150	75	600	575
Albert Bensoussan	300			75		375	375
Ivan Tong Kai Lap	300			75		375	375
Mads Nipper	300		75			375	375
Majken Schultz	300	75				375	375
Anders Colding Friis**	232			58		290	-
Brian Bjørn Hansen*	300					300	300
Geoff Martin*	300					300	300
Søren Balling*	300					300	250
Total	**3,982**	**225**	**225**	**358**	**150**	**4,940**	**4,499**

* Employee-elected ** Appointed 23/8-18

- Fixed base salary, including pension contribution
- Variable remuneration consisting of (i) non-share based cash bonus and/ or (ii) share-based remuneration
- Termination and severance payments
- Customary non-monetary employment benefits

The individual composition of remuneration is determined with a view to contributing to the company's ability to attract and retain competent key employees while, at the same time, ensuring that the Executive Management Board has an incentive through variable remuneration to create added value for the benefit of the company's shareholders. For detailed information on remuneration, see notes 3.2 and 3.3 as well as the remuneration report for 2018/19 which is available at https://investor.bang-olufsen.com

RISK MANAGEMENT

Risk management forms an integral part of doing business at Bang & Olufsen. A risk is defined as an event or a development that could jeopardise the company's license to operate or significantly reduce Bang & Olufsen's ability to achieve financial targets or execute on its strategy.

The Board of Directors and the Executive Management Board are strongly focused on ensuring that the enterprise risk management process forms an integral part of decision-making processes in the company. The risk management process is designed to balance operational and strategic risk taking throughout the company's operations in accordance with the approved risk appetite.

Risk governance structure

The risk governance structure is used to assign roles, responsibility and accountability for decisions concerning risk and mitigations in Bang & Olufsen. The roles and responsibilities are structured in a three-level structure with a Governance level first followed by an Executive level and finally an Operational risk management level.

At the Governance level, the Board of Directors is responsible for monitoring the risk management procedures and approval of Bang & Olufsen's annual risk profile and appetite. The Board of Directors has appointed the Audit Committee as the body responsible for monitoring and evaluating the effectiveness of the risk management procedures, including reviewing the overall risk profile and appetite as well mitigating activities identified. Relevant top risks are identified, monitored, mitigated and reported to the Board of Directors through an enterprise risk management process, which follows an annual wheel.

At the Executive level, the Executive Management Board is responsible for maintaining an effective enterprise risk management process thereby ensuring

RISK GOVERNANCE STRUCTURE 2018/19

GOVERNANCE LEVEL

Board of Directors

- Monitor effective risk management procedures
- Approve overall annual risk profile and appetite

Audit Committee

- Evalution of effectiveness of risk management procedures
- Review of overall risk profile and appetite
- Review of mitigating activities

EXECUTIVE LEVEL

Executive Management Board

- Managing risk management framework and effectiveness
- Ensure key risks and strategies are appropriately managed
- Appoint risk owners on all identified risks

OPERATIONAL RISK MANAGEMENT LEVEL

Risk responsible

- Ensure that appointed risks are analysed
- Underlying risk drivers are defined
- Mitigation plans are developed, implemented and monitored

that top risks and strategies are appropriately managed and aligned with the established risk appetite.

Top risks and possible new risks identified are discussed by the Executive Management Board on a quarterly basis. The purpose of this process is to stay focused on top risks and to identify potential new risks as early as possible. This enables the Executive Management Board to take a proactive approach to adopting business processes and controls to meet, manage or mitigate such risks, or to prevent potential increases in the level of exposure.

Risk owners and risk responsibles are appointed for each of the identified top risks. All identified top risks are anchored with a member of the Group Management Team. The risk owner is responsible for ensuring that;

- the appointed risks are analysed and underlying risk drivers defined, and
- mitigation plans are developed, implemented and monitored.

Risks identified are evaluated based on their possible impact on several criteria, including compliance, reputational and financial impact, and the likelihood of the risk materialising. Clear roles and responsibilities are assigned in relation to top risks, and mitigation initiatives and KPIs to monitor progress are identified, prioritised and continually monitored.

Key developments and activities performed in 2018/19

In addition to the ongoing risk management of the company's daily business operations, a number of targeted risk management activities have been performed over the past year to meet the company's ambition and the established risk management objectives. This entails that the company in 2018/19 has focused on the further development of risk management capabilities, including clearly anchoring the area. Moreover, a decision has been made to engage a dedicated resource for handling the company's risk management going forward.

Within the past year, focus has been on further developing a solid risk management governance structure with clear roles and responsibilities assigned to stakeholders across the organisation to ensure that risks are managed at an appropriate level by people, who have the mandate and ability to do so.

TOP RISKS IDENTIFIED

Top risks identified can be divided into the two categories set out below. The risks described in this report are those management currently considers most material to the company. The risks are not listed in any particular order of priority as to significance or probability.

BRAND AND DISTRIBUTION RISK

- Consumer and product trends
- Brand partnerships
- Transforming distribution and improving execution

OPERATIONAL RISK

- Outsourcing and partnerships
- IT security

BRAND AND DISTRIBUTION RISK

All of the company's products are based on three core capabilities; Sound, Design and Craftsmanship. The company seeks to establish an exclusive and seamless consumer experience across both physical and digital channels.

DESCRIPTION	ACTIONS IN 2018/2019	MITIGATING ACTIONS
CONSUMER AND PRODUCT TRENDS		
Bang & Olufsen continuously develops and adjusts the product portfolio to follow consumer trends in a rapidly changing environment. Financial expectations are based on an ability to foresee and meet market demand. This involves risk associated with developing relevant products and being able to execute and launch such products in a timely manner.	The changed product strategy resulted in fewer launches in 2018/19. A higher number of product launches are expected for 2019/20. As part of the new distribution setup, Bang & Olufsen will continue to get better insights into retail sales data enabling timely monitoring and understanding of product performance in connection with new launches. Further, the company continues to invest in innovation and its core capabilities to ensure that the product portfolio remains relevant and is updated with the latest technology available.	More rapid prototype testing in the early phases of concept work to ensure consumer pain points and needs are fully captured before initiating the design and specification phase. A cross function insights function will be established and charged with ensuring that all market trends are captured. We have invested in the development of new cross-product platforms on which future products will be based. We expect that this will improve our time to market and hence the frequency in product launches
BRAND PARTNERSHIPS		
In recent years, Bang & Olufsen has entered into brand partnerships with some of the largest and most innovative companies in the world, such as HP, HARMAN and LG. Brand partnerships have become a key part of the business and a platform for exposing potential consumers to the Bang & Olufsen brand and the company's core capabilities. There is a risk of not being able to sustain and develop the current brand partnerships into improved support of the brand value. The potential consequences of such risk materialising could lead to brand dilution.	In 2018/19, audio systems from Bang & Olufsen were featured as an option in more car models.	Bang & Olufsen will continue to strengthen the engagement with existing core partners while at the same time running a structured approach towards engaging with potential new partners.

DESCRIPTION	ACTIONS IN 2018/2019	MITIGATING ACTIONS
TRANSFORMING DISTRIBUTION AND IMPROVING EXECUTION		
Bang & Olufsen is organised in three regional segments; EMEA, the Americas and Asia. The company has the strongest presence and brand recognition in EMEA while the Americas and Asia are less penetrated. Scaling the company's existing market platform in the Americas and Asia is a significant opportunity. However, growth in these regions is associated with risk due to the highly competitive markets in these regions. Bang & Olufsen is implementing an omnichannel strategy transforming both the monobrand and multibrand store network as well as eCom. There is a risk linked to the transformation of the monobrand stores will involve closing or relocating stores simultaneously with establishing new partnerships and clusters which can have an overall financial impact. The future multibrand distribution is preferentially selected, leading to the termination of some partnerships and the establishment of partnerships who are better suited to support the long-term strategy. The consumer brand experience continues to be a key focus area for the company. Through eCom, Bang & Olufsen aims to establish a uniform brand experience whilst fully benefiting from a broad digital presence. There is however a risk related to maintaining the luxury brand experience on digital channels and hence an inability to control the consumer experience and to gather the necessary consumer data and insights to increase consumer lifetime value.	**Monobrand:** The company is in the process of upgrading its retail operations through the implementation of a new merchandising strategy with a set of visual merchandising guidelines and clear product display guidelines. Partners are being incentivised to develop omnichannel clusters through e.g. implementation of smaller retail formats in high traffic areas and other retail opportunities, which led to a reduction in the number of stores in 2018/19. **Multibrand:** The company has closed a number of points of sale with weak sales performance while establishing direct distribution with key multibrand partners. **eCom:** A new and improved eCom platform was launched in March 2019. The new platform ensures a better consumer experience and it is expected to drive traffic to both the on- and offline retail network. New hires of regional directors in North America and EMEA have been completed. Furthermore, the company has established an internal function to control recommended consumer prices and to identify main sources of unauthorised channels, penalisation of illegal reselling activities through a new penalty system and to enhance the enforcement of contractual obligations in general. To boost brand awareness in the Americas, New York City is being developed as direct retail, with a SoHo flagship store which opened as a pop-up in December 2018 and is expected to open in a new flagship format in 2019.	Bang & Olufsen will over the next couple of years continue to focus on building a strong network of monobrand stores that can provide consumers with the unique Bang & Olufsen in-store consumer experience. The future multibrand distributors will be carefully selected, resulting in further closures of some partnerships and the establishment of new ones. Further, the company will continue to develop strong executional capabilities within retail and sales operations to further build on and enhance operations in the multibrand environment. A new merchandising strategy will be implemented during the course of the year in order to further enhance the brand experience across channels.

OPERATIONAL RISK

Bang & Olufsen has an asset-light and agile operating model established around outsourcing and partnerships.

DESCRIPTION	ACTIONS IN 2018/2019	MITIGATING ACTIONS
OUTSOURCING AND PARTNERSHIPS		
Bang & Olufsen's asset-light operating model with a focus on fewer partners involves a risk in relation to product supply in the event of a severe incident or other developments due to dependency on single source partners for components, production or products. The consequences can impact the ability to deliver products to the market in a timely manner.	Implementation of a new logistics setup was completed during the year. The transformation proved more difficult than anticipated which let to poor delivery performance during the second quarter. A risk audit of the company's main product supplier was successfully conducted.	Bang & Olufsen has a thorough supplier selection process to ensure that the suppliers meet Bang & Olufsen's requirements to long-term partners. In addition to monitoring systems which verify the performance of the product and component suppliers and provides early warnings of deviations, the company will establish regular business reviews with major product platform providers. Where possible, Bang & Olufsen pursues a dual sourcing strategy aimed at ensuring the ability to source the same type of components from at least two different suppliers. For certain unique suppliers, other measures have been implemented to reduce the risk, such as higher inventory buffers and dual sets of production equipment.
IT SECURITY		
Bang & Olufsen's business depends to a large and increasing degree on reliable and secure IT systems. Failure to adequately protect the IT infrastructure and key systems against the risk of security incidents could potentially lead to unavailability of services, unintended disclosure of business-critical confidential data or sensitive personal data, which may negatively impact Bang & Olufsen's competitive position, damage its reputation and/or result in fines.	Bang & Olufsen conducted a 360-degree risk assessment. The findings have been addressed over the year with improvements including e.g. mobile device management, cyber risk awareness training and vulnerability scans.	Cyber risk awareness training courses will be updated with additional modules to be rolled out during 2019/20. Preparation of a roadmap for addressing additional findings from the 360-degree risk assessment.

ADDITIONAL KEY RISKS

In addition to the top risks identified a number of other key risks are being addressed on a continuous basis. Those key risks include financial risks such as currency risk and credit risk as well as risks in respect of protecting intellectual property rights and risks in relation to recruiting, retaining and developing the right people and future leaders.

BOARD OF DIRECTORS

- Chairman
- Deputy Chairman
- Board member
- Director

	FACTS	COMMITTEE MEMBERSHIPS	COMPETENCES	DIRECTORSHIPS AND OTHER OFFICES
	**OLE ANDERSEN** Danish, born 1956 Chairman since 2010 Joined (until): 2009 (2019) Independent **Bang & Olufsen shares, year-end:** 84,650 (2017/18: 84,650)	Nomination Committee Remuneration Committee	• Partnership management • Stakeholder relations & CSR • International management & strategy development • Risk management • Finance & accounting • Corporate governance of listed companies	Human Practice Foundation
	**JUHA CHRISTENSEN** Danish, born 1964 Deputy Chairman since 2017 Joined (until): 2016 (2019) Independent **Bang & Olufsen shares, year-end:** 6,000 (2017/18: 6,000)	Technology Committee Remuneration Committee	• Luxury lifestyle omnichannel retailing and marketing • Brand management • Consumer electronics knowledge • Key market insights • Partnership management • Innovation, digitalisation & technology • New product introduction • International management & strategy development	Star Global, Inc. and associated subsidiaries Netcompany A/S CloudMade Holdings Limited and associated subsidiaries
	**ALBERT BENSOUSSAN** French, born 1959 Joined (until): 2014 (2019) Independent **Bang & Olufsen shares, year-end:** 3,000 (2017/18: 3,000)	Audit Committee	• Luxury lifestyle omnichannel retailing and marketing • Brand management • Key market insights • Partnership management • Stakeholder relations & CSR • Consumer product supply chain • New product introduction • International management & strategy development • Risk management	CEO of Kering Watches and Jewelry Division and other Kering Group companies in Watches and Jewelry

- Chairman
- Deputy Chairman
- Board member
- Director

	FACTS	COMMITTEE MEMBERSHIPS	COMPETENCES	DIRECTORSHIPS AND OTHER OFFICES
	**ANDERS COLDING FRIIS** Danish, born 1963 Joined (until): 2018 (2019) Independent **Bang & Olufsen shares, year-end:** 7,800 (2017/18: 0)	Audit Committee	• Luxury lifestyle omnichannel retailing and marketing • Brand management • Key market insights • Partnership management • Stakeholder relations & CSR • Consumer product supply chain • New product introduction • International management & strategy development • Risk management	Goodwings ApS Chr. Augustinus Fabrikker Aktieselskab Caf Invest a/s
	**IVAN TONG KAI LAP** Chinese, born 1960 Joined (until): 2016 (2019) Independent **Bang & Olufsen shares, year-end:** 6,600 (2017/18: 2,600)	Audit Committee	• Luxury lifestyle omnichannel retailing and marketing • Key market insights • International management & strategy development • Finance & accounting	Grand Concept Limited Hong Kong
	**JESPER JARLBÆK** Danish, born 1956 Joined (until): 2011 (2019) Independent **Bang & Olufsen shares, year-end:** 6,500 (2017/18: 6,500)	Audit Committee Nomination Committee Technology Committee	• International management & strategy development • Risk management • Finance & accounting • Corporate governance of listed companies	Catacap Management ApS Frokost.DK Aps Polaris III Invest Fonden Basico Consulting Group A-Solutions A/S Groupcare Group Bookboon Corporate Group A/S Materiel Udlejning Holding Group ApS Earlbrook Holdings Group A/S Lyngsoe Systems Group A/S Smartshare Systems A/S Business Angels Fond II A/S Falcon Fondsmæglerselskab A/S Happy Helper A/S Berlin Invest 2017 ApS

- Chairman
- Deputy Chairman
- Board member
- Director

	FACTS	COMMITTEE MEMBERSHIPS	COMPETENCES	DIRECTORSHIPS AND OTHER OFFICES
	**MADS NIPPER** Danish, born 1966 Joined (until): 2014 (2019) Independent **Bang & Olufsen shares, year-end:** 9,770 (2017/18: 5,770)	Nomination Committee	• Luxury lifestyle omnichannel retailing and marketing • Brand management • Partnership management • Stakeholder relations & CSR • Innovation, digitalisation & technology • Consumer product supply chain • New product introduction • International management & strategy development	Group President & CEO at Grundfos Danish Crown A/S DWT Holding
	**MAJKEN SCHULTZ** Danish, born 1958 Joined (until): 2013 (2019) Independent **Bang & Olufsen shares, year-end:** 5,300 (2017/18: 5,300)	Remuneration Committee	• Brand management • Stakeholder relations & CSR • International management & strategy development • Corporate governance of listed companies	Professor of Management and Organization Studies at Copenhagen Business School Danish Crown A/S Carlsberg A/S Carlsbergfondet Realdania
	**SØREN BALLING** Danish, born 1971 Employee elected Joined (until): 2015 (2019) Dependent **Bang & Olufsen shares, year-end:** 2,714 (2017/18: 1,214)	None	• Production Engineer, Mechanics	None

- Chairman
- Deputy Chairman
- Board member
- Director

	FACTS	COMMITTEE MEMBERSHIPS	COMPETENCES	DIRECTORSHIPS AND OTHER OFFICES
	**BRIAN BJØRN HANSEN** Danish, born 1972 Employee elected Joined (until): 2015 (2019) Dependent **Bang & Olufsen shares, year-end:** 1,332 (2017/18: 480)	None	• Senior Business Manager, Smart Home	None
	**GEOFF MARTIN** Canadian, born 1969 Employee elected Joined (until): 2015 (2019) Dependent **Bang & Olufsen shares, year-end:** 844 (2017/18: 844)	None	• Senior technology specialist, Sound & Design	None

EXECUTIVE MANAGEMENT BOARD

- Chairman
- Deputy Chairman
- Board member
- Director

	FACTS	COMMITTEE MEMBERSHIPS	COMPETENCES	DIRECTORSHIPS AND OTHER OFFICES
	**HENRIK CLAUSEN** Danish, born 1963 Employed since 1 July 2016 President & CEO **Bang & Olufsen shares, year-end:** 53,650 (2017/18: 51,000)	None	• MBA from INSEAD, Paris • BA International Trade, Copenhagen Business School • MSc Electrical Engineering, Technical University of Denmark	NENT Group Technical University of Denmark
	**NIKOLAJ WENDELBOE** Danish, born 1975 Employed since 1 May 2019 Executive Vice President & CFO **Bang & Olufsen shares, year-end:** 0 (2017/18: 0)	None	• M.Sc. Econ from University of Copenhagen (cand.polit)	Venzo.nxt A/S Strandgaarden Wine & Spirits A/S Sparkle Security ApS
	**JOHN MOLLANGER** French, born 1970 Employed since 18 April 2017 Executive Vice President, President Brand & Market **Bang & Olufsen shares, year-end:** 16,273 (2017/18: 8,125)	None	• Bachelor in International Business from I.C.L. Business School in Lyon • Executive education in Strategic Marketing from Stanford University, USA	None
	**SNORRE KJESBU** Norwegian, born 1969 Employed since 1 March 2019 Executive Vice President, Head of Product Creation & Fulfilment **Bang & Olufsen shares, year-end:** 0 (2017/18: 0)	None	• M.Sc. in Mobile Communica tions and Signal Processing from University of Bristol • B.Eng in Electronics Engineering from University of Bristol	Q-free Strømme Foundation

* With the exception of 100% owned Bang & Olufsen subsidiaries.

THE BANG & OLUFSEN SHARE

Bang & Olufsen seeks to maintain honest and constructive engagement with the market and to be perceived as reliable and transparent.

It is Bang & Olufsen's objective to ensure that relevant and accurate information concerning the group is made available to the market. In addition to publishing financial results and other company announcements, Bang & Olufsen's Executive Management and Investor Relations use webcasts, roadshows and conference calls as their primary channels when interacting with the markets.

Investor Relations are responsible for maintaining the day-to-day engagement with current and potential shareholders as well as with sell- and buy-side analysts. At the end of the 2018/19 financial year, three sell-side analysts covered the Bang & Olufsen share.

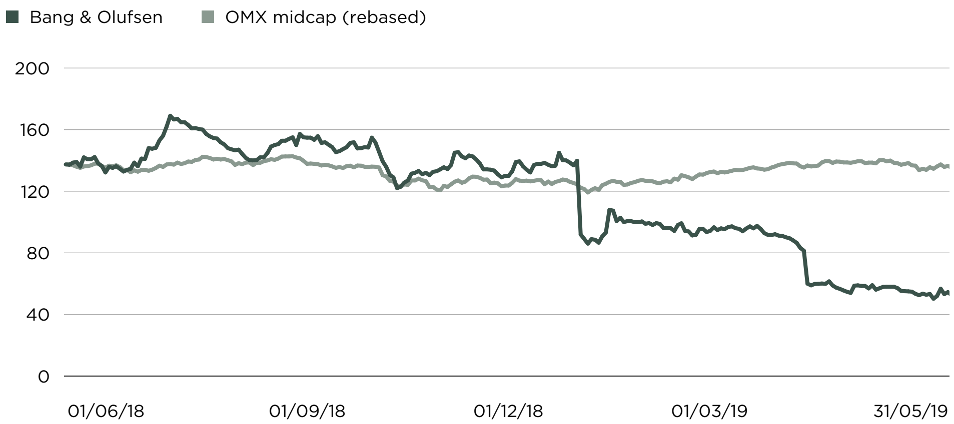
Information about analyst coverage, access to investor-related materials and conference calls as well as Bang & Olufsen's Investor Relations Policy can be found at https://investor.bang-olufsen.com.

Bang & Olufsen shares
Bang & Olufsen shares are listed on Nasdaq Copenhagen and are included in Nasdaq Copenhagen's Mid-Cap Index.

The Bang & Olufsen share price was DKK 52.0 on 31 May 2019, corresponding to a decrease of 62.2% for the financial year. The primary reason for the declining share price was the financial performance which led to profit warnings in December 2018 and March 2019. During the same period, the Mid-Cap Index fell by 3.1%. After the end of the financial year 2018/19, a third profit warning was released on 3 June resulting in a share price decline of 16.7%.

The average daily turnover of Bang & Olufsen shares was DKK 12.2 million in

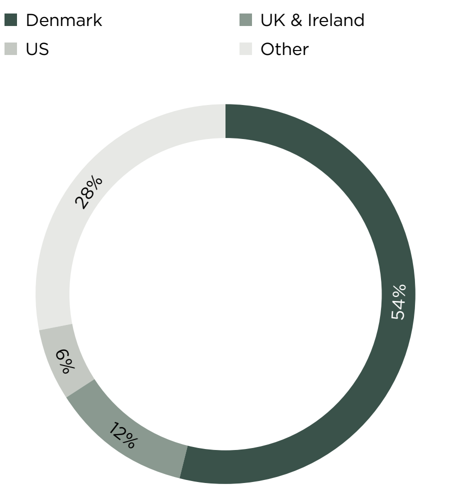
SHARE PRICE DEVELOPMENT 1 JUNE 2018 TO 31 MAY 2019



THE BANG & OLUFSEN SHARE

Stock exchange:		NASDAQ Copenhagen A/S
Identification code (ISIN)		DK 0010218429
	2018/19	2017/18
Closing price at 31 May	52.0	137.2
Market value at 31 May (DKK million)	2,246	5,927
Shares issued	43,197,478	43,197,478
Treasury shares	2,363,439	22,999
Earnings per share	0.5	1.9
Price/Earnings	109.8	76.2

SHAREHOLDER COMPOSITION



MAJOR SHAREHOLDERS

At 31 May 2019, three shareholders had notified Bang & Olufsen that they hold more than 5% of the company's share capital. Additionally, the company owns treasury shares totalling 5.5% of the share capital.

Name	Capital/Votes (%)
Sparkle Roll (Denmark) Limited*	14.9%
Arbejdsmarkedets Tillægspension	11.5%
Chr. Augustinus Fabrikker	5.8%
Bang & Olufsen (treasury shares)	5.5%

* In Sparkle Roll Group Limited's annual report published on 28 June 2019, it is stated that they own 6 million shares in Bang & Olufsen, equivalent to 13.89% of the share capital.

the 2018/19 financial year compared to DKK 12.7 million the year before.

Shareholder composition
At 31 May 2019, three shareholders had notified Bang & Olufsen that they hold more than 5% of the company's share capital. Additionally, the company owns treasury shares totalling 5.5% of the share capital.

Capital allocation
The capital structure and distribution policy is reviewed continually with due consideration for Bang & Olufsen's financial performance, strategic developments including investment requirements and shareholder interests.

Being fully aware that the company operates in a market sensitive to economic trends and fast-moving technology change, the Board of Directors has assessed that a suitable level for Bang & Olufsen's net cash position is a minimum of DKK 500 million. Due to the negative development in free cash flow, net interest-bearing deposits was DKK 420 million at the end of the financial year 2018/19.

The Board of Directors had been authorised, in the period until 31 May 2019, to increase the company's share capital by up to 10% in one or more issues of new shares. Such increase could be either with or without pre-emptive subscription rights for existing shareholders and new shares would rank pari passu with existing shares. The authorisation was not utilised in 2018/19. For further details, see the company's articles of association at https://investor.bang-olufsen.com.

Based on the outlook set out in last year's annual report, the Board of Directors initiated a DKK 485 million share buyback programme. Due to the financial performance during 2018/19 the Board of Directors, on 26 March 2019, decided to cancel the remaining share buyback programme. The company bought back shares for a total of DKK 279 million of which DKK 264 million was related to the share buyback programme.

Based on the financial results for the financial year 2018/19 and expectations for the coming year, the Board of Directors proposes not to pay out dividend or initiate a new share buyback programme for the coming financial year.

Annual General Meeting
Bang & Olufsen A/S' Annual General Meeting will be held on Wednesday, 21 August 2019 at Bang og Olufsen Alle 1, 7600 Struer.

FINANCIAL CALENDAR

2019

Thursday, 21 August	Annual General Meeting
Thursday, 3 October	Interim report Q1 2019/20

2020

Tuesday, 14 January	Interim report Q2 2019/20
Thursday, 2 April	Interim report Q3 2019/20
Tuesday, 7 July	Annual Report 2019/20

Q4 RESULTS

KEY FINANCIAL HIGHLIGHTS Q4

BANG & OLUFSEN A/S – GROUP

	4th Quarter		YTD	
(DKK million)	**2018/19**	2017/18	**2018/19**	2017/18
Income statement:				
Revenue	618	830	2,838	3,285
EMEA	298	412	1,459	1,737
Americas	62	76	223	302
Asia	193	280	927	1,008
Brand Partnering & Other Activities	65	62	229	238
Gross margin, %	48.5	43.8	48.5	43.6
EMEA, %	47.8	37.0	46.1	39.5
Americas, %	28.6	52.9	41.5	45.2
Asia, %	40.7	41.8	43.1	40.6
Brand Partnering & Other Activities, %	94.4	86.2	92.6	84.0
Earnings before interest, taxes, depreciation, amortisation and capitalisation (EBITDAC)	(44)	85	169	292
Earnings before interest, taxes, depreciation and amortisation (EBITDA)	(19)	97	248	398
Earnings before interest and tax (EBIT)	(66)	73	59	122
Financial items, net	(4)	6	(26)	(5)
Earnings before tax (EBT)	(70)	79	33	117
Earnings for the year	(60)	71	19	81
Financial position:				
Total assets	2,462	2,921	2,462	2,921
Share capital	432	432	432	432
Equity	1,419	1,709	1,419	1,709
Net interest-bearing deposit	420	985	420	985
Net working capital	410	100	410	100

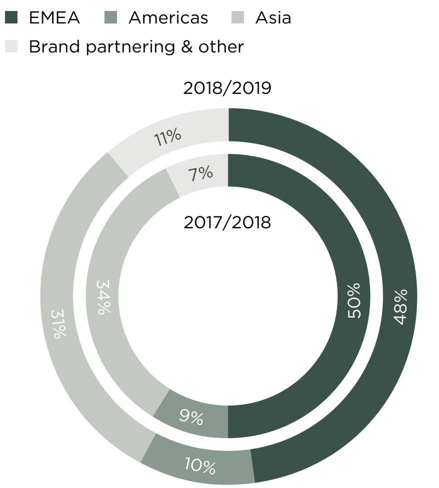
	4th Quarter		YTD	
(DKK million)	**2018/19**	2017/18	**2018/19**	2017/18
Cash flow:				
– from operating activities	(29)	182	(131)	248
– from investment activities	(40)	(17)	(141)	(163)
Free cash flow	(69)	165	(272)	85
– from financing activities	(48)	(2)	(391)	(9)
Cash flow for the period	(117)	162	(663)	76
Key figures:				
EBITDA-margin, %	(3.1)	11.7	8.7	12.1
EBIT-margin, %	(10.7)	6.6	2.1	3.7
NIBD/EBITDA ratio	(21.7)	10.2	1.7	2.5
Return on assets, %	(2.4)	1.8	0.8	2.8
Return on invested capital, excl. Goodwill, %	(6.2)	(7.8)	2.0	11.9
Return on equity, %	(4.2)	3.1	1.4	4.7
Headcounts at the end of the period	957	1,049	957	1,049
Stock related key figures:				
Earnings per share (EPS), DKK	(1.1)	1.7	0.5	1.9
Earnings per share, diluted (EPS-D), DKK	(1.1)	1.7	0.5	1.9
Price/Earnings	(48.7)	82.2	109.8	76.2
Revenue per share, DKK	15.1	19.2	69.5	76.1
Revenue per share, diluted, DKK	15.1	19.2	69.4	76.1

For definitions refer to section 5.7.

FOURTH QUARTER FINANCIAL REVIEW

Group revenue declined by 25.5% in Q4 (23% in local currencies) to DKK 618 million. The asset-light operating model lifted the gross margin to 48.5%. The EBIT margin was negative at 10.7%.

REVENUE PER SEGMENT (%)



Revenue

Group revenue declined by 25.5% (23% in local currencies) to DKK 618 million. The revenue decline was seen in all regions whereas Brand Partnering & Other Activities was lifted by a positive performance within brand partnering.

Revenue in Q4 was negatively impacted by a one-off effect related to Beoplay Earset. The Beoplay Earset did not sell as expected and to support sales the retail price was subsequently reduced and retailers were either compensated for existing purchases or offered to sell back products to Bang & Olufsen. The company's own inventory was sold at a significant discount to third party retailers. As the product was launched in Q4 last year with significant sales, there is a significant year-over-year impact from Beoplay Earset alone, amounting to approximately DKK 55 million.

Unhealthy retail inventory levels impacted demand from monobrand stores, impacting among others the demand for Staged products, including TV's. In addition, demand from multibrand network has been negatively impacted by high inventory at retail level.

Furthermore, the slower than planned transformation of the monobrand and multibrand sales and distribution network had a negative impact on revenue.

Staged

Revenue in the Staged category was DKK 231 million against DKK 334 million last year, corresponding to a decline of 31.0%. Revenue in Q4 2017/18 was positively impacted by sales of discontinued TVs on the old unprofitable platforms, which was not repeated in Q4 this year. In addition, there were no new product launches in the Staged category this year, whereas last year saw the launch of the Beovision Eclipse TV and Beolab 50 speaker.

Flexible Living

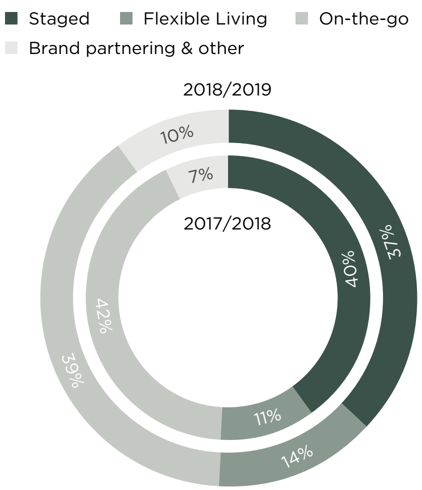
Revenue in the Flexible Living category declined by 1.0% to DKK 88 million. The quarter continued to see positive sales growth of Beoplay A9 and the launch of Beosound Edge, but the effect was offset by lower sales of Beosound 1 and 2 and a drop in revenue related to discontinued products.

On-the-go

Revenue in the On-the-go category declined by 31.4% to DKK 238 million. Excluding effects from Beoplay Earset, On-the-go declined by approximately 18%.

Revenue was supported by the launch of the earphone Beoplay E6 and good performance on key head- and earphone products such as Beoplay H9 and Beoplay E8, while the lower revenue from older head- and earphones detracted from performance. Also, the sales of Bluetooth speakers was down more than 40% year-over-year.

REVENUE PER CATEGORY (%)



Brand Partnering & Other Activities
Revenue from Brand Partnering & Other Activities amounted to DKK 65 million which was 3.2% higher than last year.

Gross profit

Gross profit declined by 17.4% to DKK 300 million as a consequence of the lower revenue, while gross margin grew to 48.5% from 43.8% in Q4 last year. The gross margin was negatively impacted by the one-off related to Beoplay Earsets.

Excluding effects of Beoplay Earset, all product categories delivered a higher gross margin. Gross margin from Brand Partnering & Other Activities improved, predominantly because Brand Partnering represented a larger share of the segment following the decline in revenue from the lower-margin aluminium production for third parties.

Capacity costs

Capacity costs were DKK 366 million compared to DKK 308 million last year, corresponding to an increase of 19.0%. Excluding depreciation and amortisation charges, capacity costs were up by 20.0%.

Distribution and marketing costs were DKK 240 million, corresponding to an increase of DKK 39 million over Q4 last year. The company has invested in activities to support increased brand awareness, strengthen the digital platforms, and build capabilities within the company.

Administrative costs were DKK 41 million, up 6 million compared to last year. The increase was primarily related to activities supporting the transformation process.

Development costs were DKK 85 million which was DKK 13 million higher than Q4 last year. The increase was primarily related to higher development costs incurred and partly offset by higher capitalisation compared to last year. The increase in development costs incurred reflects more products in the pipeline to be launched in 2019/20 and development of new technical platforms enabling faster time to market in the future.

EBIT

EBIT was a loss of DKK 66 million against a profit of DKK 55 million in Q4 last year equivalent to a negative EBIT margin of 10.7% against 6.6% last

Gross margin per category	**2018/19**	2017/18
Staged	50.7%	45.0%
Flexible Living	55.9%	49.0%
On-the-go	31.3%	34.1%

year. The decline in margin reflects the lower revenue and higher capacity costs, partly offset by the higher gross margin.

Cash flow

The free cash flow was negative at DKK 69 million (2017/18: positive by DKK 165 million). The negative development related to both operating and investment activities.

Cash flow from operating activities were negative by DKK 29 million (2017/18: positive by DKK 182 million). The decline was related to both lower earnings and a negative development in net working capital.

Cash flow from investing activities were negative by DKK 40 million (2017/18: negative by DKK 17 million). The higher investment level reflects an increased number of products under development compared to the same period last year.

EMEA

As part of the strategy to create stronger clusters, several partners in Europe consolidated into a single cluster in the fourth quarter. The roll-out of the new contractual framework to all European monobrand partners was also completed in Q4, creating a better foundation for a more consistent consumer experience, product merchandising and terms and condition going forward. However, the transformation speed of the multibrand retail continued to be slower than expected.

Revenue

Revenue in EMEA was DKK 298 million, which was 27.5% lower than last year (-27% in local currencies). Excluding effects from Beoplay Earset, revenue declined by approximately 23%.

Staged

Q4 revenue from the Staged category was down 38% year-on-year, primarily related to Beovision Eclipse TV's and Beolab 50 speakers. The slower–than-expected transformation of the monobrand network through which Staged products are sold continued to impact negatively. In addition, last year's revenue was supported by sales of discontinued TV models on older platforms.

Flexible Living

Revenue was down by 13% compared to last year in part due to Beosound 1 and 2 and a drop in revenue from discontinued products. Beoplay A9 and M5 delivered higher sales with Beoplay A9 continuing to be the best-selling speaker in the Flexible Living category delivering double-digit revenue growth. In addition, the introduction of the BeoSound Edge supported revenue.

(DKK million)	2018/19	2017/18	Change
Revenue	298	412	(27.5%)
Growth local currency	(27%)	(8%)	
Gross profit	143	152	(6.2%)
Gross margin	47.8%	37.0%	10.8pp

On-the-go

On-the-go revenue declined by 4%, but adjusting for effects related to Beoplay Earset, revenue grew supported by both the earphone and headphone category.

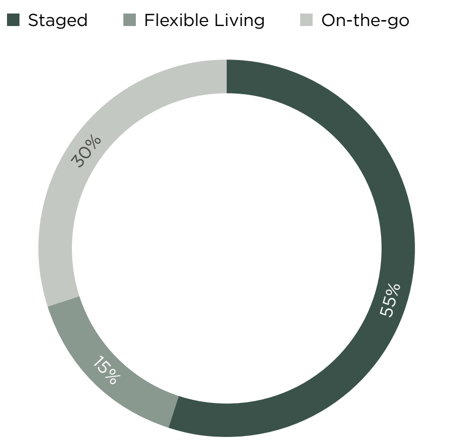
Growth in earphone sales was predominantly driven by Beoplay E8 and the introduction of Beoplay E6, while headphones was driven by solid growth in sales of Beoplay H9.

Revenue from Bluetooth speakers continued the declining trend from previous quarters, however growth in sales of Beoplay A1 and Beolit 17 was positive.

Gross profit

Gross profit was down by 6.2% and amounted to DKK 143 million equivalent to a gross margin of 47.8% which was 10.8 percentage points higher than last year. The margin increase was mainly driven by the improved product profitability but partly offset by the lower margin in the On-the-go category.

EMEA



AMERICAS

Sales to the multibrand network continued to be negatively impacted by high inventory at retail level. There was a continued focus on branding, and Bang & Olufsen has placed a sales team and trainers in Neiman Marcus and Holt Renfrew stores to improve the consumer experience.

The cluster partner in Vancouver opened a presentation centre for a condo building where tenants were given the option of a Bang & Olufsen equipment package for their apartments upon purchase. Further, an interior design event was held in the company's flagship store in SoHo, New York. The ambition was to create further visibility for Bang & Olufsen within the interior design community.

Revenue
Revenue in the Americas was DKK 62 million against DKK 76 million in Q4 last year corresponding to an 18.0% decline (-21% in local currencies). The decline was primarily related to low demand from the multibrand network of On-the-go products.

Staged
Revenue in the Staged category was down approximately 13% compared to last year. The decline in revenue was predominantly related to last year's sales of discontinued TV models on old platforms. The Beovision Eclipse TV, which was launched last year, delivered positive revenue growth.

Flexible Living
Revenue was down by 4% compared to last year. The decline was related to lower sales of Beosound 1 and 2 and discontinued products while the launch of Beosound Edge lifted revenue.

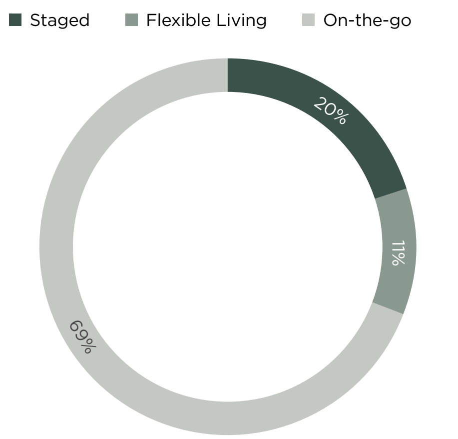
On-the-go
On-the-go revenue fell by 21%. Sales was negatively impacted by the lower demand from the multibrand network impacting all products. Beoplay H9 saw higher growth and the launch of Beoplay E6 had a positive impact on revenue.

Gross profit
Gross profit amounted to DKK 18 million, equivalent to a gross margin of 28.6% compared to 52.9% in the same quarter last year.

Gross margin was negatively impacted by sales of Beoplay Earset to a US retailer at a significant discount.

(DKK million)	2018/19	2017/18	Change
Revenue	62	76	(18.0%)
Growth local currency	(21%)	8%	
Gross profit	18	40	(55.7%)
Gross margin	28.6%	52.9%	(24.3pp)

AMERICAS



ASIA

In March, Bang & Olufsen exhibited a large selection of products in the Chinese luxury lifestyle mall, MixC in Hangzhou. Under the name Legacy of Bang & Olufsen, the exhibition was visited by 14 key multibrand retailers with a total of 143 stores, who also attended the unveiling of new multibrand fixtures. One of Bang & Olufsen's key partners in China, live broadcasted the event which received more than 15.2 million likes within an hour and a half.

Revenue

Revenue in Asia was DKK 193 million against DKK 280 million in the same quarter last year corresponding to a 30.9% decline (-30% in local currencies).

(DKK million)	2018/19	2017/18	Change
Revenue	193	280	(30.9%)
Growth local currency	(30%)	47%	
Gross profit	79	117	(32.8%)
Gross margin	40.7%	41.8%	(1.1pp)

As Beoplay Earset was launched in Q4 last year with significant sales, there is a significant year-over-year impact from Beoplay Earset alone, amounting to approximately DKK 40 million. Excluding effects from Beoplay Earsets, revenue declined by approximately 18%. This was primarily related to sales of On-the-go products.

Staged

Revenue from the Staged category was up 4% compared to the same quarter last year. The Beovision Eclipse TV and Staged speakers saw positive growth. Revenue last year was partly driven by discontinued TV models.

Flexible Living

Revenue was up by 18% compared to the fourth quarter last year, predominantly driven by Beoplay A9 delivering double-digit growth. Revenue was furthermore lifted by the launch of Beosound Edge.

On-the-go

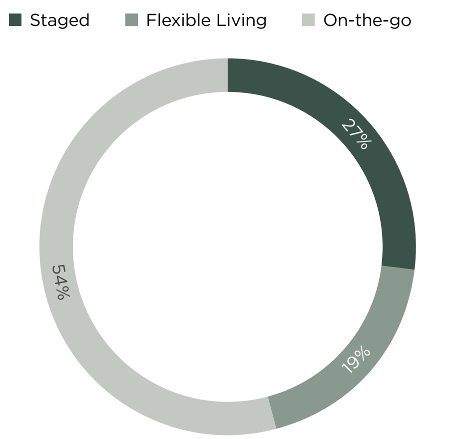
On-the-go revenue declined by 47%. Excluding the one-off buyback of Beoplay Earset, On-the-go declined by 31%.

For both earphones and headphones, inventories at retailers and sales through unauthorised channels at discounted prices had a negative impact on demand. Bluetooth speakers saw a 16% decline compared to the same quarter last year.

Gross profit

Gross profit was down by 32.8% and amounted to DKK 79 million equivalent to a gross margin of 40.7% which was 1.1 percentage points lower than in the fourth quarter last year. The margin contraction was related to compensation to retailers on Beoplay Earset, reducing profitability of the On-the-go category. Both Staged and Flexible Living showed improved margins.

ASIA



BRAND PARTNERING & OTHER ACTIVITIES

Revenue
Reported revenue amounted to DKK 65 million against DKK 62 million in Q4 last year equivalent to a 3.2% increase (3% in local currencies).

The increase was related to higher revenue from brand partners. Revenue from aluminium components produced for third parties was lower than in Q4 last year mirroring the development seen throughout the year.

Gross profit
Gross profit amounted to DKK 61 million, up by 13.1% and equivalent to a gross margin of 94.4% compared to 86.2% last year. The improved margin was predominantly a result of Brand Partnering representing a larger share of the segment.

(DKK million)	**2018/19**	2017/18	Change
Revenue	65	62	3.2%
Growth local currency	3%	(42%)	
Gross profit	61	54	13.1%
Gross margin	92.3%	86.2%	6.1pp

FINANCIAL STATEMENTS

INCOME STATEMENT

1 June – 31 May

(DKK million)	Notes	2018/19	2017/18
Revenue	2.2	**2,838**	**3,285**
Production costs	2.3	(1,461)	(1,852)
Gross profit		**1,377**	**1,433**
Development costs	2.3	(321)	(409)
Distribution and marketing costs	2.3	(875)	(789)
Administration costs	2.3	(146)	(130)
Other operating income		24	17
Operating profit (EBIT)		**59**	**122**
Financial income		7	6
Financial expenses		(33)	(11)
Financial items, net		(26)	(5)
Earnings before tax (EBT)		**33**	**117**
Income tax	2.4	(14)	(36)
Earnings for the year		**19**	**81**
Earnings per share			
Earnings per share (EPS) DKK		0.5	1.9
Diluted earnings per share (EPS-D) DKK		0.5	1.9

STATEMENT OF COMPREHENSIVE INCOME

1 June – 31 May

(DKK million)	Notes	2018/19	2017/18
Earnings for the year		**19**	**81**
Items that will be reclassified subsequently to the income statement:			
Foreign exchange adjustment of foreign entities		4	(2)
Fair value adjustments of derivatives		(94)	94
Value adjustments of derivatives reclassified in:			
Revenue		(5)	13
Production costs		69	(54)
Tax on other comprehensive income		7	(12)
Items that will not be reclassified subsequently to the income statement:			
Actuarial gains/losses on defined benefit plans		1	1
Tax on other comprehensive income		-	-
Other comprehensive income for the year, net of tax		**(18)**	**40**
Total comprehensive income for the year		**1**	**121**

STATEMENT OF FINANCIAL POSITION

Assets

(DKK million)	Notes	31/5/19	31/5/18
Goodwill		44	44
Acquired rights and software		14	2
Completed development projects		116	181
Development projects in progress		54	41
Intangible assets	5.1	**228**	**268**
Land and buildings		89	116
Plant and machinery		57	56
Other equipment		10	5
Leasehold improvements		2	-
Tangible assets in course of construction and prepayments for tangible assets		9	7
Tangible assets	5.1	**167**	**184**
Investment properties	5.2	**-**	**16**
Non-current other receivables		**27**	**39**
Deferred tax assets	2.4	**261**	**249**
Total non-current assets		**683**	**756**
Inventories	4.1	**596**	**352**
Trade receivables	4.2	566	510
Tax receivable		14	19
Other receivables		53	107
Prepayments		22	8
Total receivables		**655**	**644**
Cash		**492**	**1,155**
Assets held for sale	5.3	**36**	**14**
Total current assets		**1,779**	**2,165**
Total assets		**2,462**	**2,921**

Liabilities

(DKK million)	Notes	31/5/19	31/5/18
Share capital	6.5	432	432
Translation reserve		21	17
Reserve for cash flow hedges		5	28
Retained earnings		961	1,232
Total equity		**1,419**	**1,709**
Pensions	3.4	15	14
Deferred tax	2.4	11	11
Provisions	6.6	36	35
Mortgage loans	6.3	69	161
Other non-current liabilities		11	1
Deferred income	4.3	15	76
Total non-current liabilities		**157**	**298**
Mortgage loans	6.3	3	9
Provisions	6.6	49	35
Trade payables		710	654
Tax payable	2.4	7	3
Other liabilities		79	133
Deferred income	4.3	38	78
Other current liabilities		**886**	**912**
Liabilities associated with assets held for sale		**-**	**2**
Total liabilities		**1,043**	**1,212**
Total equity and liabilities		**2,462**	**2,921**

STATEMENT OF CASH FLOW

1 June – 31 May

(DKK million)	Notes	2018/19	2017/18
Operating profit (EBIT)		59	122
Depreciation, amortisation and impairment		190	275
Operating profit before depreciation, amortisation and impairment		**249**	**397**
Other non-cash items		(50)	(32)
Change in net working capital	4.4	(310)	(74)
Interest received		7	6
Interest paid		(18)	(18)
Income tax paid		(9)	(31)
Cash flow from operating activities		**(131)**	**248**
Purchase of intangible non-current assets		(96)	(106)
Purchase of tangible non-current assets		(58)	(61)
Sales of tangible non-current assets		1	2
Change in financial receivables		12	2
Cash flow from investing activities		**(141)**	**(163)**
Free cash flow		**(272)**	**85**
Repayment of long-term loans		(97)	(9)
Purchase of own treasury shares		(279)	-
Settlement of matching share programme		(15)	-
Cash flow from financing activities		**(391)**	**(9)**
Change in cash and cash equivalents		**(663)**	**76**
Cash and cash equivalents, opening balance		1,155	1,079
Cash and cash equivalents, closing balance		**492**	**1,155**

Accounting policies

Cash flow is calculated using the indirect method and is based on earnings before interest and tax. Cash flow cannot be derived directly from the statement of financial position and income statement.

STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Translation reserve	Reserve for Cash flow hedges	Retained earnings	**Total**
Equity at 1 June 2017	**432**	**19**	**(13)**	**1,148**	**1,586**
Earnings for the year	-	-	-	81	81
Foreign exchange adjustment of foreign entities	-	(2)	-	-	(2)
Fair value adjustments of derivatives	-	-	94	-	94
Value adjustments of derivatives reclassified in:					
Revenue	-	-	13	-	13
Production costs	-	-	(54)	-	(54)
Income tax on items that will be reclassified to the income statement	-	-	(12)	-	(12)
Actuarial gains/(losses) on defined benefit plans	-	-	-	1	1
Comprehensive income for the year	**-**	**(2)**	**41**	**82**	**121**
Share based payment	-	-	-	2	2
Equity at 31 May 2018	**432**	**17**	**28**	**1,232**	**1,709**
Earnings for the year	-	-	-	19	19
Foreign exchange adjustment of foreign entities	-	4	-	-	4
Fair value adjustments of derivatives	-	-	(94)	-	(94)
Value adjustments of derivatives reclassified in:					
Revenue	-	-	(5)	-	(5)
Production costs	-	-	69	-	69
Income tax on items that will be reclassified to the income statement	-	-	7	-	7
Actuarial gains/(losses) on defined benefit plans	-	-	-	1	1
Comprehensive income for the year	**-**	**4**	**(23)**	**20**	**1**
Share-based payment	-	-	-	(12)	(12)
Purchase of own shares	-	-	-	(279)	(279)
Equity at 31 May 2019	**432**	**21**	**5**	**961**	**1,419**

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SECTION 1 BASIS OF REPORTING

1.1 BASIS OF REPORTING

Basis for preparation
The Group's consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU and additional Danish disclosure requirements for financial reports by listed companies.

The accounting policies set out below have been used consistently in respect of the financial year and the comperative figures.
Refer to note 1.3 for changes in accounting policies.

Applying materiality
Significant items are presented individually in the financial statements as required by IAS 1.

Items that are not individually significant but considered relevant for stakeholders and to understand the Bang & Olufsen's business model, are also presented in the financial statements.

Currency
The Group's consolidated financial statements are presented in Danish Kroner (DKK) and are rounded to the nearest DKK million, unless otherwise stated.

The Parent Company's functional currency is DKK.

Basis of consolidation
The consolidated financial statements are prepared as a consolidation of the financial statements of the Parent Company, Bang & Olufsen A/S, and its subsidiaries according to Group's accounting policies.

On consolidation intra-group income, expenses, shareholdings, balances and dividends are eliminated.

The accounting items of subsidiaries are included in full in the consolidated financial statements.

Translation of foreign currency
A functional currency is determined for each of the reporting entities of the Group. Transactions denominated in currencies other than the functional currency are considered transactions denominated in foreign currencies.

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Differences arising between the exchange rates at the transaction date and at the date of payment are recognised as financial income or expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rate at the reporting date. The difference between the exchange rates at the reporting date and at the date at which the receivable or payable arose or the exchange rate in the latest consolidated financial statements is recognised as financial income or expenses.

On recognition in the consolidated financial statements of entities with a functional currency other than the presentation currency (DKK), the income statement and statement of cash flows, are translated at the exchange rates prevailing at the transaction date, and the statement of financial position items are translated at the exchange rates prevailing at the reporting date.

Differences arising from the translation of the opening balance of equity of foreign entities at the exchange rates prevailing at the reporting date, and on translation of the income statement from the transaction date to the reporting date, are recognised in other comprehensive income and attributed to a separate translation reserve in equity.

1.2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

When applying the Group's accounting principles, it is necessary that management makes a number of accounting judgements and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing development projects, deferred tax assets, inventories, trade receivables and provisions.

Management bases its estimates and judgements on historical experience and other relevant factors that are believed to be reasonable under the given circumstances.

The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The critical accounting estimates and judgements are described under the sections to which they relate.

Note	Critical accounting estimates and judgements	Extent of subjectivity
5.1	Development projects	
2.4	Deferred tax assets	
4.1	Inventories	
4.2	Trade receivables	
6.6	Provisions	

Extent to which the accounting estimates and judgements are based on subjectivity and business practice.

Very objective/market conforming

Partly subjective/partly distinctive

Subjective/distinctive for Bang & Olufsen

1.3 CHANGES IN ACCOUNTING POLICIES

The accounting policies applied for recognition, measurement and classification in the Annual Report are consistent with those applied in the consolidated financial statements for 2017/18, except for the following changes due to the implementation of new IFRS Standards, improvements and interpretations adopted as of 1 January 2019:

- IFRS 9 “Financial Instruments”
- IFRS 15 “Revenue from contracts with Customers”
- New definition of reportable segments
- New model for allocations of costs

IFRS 9 - Financial Instruments
The Group has implemented IFRS 9 Financial Instruments effective from 1 June 2018. The standard has changed the classification, measurement and impairment of financial assets and has introduced new rules for hedge accounting. Based on the portfolio of financial assets and liabilities there were no significant changes to the classification and measurement as the portfolio consisted of loans and trade receivables held to collect contractual cash flows (solely from principles and payments), thus classified for amortised cost measurement under IFRS 9. Reclassifications were therefore not required.

With IFRS 9 a new expected credit losses (ECL) model has been implemented which broadens the information that must be considered when assessing the expected impairment charges. According to the new model, expectations to future events are taken into account. The Group has applied the simplified approach and the effect of the new impairment model is insignificant.

Following the new hedge-accounting rules introduced by IFRS 9, it is generally easier to apply hedge accounting as the new rules are more aligned with the Group's Risk Management policies and provides more flexibility. All existing hedge relationships previously designated as effective hedging relationships continues to qualify for hedge accounting under IFRS 9. The implementation of the new rules for hedge-accounting had only an insignificant impact on the financial statements.

IFRS 15 – Revenue from contracts with customers
The Group has implemented IFRS 15 – Revenue from contracts with customers effective from 1 June 2018. The standard applies to all contracts with customers, except contracts that are in the scope of other standards. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods and services to a customer. Following IFRS 15, entities are required to exercise judgement, taking into consideration all relevant facts and circumstances when applying the new five-step model to account for revenue arising from contracts with customers. The implementation of IFRS 15 had only an insignificant effect as the Group’s prior practice for recognising revenue complied, in all material aspects, with the concepts and principles encompassed by IFRS 15.

New definition of reportable segments
Effective 1 June 2018, the business units B&O Play and Bang & Olufsen were integrated to create an aligned approach to customers across all touchpoints, build brand equity and create a more efficient organisation. The segmentation was changed to reflect the new internal structure of three geographical regions, EMEA, Americas and Asia, where most of the product sales take place, and “Brand partnering & other activities”, including income from brand partnering activities and the sale of aluminium. The four segments constitutes the Group’s reportable segments.

The segmentation reflects the strategic management, decisions and reporting structure applied by the executive management board for internal control and monitoring of the performance of the group and the setting and following up on financial targets.

New model for allocation of costs
A new allocation model was implemented during the financial year in relation to the allocation of costs to functions. The changes are made as a result of the ongoing transformation of the business and distribution setup and as a results, the consolidated financial statements now provide more reliable and relevant information on Bang & Olufsen’s financial performance.

The implementation impacts the allocation between production costs, development costs, distribution and marketing cost and administration costs. The allocation has no impact on the operating result (EBIT).

The retrospective approach was applied in the implementation of the new allocation model with no cumulative effects recognised in retained earnings as of 1 June 2017. The year and comparison periods have been restated.

The retrospectively adjustment of the 2017/18 figures related to the new model for allocation of costs to function can be specified as follows:

(DKK million)	2017/18 before adjustment	Adjustment	2017/18 after adjustment
Production costs	(1,941)	89	(1,852)
Gross profit	**1,344**	**89**	**1,433**
Gross margin	*40.9%*	*2.7%*	*43.6%*
Development costs	(401)	(8)	(409)
Distribution costs	(735)	(54)	(789)
Administration costs	(104)	(26)	(130)
EBIT	**122**	**-**	**122**

1.3 CHANGES IN ACCOUNTING POLICIES (continued)

Other changes
Apart from the changes mentioned above, new standards, improvements, amendments and interpretations had no impact on the Group's accounting policies, as they cover areas that are not material and/or relevant to the Group.

New and amended IFRS standards and intepretations not yet applicable within the EU
The following new or amended IFRS standards and interpretations of relevance to the Group became effective as of 1 June 2019:

- IFRS 16 “Leases”
- IFRIC 23 "Uncertainty over Income Tax Treatment"

IFRS 16 - Leases
IFRS 16 has been implemented as of 1 June 2019. The implementation of IFRS 16 “Leases” has resulted in almost all leases being recognised in the statement of financial position. The only exceptions are short-term leases and leases of low-value assets.

The Group has transitioned to IFRS 16 in accordance with the modified retrospective approach. Accordingly, prior period comparative figures will not be restated. In addition, the definition of a lease under IAS 17 and its related interpretations has been retained.

The Group has reviewed its lease arrangements, which mainly comprise leases of buildings, premises and cars. As a number of 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 operating leases, including those subleased, is an increase in tangible assets due to recognition of right-of-use assets, an increase of financial receivables and increased financial liabilities. financial receivables and increased financial liabilities.

Upon implementation, the recognised right-of-use assets and financial receivables increase the Group's assets by approximately DKK 193 million with a similar lease obligation recognised as a financial liability. The expected impact is calculated based on the latest estimated internal rate and use of the available knowledge for determining the lease term at the time of the calculation.

The new standard has an impact on the presentation of the Group's EBITDA, EBIT and profit before tax. Operating expenses decrease, positively impacting EBITDA by approximately DKK 37 million and EBIT by approximately DKK 3 million compared to the previous lease standard, IAS 17.

In the cash flow statement, the interest element 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 by approximately DKK 39 million.

IFRIC 23 - Uncertainty over Income Tax Treatment
IFRIC 23 has been implemented as of 1 June 2019.

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.

No material changes in estimates for uncertain tax positions is expected from the implementation of IFRIC 23.

SECTION 2
OPERATIONS

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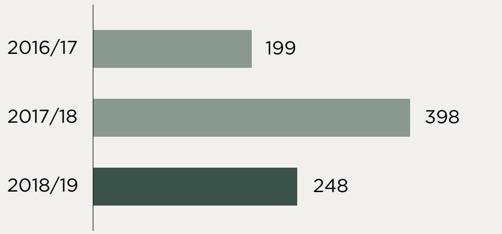
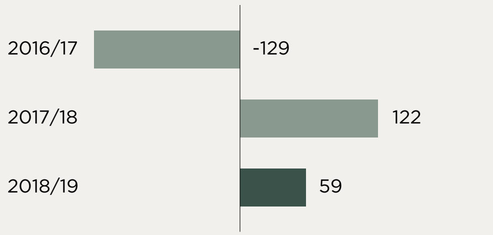
REVENUE
(MDKK)

EBITDA
(MDKK)



EBIT
(MDKK)



2,838

DKK 2,838 MILLION IN REVENUE IN 2018/19

Compared to DKK 3,285 million in 2017/18

59

DKK 59 MILLION IN EBIT IN 2018/19

Compared to DKK 122 million in 2017/18

2.1%

IN EBIT MARGIN

Compared to 3.7% in 2017/18

2.1 OPERATING SEGMENT INFORMATION

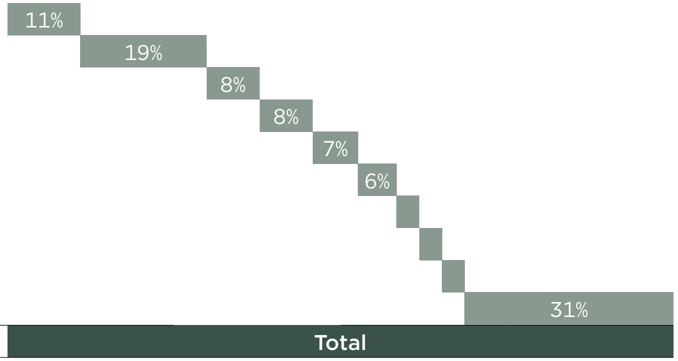
Segments 2018/19

	2018/19					2017/18				
(DKK million)	EMEA	Americas	Asia	Brand Partnering & other activities	All	EMEA	Americas	Asia	Brand Partnering & other activities	All
Revenue	**1,459**	**223**	**927**	**229**	**2,838**	**1,737**	**302**	**1,008**	**238**	**3,285**
Production costs	(787)	(130)	(527)	(17)	(1,461)	(1,050)	(166)	(598)	(38)	(1,852)
Gross profit	**672**	**93**	**400**	**212**	**1,377**	**687**	**136**	**410**	**200**	**1,433**
Gross margin	*46.1%*	*41.5%*	*43.1%*	*92.6%*	*48.5%*	*39.5%*	*45.2%*	*40.6%*	*84.0%*	*43.6%*
Capacity costs					(1,182)					(1,091)
Depreciation and amortisation					(150)					(237)
Impairment of non-current assets					(10)					-
Other income					24					17
Financial items, net					(26)					(5)
Earnings before tax (EBT)					**33**					**117**

2.1 OPERATING SEGMENT INFORMATION (continued)

Geographic

(DKK million)	Revenue 2018/19	Revenue 2017/18	Intangible and tangible assets 2019	Intangible and tangible assets 2018
Denmark (domicile)	299	390	341	398
China	534	500	1	7
USA	221	291	7	2
United Kingdom & Ireland	218	246	-	-
Germany	211	231	-	-
Eastern Europe	159	140	-	-
South Korea	112	82	-	-
Switzerland	99	126	-	-
Hong Kong	98	133	-	-
Rest of the world	887	1,146	46	45
Total	**2,838**	**3,285**	**395**	**452**



Accounting policies

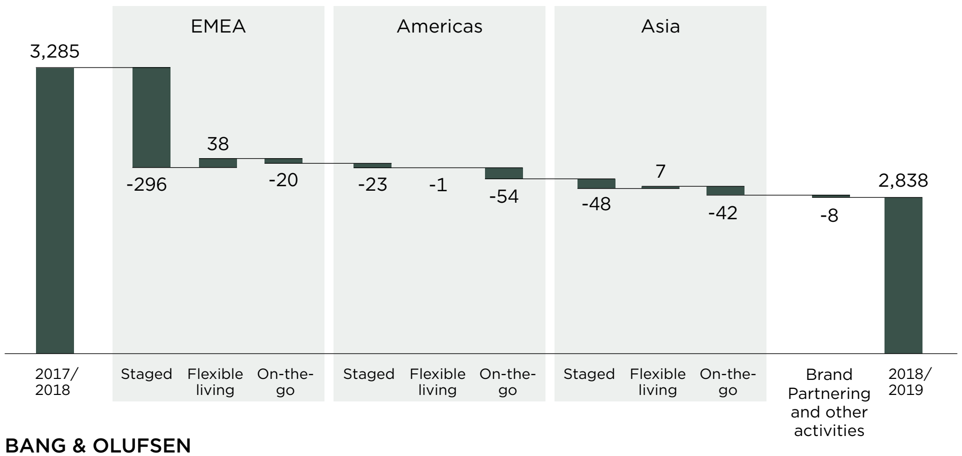
Segment information has been prepared in accordance with the Group's accounting principles and follows the Group's management structure and the internal management reporting that is used by Group Management to evaluate results and resource allocation. For a description of the changes made to reportable segments refer to note 1.3.

The geographical allocation of revenue and non-current assets is based on the Bang & Olufsen's domicile and of top eight largest contributing countries to the Group revenue.

2.2 REVENUE

(DKK million)	2018/19	2017/18
Product - revenue		
Staged	967	1,334
Flexible Living	442	398
On-the-go	1,200	1,316
Brand Partnering & other activities	229	237
Total	**2,838**	**3,285**
Product - gross margin		
Staged	50.4%	44.4%
Flexible Living	50.8%	45.5%
On-the-go	37.7%	34.6%
Total	**48.5%**	**43.6%**
Channel - revenue		
Monobrand	1,737	1,953
Multibrand	706	942
Own e-COM	39	27
Brand Partnering, B2B & other activities	356	363
Total	**2,838**	**3,285**

DEVELOPMENT IN REVENUE
(MDKK)



Revenue challenged by transformation in distribution network
In 2018/19 revenue decreased by DKK 447 million, from DKK 3,285 million in 2017/18 to DKK 2,838 million in 2018/19, corresponding to a 13.6% decline.

Of the total decrease, DKK 367 million related to a lower sale of staged products. Of the declining staged sale, EMEA constituted 80.7%.

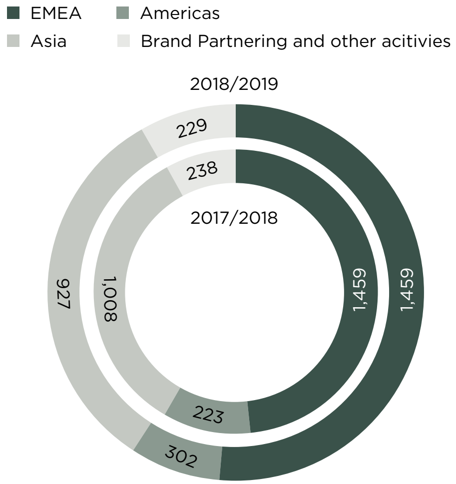
The falling staged sale can be explained by both the transformation of the monobrand channel and by product launches in 2017/18.

No new staged products were launched in 2018/19 opposed to 2017/18 were staged sale was positively impacted by the launch of the Beovision Eclipse television and the Beolab 50 speaker.

The total sale of Flexible Living products increased by DKK 44 million in 2018/19 compared to 2017/18, while the sale of On-the-go products declined by DKK 116 million.

The income from Brand Partnering & Other Activities was DKK 8 million lower due to a reduced sale of aluminum components to third parties which was partly offset by an increased license income from Brand Partnering agreements.

SEGMENT REVENUE



2.2 REVENUE (continued)

Accounting policies

Revenue from contracts with customers comprises sales of goods and royalty income.

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. For contracts providing the customer with a right of return within a specified period, the Group considers the timing of recognition.

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

Revenue from contracts with customers is measured at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Amounts disclosed as net revenue exclude discounts, VAT and other duties.

The Group considers whether contracts include other promises that constitute separate performance obligations and to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Group considers the effects of variable consideration. No element of financing is deemed present.

Variable consideration

The Group pays various discounts and fees depending on the nature of the customer and business. Customer discounts comprise off invoice discounts, volume- and activity-related discounts, including specific campaign prices offered, and other discounts.

Furthermore, customer discounts include the difference between the present value and the nominal amount of on-trade loans to customers. Discounts arise from sales transactions where the customer receives an immediate reduction in the selling price. This also includes cash discounts and incentives for early payments. Volume- and activity-related discounts is a broad term covering incentives for customers to sustain business with the Group over a longer period of time and may be related to a current campaign or a sales target measured in volumes or total value.

2.3 COSTS

(DKK million)	**2018/19**	2017/18
Split by functions		
Production costs	1,461	1,852
Development costs	321	409
Distribution and marketing costs	875	789
Administration costs	146	130
Total	**2,803**	**3,180**
Specification:		
Materials	1,397	1,611
Staff costs	609	613
Other costs	356	456
Marketing costs	251	225
Depreciation, amortisation and impairment	190	275
Total	**2,803**	**3,180**
Development costs		
Incurred development costs before capitalisation	269	297
Of which capitalised	(79)	(106)
Incurred development costs after capitalisation	190	191
Capitalisation (%)	29.5%	35.6%
Total charges and impairment losses on development projects	131	218
Development costs recognised in the consolidated income statement	321	409
Depreciation, amortisation and impairment		
Intangible assets, amortisation	137	220
Tangible assets, depreciation	43	55
Impairments	10	-
Total	**190**	**275**
Depreciation, amortisation and impairment relate to:		
Production costs	31	40
Development costs	139	222
Distribution and marketing costs	10	13
Administration costs	10	-
Total	**190**	**275**

COST SPLIT BY TYPE 2018/19

COST SPLIT BY TYPE 2017/18

In 2018/19 the total operating expenses recognised in the income statement decreased by DKK 377 million to DKK 2,803 million in 2018/19, corresponding to a decline of 11.9%. Overall this reduction is in line with the focus of making a more profitable operation. The reduction reflects the decline in revenue and hence lower cost of goods sold and supported by a more profitable operation.

Bang & Olufsen is on an on-going transformation from being a wholesale company to a retail company selling luxury lifestyle products.

Production costs declined in the year which follows the overall trend in activity, however a small relative reduction have been realised contributing to the overall improvement of gross margin.

Development costs decreases to DKK 321 million in 2018/19. The decline can be explained by lower amortisations in the year, while the overall incurred development costs in 2018/19 are in line with 2017/18.

Distribution and marketing costs increases to DKK 875 million which is mainly due to higher spending on marketing and digital activities.

Administration costs increases to DKK 146 million in 2018/19. The increase is derived by impairments of tangible assets.

2.3 COSTS (continued)

Accounting policies

Production costs
Production costs comprise wages, consumption of stock and indirect costs, (including salaries, depreciation/amortisation and impairment losses) that are incurred for the purpose of generating the net turnover for the year.

Distribution and marketing costs
Distribution and marketing costs comprise costs relating to sales and distribution of the Group's products. These include salaries for sales personnel, advertising and exhibition costs, depreciation/amortisation and impairment losses. Costs in subsidiaries, which are responsible exclusively for the sale of the Group's products, are also allocated to distribution and marketing costs.

Administration costs
Administration costs etc. comprise costs of administrative personnel, management, office costs, depreciation/ amortisation and impairment losses.

Development costs
Development costs that do not meet the criteria for capitalisation as defined in note 5.1 are recognised in the income statement as development costs along with amortisation and impairment losses on capitalised development projects.

2.4 TAX

(DKK million)	2018/19 Income Statement	2018/19 Other comprehensive income	2018/19 Total tax	2017/18 Income Statement	2017/18 Other comprehensive income	2017/18 Total tax
Tax for the year						
Current tax	13	(1)	12	18	-	18
Change in deferred tax during the year	1	(6)	(5)	12	11	23
Change in deferred tax as a result of change in tax rate	1	-	1	7	-	7
Adjustments to tax for prior years	(1)	-	(1)	(1)	-	(1)
Total	**14**	**(7)**	**7**	**36**	**11**	**47**

Tax recognised in other comprehensive income relates to changes in fair value of derivatives financial instruments used as cash flow hedges, and is recognised in retained earnings.

	2018/19 %	2018/19 DKK million	2017/18 %	2017/18 DKK million
Effective tax rate for the year				
Calculated tax on result for the year before tax	22.0	7	22.0	26
Non-deductible costs and non-taxable income	11.1	4	(0.5)	(1)
Deviating tax rates in foreign subsidiaries	11.4	4	1.9	2
Changes in tax rates	3.6	1	6.0	7
Adjustments to prior periods	(2.1)	(1)	(0.9)	(1)
Foreign withholding tax	-	-	1.4	2
Other	(4.2)	(1)	0.9	1
Effective tax rate for the year	**41.8**	**14**	**30.7**	**36**

Comment on tax rate

The effective tax rate of 41.8% was impacted negatively by deviations in foreign subsidiaries' tax rates compared with the Danish tax rate.
Furthermore, local divestments of company-owned shops and capital losses impacted the effective tax rate negatively as non-deductible costs.

Accounting policies

Income tax

Income tax comprises current tax and changes in deferred tax for the year, including changes as a result of a change in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, while the tax expense relating to items recognised in other comprehensive income is recognised in the statement of comprehensive income.

2.4 TAX (continued)

	Assets		Liabilities		Net assets	
(DKK million)	**2019**	2018	**2019**	2018	**2019**	2018
Deferred tax						
Non-current assets	48	44	11	11	37	33
Inventories	3	2	-	-	3	2
Receivables	12	5	-	-	12	5
Provisions	20	18	-	-	20	18
Tax loss carry-forwards	149	149	-	-	149	149
Other	29	31	-	-	29	31
Total	**261**	**249**	**11**	**11**	**250**	**238**

(DKK million)	**2018/19**	2017/18
Change in deferred tax, net during the year		
Non-current assets	4	(32)
Inventories	1	(0)
Receivables	7	(1)
Provisions	2	1
Tax loss carry-forwards	-	17
Other	(2)	(15)
Total	**12**	**(30)**

Comment to deferred tax

As per 31 May 2019 the net deferred tax asset amounts to DKK 251 million (31 May 2018: DKK 239 million), whereas the increase of DKK 12 million mainly relates to the increased level of receivables and change in current provisions.

The total deferred tax asset amounts DKK 261 million (31 May 2018: DKK 249 million) of which DKK 220 million relates to the jointly taxed Danish Group, DKK 17 million relates to China, DKK 14 million relates to the US, whereas the remaining DKK 10 million relates to other foreign legal entities in the group.

In deferred tax assets, "other" includes a tax asset of DKK 22 million from deferred income and DKK 8 million relating to accruals.

The tax loss carry-forward as per 31 May 2019 represents DKK 149 million (31 May 2018: DKK 149 million), whereas DKK 130 million relates to the jointly taxed Danish Group, DKK 10 million relates to China, DKK 6 million relates to US, and the remaining DKK 3 million relates to other legal entities abroad.

Deferred tax assets have been recognised based on expected earnings for the next 3-5 years and the possibility to utilise deferred tax assets to be offset against positive taxable income in each jurisdiction.

As per 31 May 2019 the total tax value of unrecognised tax loss carry-forwards amounts to DKK 32 million, whereof DKK 25 million relates to US, DKK 4 million relates to France, DKK 2 million relates to Norway, and DKK 1 million relates to other legal entities abroad. The unrecognised tax losses are caused by historical losses locally, and can be carried forward for a period from 5 to 20 years.

2.4 TAX (continued)

Critical accounting estimates and judgements

The Group recognises deferred tax assets, including the tax base of tax loss carryforwards, if it is assessed that the respective tax assets can be offset against positive taxable income in the foreseeable future. This assessment is based on budgets and business plans for the following years, including planned business initiatives. Deferred tax assets are tested annually and are only recognised if they are likely to be utilised.

Management's estimates of the likely outcome of disputes on taxes and duties are based on the knowledge available of the actual substance of the disputes and legal assessments, if available. The resolution of disputes can take several years and the outcome is subject to considerable uncertainty.

Accounting policies

Deferred tax

Deferred tax on all temporary differences between the carrying amount and the tax base of assets and liabilities is measured using the balance sheet liability method. No recognition is made of deferred tax on temporary differences relating to amortisation or depreciation of goodwill, properties and other items if disallowed for tax purposes, such temporary differences arose on the date of acquisition without affecting the results or the taxable income. In cases where it is possible to calculate the tax value according to different taxation rules, deferred tax is measured on the basis of the planned use of the asset or the settlement of the liability.

Deferred tax assets, including the tax base of tax loss carry-forwards, are recognised as other non-current assets at the expected value of their utilisation, either by as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax assets and tax liabilities are offset if the entity has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and liabilities simultaneously.

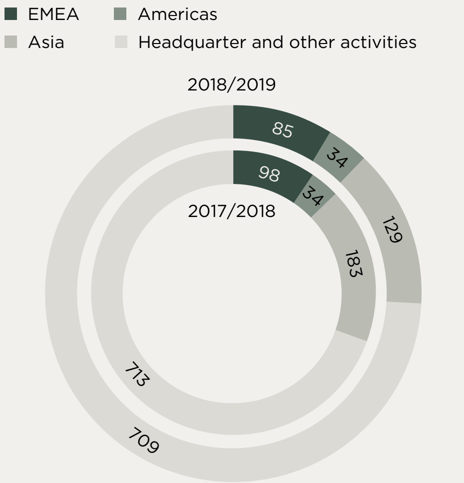
Deferred tax is measured according to the tax rules and at the tax rates applicable in the relevant countries at the reporting date and when the deferred tax is expected to materialise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement.

SECTION 3
STAFF COSTS, SHARE-BASED PAYMENTS AND PENSIONS

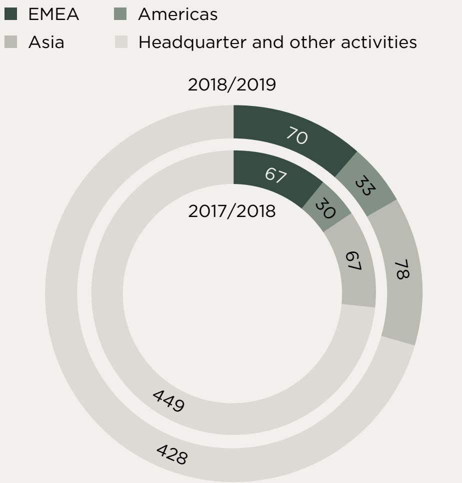
CONTENTS

3.1 Staff costs
3.2 Remuneration
3.3 Share-based payments
3.4 Pension and similar retirement obligations

HEADCOUNT PER SEGMENT
At 31 May



STAFF COSTS PER SEGMENT
(MDKK)



609

DKK 609 MILLION IN TOTAL STAFF COSTS IN 2018/19

Compared to DKK 613 million in 2017/18

983

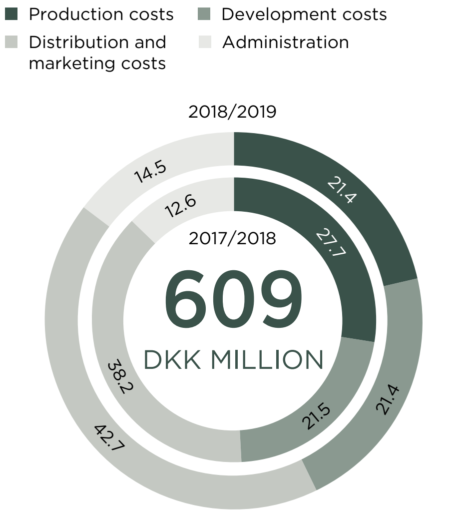
AVERAGE NUMBER OF EMPLOYEES IN 2018/19

Compared to 1,087 in 2017/18

3.1 STAFF COSTS

(DKK million)	**2018/19**	2017/18
Wages and other remuneration	555	551
Share-based payment	4	2
Pensions	37	41
Other social security costs	13	19
Total staff costs	**609**	**613**
Average number of employees	983	1,087
Staff costs relate to:		
Production costs	130	170
Development costs	130	132
Distribution and marketing costs	260	234
Administration costs	89	77
Total staff costs	**609**	**613**

ALLOCATION OF STAFF COSTS
(%)



Accounting policies

Staff costs are recognised in the financial year in which the employee renders the related service. The cost of share-based payments, which is expensed over the vesting period of the programme according to the service conditions, is recognised in staff costs and equity.

3.2 REMUNERATION

(DKK million)	2018/19 Board of Directors	2018/19 Executive Management Board	2018/19 Other key employees	2017/18 Board of Directors	2017/18 Executive Management Board	2017/18 Other key employees
Wages, salaries and fees	5	15	20	5	16	14
Pensions	-	1	2	-	1	1
Bonus	-	7	4	-	5	3
Total	**5**	**23**	**26**	**5**	**23**	**18**
Share-based payment	-	4	2	-	2	-
Total remuneration	**5**	**27**	**28**	**5**	**25**	**18**

In 2018/19, there were 11 members of staff in the group 'Other key employees'. (2017/18: 12)

(DKK thousand)	2018/19	2017/18
Remuneration to the Executive Management Board relate to:		
Henrik Clausen	10,539	12,759
Anders Aakær Jensen, resigned 30/11-18	5,891	3,924
Nikolaj Wendelboe, joined 1/5-19	280	-
Stefan K Persson, resigned 1/8-18	2,800	3,170
John Mollanger	6,542	5,040
Snorre Kjesbu, joined 1/3-19	1,144	-
Total remuneration	**27,196**	**24,893**

(DKK thousand)	2018/19	2017/18
Remuneration to the Board of Directors relate to:		
Ole Andersen, chairman	1,050	1,050
Juha Christensen, deputy chairman	600	524
Jesper Jarlbæk	600	575
Majken Schultz	375	375
Albert Bensoussan	375	375
Mads Nipper	375	375
Ivan Tong	375	375
Anders Colding Friis, appointed 23/8-18	290	-
Søren Balling	300	250
Brian Bjørn Hansen	300	300
Geoff Martin	300	300
Jim Hagemann Snabe, resigned 14/9-17	-	173
Jesper Olesen, resigned 31/7-17	-	50
Total remuneration	**4,940**	**4,722**

Refer to page 41 in the Management Report for remuneration policies.

3.3 SHARE-BASED PAYMENTS

	Executive Management Board	Other key employees	Total	Average exercise price	Total fair value at time of grant
	Number	Number	Number	DKK	DKK million
Outstanding matching shares					
Outstanding at 1 June 2017	345,512	357,956	703,468	-	
Granted	102,632	59,248	161,880	141.45	6
Exercised	-	-	-	-	
Expired	(128,660)	(105,588)	(234,248)	-	
Forfeited	(23,544)	(121,460)	(145,004)	-	
Outstanding at 31 May 2018	**295,940**	**190,156**	**486,096**	**-**	
Exercisable at 31 May 2018	**118,808**	**64,272**	**183,080**		
Granted	90,672	77,328	168,000	132.79	6
Exercised	(59,404)	(30,042)	(89,446)	141.32	
Expired	(59,404)	(34,230)	(93,634)	-	
Forfeited	-	(16,352)	(16,352)	-	
Outstanding at 31 May 2019	**267,804**	**186,860**	**454,664**	**-**	
Exercisable at 31 May 2019	**95,920**	**55,916**	**151,836**		

	2018/19		2017/18	
	Matching shares	Remaining term to maturity	Matching shares	Remaining term to maturity
	Number	Months	Number	Months
Matching shares 2015/16	-	-	183,080	5
Matching shares 2016/17	151,836	5	162,556	17
Matching shares 2017/18	134,828	17	140,460	29
Matching shares 2018/19	168,000	29	-	-
Outstanding at 31 May 2019	**454,664**		**486,096**	

3.3 SHARE-BASED PAYMENTS (continued)

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 1-4 matching shares per investment share, depending on fulfillment of certain perfomance 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).

The fair value of Matching Shares is DKK 132.79 per share based on the share price at the time of grant (2017/18; DKK 141.45). Staff costs recognised in the income statement in relation to share-based payments were DKK 4 million, the entire amount relating to the MSP (2017/18; DKK 2 million of which all rrelated 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 programmes gives Bang & Olufsen an option to settle in cash, however as it is expected programmes will be settled in shares, the programmes will be accountet for as equity-settled programmes.

3.4 PENSION AND SIMILAR RETIREMENT OBLIGATIONS

(DKK million)	**2018/19**	2017/18
Amount recognised in the income statement		
Defined contribution plans	37	40
Defined benefit plans	-	1
Total pension amount charged to the income statement	**37**	**41**
Amount recognised in the balance sheet		
Wholly unfunded defined benefit plans	2	2
Wholly or partly funded defined benefit plans	25	24
Present value of defined benefit obligation 31 May	**27**	**26**
Fair value of plan assets	(12)	(12)
Defined benefit plan obligation 31 May	**15**	**14**
Actual return on plan assets	-	-

The Group's defined benefit plans are administrated by independent pensions funds. None of the plan assets are connected to any of the Group companies.

The defined benefit plans in Germany and Norway are partly funded by means of an independent pension fund.

3.4 PENSION AND SIMILAR RETIREMENT OBLIGATIONS (continued)

	Germany		Norway		Total	
(DKK million)	**2018/19**	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Present value of future payments	20	19	5	5	25	24
Fair value of plan assets	(8)	(8)	(4)	(4)	(12)	(12)
Actuarially calculated net obligation	12	11	1	1	13	12
Wholly unfunded defined benefit plans					2	2
Defined benefit plans at 31 May, net					**15**	**14**
Actuarial assumptions						
Discount rate p.a.	1.4%	1.8%	2.3%	2.4%	1.7%	2.0%
Expected salary increase p.a.	1.5%	1.5%	2.8%	2.5%	1.9%	1.8%
Expected rate of return p.a.	1.5%	1.5%	2.3%	2.4%	1.8%	1.8%

Accounting policies

As an employer, the Bang & Olufsen Group participates in pension plans according to normal practice in the countries in which the Group operates. The majority of the pension plans operated by the Group are defined contribution plans. The only exceptions are defined benefit plans operated in Germany and Norway.

Under defined contribution plans the Group recognises the pension contributions, which can either be a fixed amount or a fixed percentage of the monthly salary in the income statement as they are paid to separate independent companies. Any unpaid contributions are recognised in the financial position as other liabilities. Once the contributions have been paid the Group has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement.

Under defined benefit plans the Group has an obligation to pay a fixed amount or a fixed percentage of the salary at retirement. This means that the Bang & Olufsen Group carries the risk of any changes in the actuarially calculated capital value of the pension plans.

On an annual basis, calculations are made of the present value of the future benefits that the employees are entitled to. The present value is calculated based on a number of assumptions relating to the future development in salary levels, interest-, inflation-, and mortality rates. The present value of the defined benefit obligation net of the fair value of the plan assets is recognised in the balance sheet as a pension liability.

The costs of defined benefit plans are recognised in the income statement and include service costs, net interest based on actuarial estimates and financial expectations at the beginning of the year.

Changes in the assumptions as well as differences between the expected and the realised return on plan assets cause actuarial gains and losses are recognised in other comprehensive income in the period in which they arise.

If a defined benefit plan constitutes a net asset, the asset is recognised only if it offsets future refunds from the plan or will lead to reduced future payments to the plan.

SECTION 4
NET WORKING CAPITAL

CONTENTS

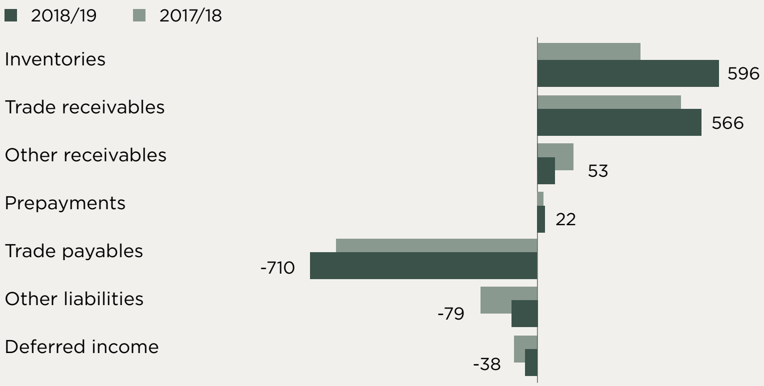
4.1 Inventories
4.2 Trade receivables
4.3 Deferred income
4.4 Net working capital

Accounting policies

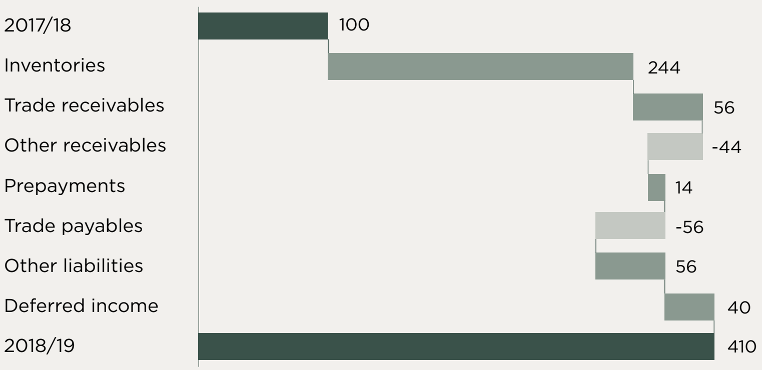
Prepayments
Prepayments comprise incurred costs related to the following financial years. Prepayments are measured at cost.

Other financial liabilities
Other financial liabilities comprise trade payables and other payables to public authorities etc. and are measured at amortised cost.

NET WORKING CAPITAL AT 31 MAY



CHANGE IN NET WORKING CAPITAL



410

DKK 410 MILLION IN NET WORKING CAPITAL AT 31 MAY 2019

Compared to DKK 100 million in 2017/18

596

DKK 596 MILLION IN INVENTORIES AT 31 MAY 2019

Compared to DKK 352 million in 2017/18

566

DKK 566 MILLION IN TRADE RECEIVABLES AT 31 MAY 2019

Compared to DKK 510 million in 2017/18

4.1 INVENTORIES

(DKK million)	**2018/19**	2017/18
Inventory before write-downs	650	408
Writedowns	54	56
Total	**596**	**352**
Raw materials	28	56
Work in progress	20	23
Spareparts	48	53
Finished goods	500	220
Total	**596**	**352**
Cost of sales recognised in production costs	1,397	1,611

It is Group policy that spare parts should be available for a number of years after a product is sold. Accordingly, DKK 31 million are (2017/18: DKK 37 million) expected to be realised after more than 12 months.

Critical accounting estimates and judgements

A specific assessment of the need for write-downs for obsolescence of inventories is made based on an assessment of the future sales potential. The assessment takes account of the expected technological developments and the expected service periods. The applied principles are unchanged from the 2017/18 financial year.

Accounting policies

Inventories are measured at the lower of cost price according to the FIFO principle and net realisable value. The cost price of raw materials, consumables and purchased goods comprises the acquisition price including delivery costs. The cost price of finished goods and work in progress comprises costs of materials and direct labour plus indirect production costs.

Indirect production costs include indirect materials and wages, maintenance and depreciation on plant and machinery, factory buildings and other equipment used in the production process as well as costs of factory administration and management.

The net realisable value of inventories is calculated as the expected selling price less costs of completion and costs necessary to make the sale.

4.2 TRADE RECEIVABLES

(DKK million)	**2018/19**	2017/18
Trade receivables at 31 May 2019, before impairment	619	541
Impairment at 1 June 2018	(31)	(38)
Impairment losses recognised	(37)	(15)
Realised impairment losses	15	19
Reversed impairment losses	-	3
Impairment at 31 May 2019	(53)	(31)
Trade receivables at 31 May 2019	**566**	**510**

All trade receivables is due within one year.

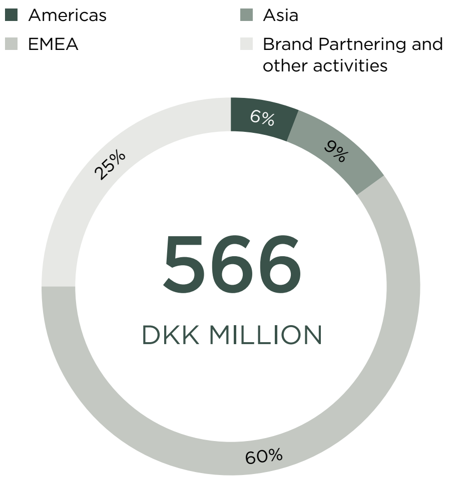
The carrying amount of receivables which fall due within one year after the end of the financial year, is expected to be a reasonable approximation of the fair value.

(DKK million)	**2018/19**	2017/18
Maturity analysis:		
Amounts not due	512	470
Overdue up to 30 days	7	3
Overdue between 31 and 60 days	15	10
Overdue between 61 and 90 days	22	1
Overdue between 91 and 120 days	-	11
Overdue more than 120 days	10	15
Trade receivables at 31 May 2019	**566**	**510**

Refer to 6.2 - Financial instruments for details about credit risk associated with trade receivables.

4.2 TRADE RECEIVABLES (continued)

SEGMENT SPLIT



Critical accounting estimates and judgements
The allowance for expected credit losses for trade receivables is based on historical credit loss experience combined with forward-looking information on macroeconomic factors affecting the credit risk.

Accounting policies
Trade receivables consts of receivables from sale of goods and income from licenses.

On initial recognition, trade receivables are measured at fair value and subsequently at amortised cost less loss allowance for expected credit losses. Trade receivables comprise sale of goods and services. Other receivables comprise VAT receivables, loans to partners, interest receivables and derivatives.

The Group applies the simplified approach to measure expected credit losses. This entails recognising a lifetime expected loss allowance for all trade receivables. Loss rates are determined based on grouping of trade receivables sharing the same characteristics.

Impairment of trade receivables is recognised in distribution and marketing costs in the income statement.

4.3 DEFERRED INCOME

Deferred income mainly constitutes revenue related to the license agreement with HARMAN. This includes deferred revenue from the aluminium production agreement and future license income. Deferred income also includes prepayments from customers.

Accounting policies
Deferred income
Deferred income comprises received payments related to revenue in the following financial years. Deferred income is measured at cost price.

Revenue from licenses is recognised over time because customers simultaneously receive and consume the benefits provided from the licenses. The fact that the benefit is obtained over time from the license agreements demonstrates that the customers simultaneously receive and consume the benefits over the license period.

4.4 NET WORKING CAPITAL

(DKK million)	31/05/19	31/05/18	31/05/19 changes
Trade receivables	566	510	(56)
Trade payables	(710)	(654)	56
Inventories	596	352	(244)
Prepayments	22	8	(14)
Deferred income	(38)	(78)	(40)
Other receivables*	53	97	44
Other liabilities	(79)	(135)	(56)
Total	**410**	**100**	**(310)**

Change in net working capital in 2017/18 amounted to negative DKK 74 million.

* Other receivables is adjusted for financial receivables of DKK 10 million not included as net working capital at 31 May 2018.

SECTION 5
ASSET BASE AND RETURNS

CONTENTS

5.1 Intangible and tangible assets
5.2 Investment properties
5.3 Assets held for sale

1.9

IN 2018/19 ROIC WAS 1.9%

Compared to 11.2% in 2017/18

36

AT 31 MAY 2019 ASSETS HELD FOR SALE AMOUNTED TO DKK 36 MILLION AND COMPRISES TWO BUILDINGS

154

DKK 154 MILLION WAS CAPITALISED DURING THE FINANCIAL YEAR

5.1 INTANGIBLE AND TANGIBLE ASSETS

(DKK million)	Goodwill	Acquired rights and software	Completed devel- opment projects	Devel- opment projects in progress	**Total intangible assets**	Land and buildings	Plant and machinery	Other equipment	Leasehold improve- ments	Tangible assets under con- struction	**Total tangible assets**
Cost											
At 1 June 2017	66	165	898	138	1,267	374	1,092	159	65	45	1,735
Additions	-	-	68	38	106	35	15	2	2	7	61
Disposals	(3)	-	(370)	-	(373)	(67)	(361)	(55)	(26)	-	(509)
Completed development projects and assets	-	-	135	(135)	-	16	27	2	-	(45)	-
Exchange rate adjustments	-	-	-	-	-	-	-	-	-	-	-
At 31 May 2018	63	165	731	41	1,000	358	773	108	41	7	1,287
Additions	-	17	27	52	96	9	31	8	1	9	58
Disposals	-	(55)	-	-	(55)	(61)	(92)	(15)	(19)	(1)	(188)
Moved to held for sale	-	-	-	-	-	(83)	-	-	-	-	(86)
Completed development projects and assets	-	-	39	(39)	-	5	-	1	-	(6)	-
Exchange rate adjustments	-	-	1	-	1	-	(1)	-	1	-	-
At 31 May 2019	**63**	**127**	**798**	**54**	**1,042**	**228**	**711**	**102**	**24**	**9**	**1,074**
Depreciation, amortisation and impairment											
At 1 June 2017	(19)	(161)	(702)	-	(882)	(299)	(1,044)	(153)	(60)	-	(1,556)
Amortisation and depreciation	-	(2)	(218)	-	(220)	(10)	(35)	(4)	(6)	-	(55)
Impairment losses	-	-	-	-	-	-	-	-	-	-	-
Disposals	-	-	370	-	370	67	361	54	25	-	507
Exchange rate adjustments	-	-	-	-	-	-	1	-	-	-	1
At 31 May 2018	(19)	(163)	(550)	-	(732)	(242)	(717)	(103)	(41)	-	(1,103)
Amortisation and depreciation	-	(5)	(132)	-	(137)	(9)	(29)	(4)	(1)	-	(43)
Impairment losses	-	-	-	-	-	(10)	-	-	-	-	(10)
Disposals	-	55	-	-	55	60	92	15	19	-	186
Moved to held for sale	-	-	-	-	-	62	(1)	-	1	-	62
Exchange rate adjustments	-	(1)	-	-	(1)	-	1	-	-	-	-
At 31 May 2019	**(19)**	**(113)**	**(682)**	**-**	**(814)**	**(139)**	**(654)**	**(92)**	**(22)**	**-**	**(907)**
Carrying amount											
At 31 May 2019	**44**	**14**	**116**	**54**	**228**	**89**	**57**	**10**	**2**	**9**	**167**
At 31 May 2018	44	2	181	41	268	116	56	5	-	7	184

5.1 INTANGIBLE AND TANGIBLE ASSETS (continued)

	Intangible assets		Tangible assets	
(DKK million)	**2018/19**	2017/18	**2018/19**	2017/18
Depreciation, amortisation and impairment relate to:				
Production costs	1	2	30	38
Development costs	136	218	3	4
Distribution and marketing costs	-	-	10	13
Administration costs	-	-	10	-
Total	**137**	**220**	**53**	**55**

Impairment have been recognised in administration costs.

Impairment

Recognised impairments

In 2018/19, an impairment loss of DKK 10 million related to the former headquarter in Struer, Denmark, was recognised and included in administration costs in the income statement.

In 2017/18 no impairments were recognised.

Impairment test of goodwill

The carrying amount of goodwill amounts to DKK 44 million (31 May 2018: DKK 44 million) and relates to the distribution network in the Netherlands.

The impairment test is carried out with the activities in the Netherlands considered as the cash generating unit. The recoverable amount is based on value in use and is estimated on input from local and group management. The test includes a five year budget period followed by a terminal period.

Key assumptions applied in the impairment test are expected revenue, EBIT-margin, discount rate and growth rate in the terminal period. Sensitivity tests over the key assumptions have been carried out showing EBIT-ratio, WACC and the growth rate to be the assumptions with the largest impact to the value-in-use. In the test a growth assumption of 1.5% (2017/18: 2.0%) and a discount rate of 7.5% has been applied (2017/18: 9.0%).

The impairment test shows headroom from value in use to the carrying amount. Management is of the opinion that the assumptions applied are sustainable.

5.1 INTANGIBLE AND TANGIBLE ASSETS (continued)

Critical accounting estimates and judgements

Development projects

Development costs are capitalised only after technical and commercial feasibility of the projects has been established. In connection with the capitalisation of development costs, the expected useful life of the product is to be determined. Management has assessed that the amortisation period is usually two to six years. Management also makes assumptions when assessing the possible impairment of development projects.

The applied principles are unchanged from the 2017/18 financial year. Development projects amounted to DKK 170 million as at 31 May 2019 (DKK 222 million as at 31 May 2018). The main additions in the 2018/19 financial year are development projects relating to software platforms and the Beosound Edge.

Accounting policies

Cost

Intangible assets and property, plant and equipment are initially recognised at cost and subsequently measured at cost less accumulated amortisation or depreciation and impairment losses.

Cost comprises the purchase price and costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries, and capitalised borrowing costs on specific or general borrowings attributable to the construction of the asset.

Research and development costs are recognised in the income statement as incurred. Development costs are recognised under other intangible assets if the costs are expected to generate future economic benefits.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items.

Subsequent costs, for example in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. The replaced components are derecognised from the statement of financial position and recognised as an expense in the income statement. Costs incurred for ordinary repairs and maintenance are recognised in the income statement as incurred.

Useful life, amortisation, depreciation and impairment losses

Useful life and residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

Amortisation and depreciation are recognised on a straight-line basis over the expected useful life of the assets, taking into account any residual value. The expected useful life and residual value are determined based on past experience and expectations of the future use of assets. Goodwill and other intangible assets with an indefinite lifetime are not amortised but instead impairment tests are carried out on a yearly basis.

For other intangible assets and property, plant and equipment impairment tests are performed when indications of recoverable amounts lower than the carrying amount.

Depreciation is calculated on the basis of the cost less the residual value and impairment losses.

Amortisation and depreciation are recognised under cost of sales, sales and distribution expenses, and administrative expenses.

Expected useful lives are as follows:

Asset class	Useful life
Goodwill	No amortisation. Tested for impairment on a yearly basis
Development projects (under construction)	Amortised from the time of completion - Projects under construction are tested annually for impairment
Development projects (completed)	2 - 6 years, or the remaining term of intellectual property right if shorter.
Acquired rights and software	2 - 6 years, or the remaining term of intellectual property right if shorter.
Land and buldings	Land: None Buildings: 40 years Installations: 10 years
Plant and machinery	Single purpose production tools: 3-6 years Other plant and machinery: 8-10 years
Other equipment	Other equipment: 3-10 years
Leasehold improvements	Leasehold improvements: Over term of lease, max 10 years
Tangible assets in course of construction	None

5.2 INVESTMENT PROPERTIES

(DKK million)	Investment properties
Cost	
At 1 June 2017	79
At 31 May 2018	79
Moved to held for sale	(79)
At 31 May 2019	**-**
Depreciation and impairment	
At 1 June 2017	(62)
Depreciation	(1)
At 31 May 2018	(63)
Depreciation	(1)
Moved to held for sale	64
At 31 May 2019	**-**
Carrying amount	
At 31 May 2019	**-**
At 31 May 2018	16

Investment properties consist of a single property that is located in Struer, Denmark.

Rental income of DKK 2.5 million has been recognised from the investment properties in 2018/19 (2017/18: DKK 2.5 million), and directly attributed expenses were DKK 0.7 million (2017/18: DKK 1.0 million).

The property is leased on an operating lease agreement with a remaining duration of 10 months. The remaining rental income over the 10 month lease term amounts to DKK 2.1 million.

In 2019 it was decided to dispose of the property and a sales process has been initiated. As per 31 May 2019 the property is reclassified as assets held for sale due to an expected sale within a twelve month period.

The carrying amount of DKK 15 million that has been reclassified, approximately represents the fair value of the property.

Accounting policies

Investment properties are properties held to earn rental income or for capital appreciation.

Investment properties are measured at cost less accumulated depreciation and impairment losses. Investment properties are depreciated on a straight-line basis over 40 years.

5.3 ASSETS HELD FOR SALE

(DKK million)	2018/19	2017/18
Land and buildings	21	-
Investment property	15	-
Total	**36**	**-**

At 31 May 2019, assets held for sale consist of two buildings, the former headquarter in Struer, Denmark, and an investment property located in Struer, Denmark.

Held for sale are presented in one separate line in the statement of financial position. Previous periods have not been restated.

The former headquarter, publicly known as "Gaarden" has been vacated as the employees are relocated to a new location. As a consequence "Gaarden" has been put up for sale. It is expected that the sales process will be completed within 12 months.

For information about the investment property classified as held for sale, refer to note 5.2.

Accounting policies

Assets classified as held for sale comprise assets of which the value is highly probable to be recovered through a sale within 12 months rather than through continued use.

Assets classified as held for sale are measured at the carrying amount at the time of classification as held for sale or at market value less the costs to sell whichever is lower. The carrying amount is measured in accordance with the Group's accounting policies.

Subsequently to the reclassification of assets as held for sale no depreciations will be recognised.

Held for sale are presented in one seperate line in the statement of financial position. Previous periods have not been restated.

SECTION 6
FINANCING, EQUITY AND PROVISIONS

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6.4.2 - Share capital
6.4.3 - Net interest-bearing deposit
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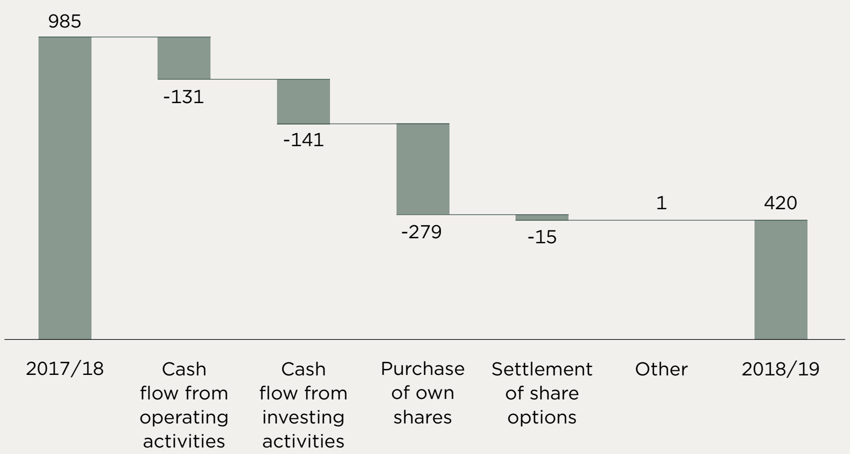
CHANGE IN NET INTEREST BEARING DEPOSIT (MDKK)



97

MORTGAGE LOANS REDUCED BY DKK 97 MILLION

279

DKK 279 MILLION HAVE BEEN DISTRIBUTED TO THE SHAREHOLDERS THROUGH A SHARE BUY-BACK PROGRAMME

420

DKK 420 MILLION IN NET INTEREST-BEARING DEPOSIT AT 31 MAY 2019

Compared to DKK 985 million at 31 May 2018

6.1 FINANCIAL INSTRUMENTS BY CATEGORY

(DKK million)	**2018/19**	2017/18
Non-current other receivables	27	50
Trade receivables	566	510
Other receivables excl. prepaid expenses	23	66
Cash	492	1,155
Financial assets at amortised cost	**1,108**	**1,781**
Derivatives	19	44
Fair value through other comprehensive income	**19**	**44**
Financial assets	**1,127**	**1,825**
Other non-current liabilities	1	-
Mortgage loans	72	170
Trade payables	710	654
Financial liabilities at amortised cost	**783**	**824**
Derivatives	(12)	(8)
Fair value through other comprehensive income	**(12)**	**(8)**

For all financial assets and liabilities, the fair value is approximately equal to the carrying amount.

(DKK million)	Less than one year	Between one and five years	More than five years	**Total**
Contractucal maturity analysis for financial liabilities				
2018/19				
Other non-current liabilities	1	-	-	**1**
Mortgage loans	3	21	48	**72**
Trade payables	710	-	-	**710**
2017/18				
Mortgage loans	9	38	123	**170**
Trade payables	517	-	-	**517**

Accounting policies

Financial assets includes loans, receivables and cash. Loans and receivables are initially recog-nised at fair value including directly transaction costs and subsequently measured at amortised cost using the effective interest method. For trade receivables, the loss allowance is measured in accordance with IFRS 9 applying a provision matrix to calculate the minimum impairment which includes an impairment for non-due receivables. For other receivables and loans, write-down is made for expected losses based on specific individual or group assessments.

Financial liabilities are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discount are recognised as financial expenses over the term of the liabilities.

6.2 FINANCIAL RISKS

The Group's activities expose it to a variety of financial risks. Financial risks are categorised into the following categories:

- Market risks, including foreign exchange rate risk and interest rate risk
- Credit risk
- Liquidity risk

The Group's overall risk management programme related to financial risks focuses on the unpredictability of financial markets and credit risks and seeks to reduce the potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain foreign exchange rate risk exposures.

Financial risk management is carried out by the Group Finance department under policies approved by the Board of Directors.

In the following, each risk category is explained seperately.

6.2.1 - Foreign exchange rate risk
In 2018/19, 89% of the Group's turnover (2017/18: 88%) was in foreign currencies.

The Group has significant net inflows of EUR, GBP, CNY, and CHF, while the most significant exposure on the outflow is related to USD. The Group consequently only has a limited natural hedging of the foreign exchange rate risk.

According to the Group's treasury policy, up to 100% of the expected net cash flows in selected currencies are covered, however the hedge ratio will normally be kept around 80%.

Forward contracts are continually used for hedging foreign exchange rate risk. The forward contracts are traded as hedging instruments related to future transactions on a montly rolling basis and meets the accounting requirements to apply the rules for hedge accounting. Forward contracts are used for commercial transactions only, and hedging is made for a horizon of up to 18 months.

In addition to the foreign exchange rate risk related to future transactions, the Group's equity is exposed to foreign exchange rate risk arising from the translation of subsidiaries from local currencies to DKK.

Sensitivity analysis
The effect on EBIT and equity derived from changes in selected currencies compared to average annual rates estimated on an unhedged basis are presented below.

		2018/19		2017/18	
(DKK million)	Change	Earnings before tax	Equity before tax	Earnings before tax	Equity before tax
USD	5%	(49)	4	(48)	19
GBP	5%	7	2	10	12
CNY	5%	37	5	30	3
CHF	5%	4	1	6	7
Other	5%	4	0	9	5
Total		**3**	**11**	**7**	**46**

6.2 FINANCIAL RISKS (continued)

6.2.2 - Interest rate risk
The Group's interest rate risk arises in relation to interest-bearing assets and liabilities.

The Group's interest-bearing assets mainly consist of liquid funds, which at the end of the financial year totalled DKK 492 million (2017/18: DKK 1,155 million) Liquid funds yield interest in the short-term money market. The interest rate risk is deemed to be insignificant in that a change in the interest rate level of 0.5 percentage points would have impacted the Group's earnings before tax by approx. DKK 2 million (2017/18: DKK 6 million).

At the end of the financial year, the Group's interest-bearing debt totaled DKK 72 million (2017/18: DKK 170 million) corresponding to 2.9 per cent of the financial position total (2017/18: 5.8 per cent).

Due to the low level of interest-bearing liabilities, the Group's interest rate risk is insignificant and is not expected to significantly impact the Group's earnings.

6.2.3 - Credit risk
The Group is exposed to commercial and financial counterparties but has no significant concentration of customers or suppliers.

To reduce the credit risk, the commercial counterparties are subject to ongoing evaluation, including the setting of credit limits. When deemed necessary, the Group employs bank guarantees or insurance against outstanding receivables, and in some situations other forms of securities are attained, e.g. in the form of security in inventories or other assets.

For trade receivables, Bang & Olufsen applies the simplified approach to providing the expected credit losses prescribed by IFRS 9, which allows the use of the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due. In accordance with IFRS 9, non-due trade receivables have also been impaired.

For other financial assets measured at amortised cost, these receivables are considered to have low credit risk and as a result the impairment calculation based on the 12 months of expected losses is considered immaterial. The risk is considered low when they have a low risk of default and the counterpart has a strong capacity to meet its contractual cash flow obligations.

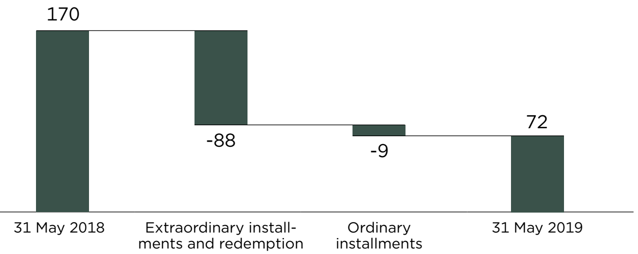
6.2.4 - Liquidity risk
In connection with Bang & Olufsens ongoing financing of operations, efforts are made to ensure adequate and flexible liquidity.

The financial reserve is continually assessed and managed by Group Finance department and approved by the Board of Directors.

At 31 May 2019, the financial ressources amounted to DKK 492 million (31 May 2018: DKK 1,155 million) and consisted of cash and cash equivalents.

6.3 MORTGAGE LOANS

(DKK million)	2019	2018
Non-current liabilities		
Mortgage loan	69	161
Current liabilities		
Mortgage loan	3	9
Total	**72**	**170**



(DKK million)	Nominal interset value	Year of maturity	31 May 2019 Carrying amount	31 May 2018 Carrying amount
Terms and repayment schedule				
Fixed rate loans, DKK	4.1%	-	-	21
Floating rate loans, DKK	0.5 - 1.0%	2040	72	149
Total loans			**72**	**170**

In 2018/19 it was decided by Management to make extraordinary installments on the mortgage loans. In total it was decided to redeem the fixed rate loan of DKK 18 million and make an extraordinary installment on the floating rate loan of DKK 70 million.

(DKK million)	31 May 2017	Financing cash flow	Reclassi-fications	31 May 2018	Financing cash flow	Reclassi-fications	31 May 2019
Terms and repayment schedule							
Long-term borrowings	170	-	(9)	161	(88)	(3)	69
Short-term borrowings	9	(9)	9	9	(9)	3	3
Total	**179**	**(9)**	**-**	**170**	**(97)**	**-**	**72**

Accounting policies

Financial liabilities, including mortgage loans, are initially recognised at fair value less transaction costs and subsequently measured at amortised cost using the effective interest method, whereby transaction costs and any premium or discounts are recognised as financial expenses over the term of the loans.

6.4 DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments comprise primarily foreign exchange contracts used to hedge the foreign exchange risk related to unrecognised future transactions.

For information about financial risks and management of those risks, refer to note 6.2.

Derivatives contracted by the Group to hedge the foreign exchange risk related to future transactions are specified below:

	31 May 2019		31 May 2018	
(DKK million)	Fair value	Contract value	Fair value	Contract value
Foreign exchange forward contracts				
USD	15	(491)	44	(747)
GBP	1	120	(1)	214
CNY	(1)	79	(2)	97
CHN	(8)	324	(5)	354
Total	**7**	**32**	**36**	**(82)**
Foreign exchange swaps				
DKK/CNY	2	(49)	-	-
CNY/DKK	(2)	49	-	-
Total	**-**	**-**	**-**	**-**
Derivatives for hedging	**7**	**32**	**36**	**(82)**

The fair value of derivative financial instruments is recognised in the statement of financial position as follow:

(DKK million)	31 May 2019	31 May 2018
Other receivables, current	19	44
Other liabilities, current	(12)	(8)
Total	**7**	**36**

The foreign exchange forward contracts fall due in the period June 2019 to May 2020 (2017/18: June 2018 to May 2019), and the foreign exchange swaps fall due in June 2019 (2017/18: the Group did not hold any swaps)

The fair value is based on observable market data and is part of level 2 in the fair value hierarchy. The derivatives are not traded on an active market based on quoted prices, but are individual contracts. The fair value of these assets is determined using valuation techniques that apply market data such as exchange rates, credit risk and volatilities.

Accounting policies

Derivative financial instruments are recognised on the trading date at fair value and subsequently measured at fair value at the reporting date. The fair value of the derivative financial instruments are recognised under other recievables or other financial liabilities, respectively, in the Statement of financial position. The effective portion of changes in the value of derivative financial instruments designated to hedge highly probable future transactions is recognised in other comprehensive income until the hedged transactions are realised. When realised, the accumulated gains/losses are transferred to the items under which the hedged transaction are recognised.

The ineffective portion of hedge transactions and changes in the fair values of derivative financial instruments, which do not qualify for hedge accounting, are recognised in the income statement as financial income or expenses.

6.5 CAPITAL STRUCTURE AND SHARE CAPITAL

6.5.1 - Capital structure
Following approval by the shareholders in general meeting in August 2018, the interest-bearing deposit has been reduced by distributing excess capital to the shareholders through a share buyback programme. Initially, the programme was approved for the acquisition of own shares of DKK 485 million, but it was discontinued by the Board of Directors in March 2019 in the light of the financial results for Q3. At the time of cancellation, the Group had acquired own shares of a total amount of DKK 279 million.

The capital structure and distribution policy are reviewed continually with due consideration for Bang & Olufsen's financial performance, strategic developments, market trends and shareholder interest.

The net interest-bearing deposit can be specified as follow:

(DKK million)	**2019**	2018
Non-current borrowings	(69)	(161)
Current borrowings	(3)	(9)
Gross financial debt	**(72)**	**(170)**
Cash and cash equivalants	492	1,155
Net interst-bearing deposit	**420**	**985**

6.5.2 - Share capital

(DKK million)	**31 May 2019**	31 May 2018	31 May 2017	31 May 2016	31 May 2015
Nominal value					
Share capital	432	432	432	432	393
Capital increase	-	-	-	-	39
Total share capital	**432**	**432**	**432**	**432**	**432**

At 31 May 2019, the share capital consisted of 43,197,478 (31 May 2018: 43,197,478) shares with a nominal value of 10 DKK each. Each share carries one vote.

No shares have special rights. There are no limitations as to transferability and no voting restrictions.

6.5 CAPITAL STRUCTURE AND SHARE CAPITAL (continued)

	Number		Nominal value		% of share capital	
	2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Own treasury shares						
1 June	22,999	22,999	-	-	-	-
Acquired in connection with the share buy-back program	2,273,449	-	23	-	5.3	-
Acquired in connection with the matching share programme	86,991	-	1	-	0.2	-
31 May	**2,383,439**	**22,999**	**24**	**-**	**5.5**	**-**

All own shares are owned by Bang & Olufsen A/S.

(DKK million)	**2018/19**	2017/18
Cash distribution to shareholders		
Share repurchases for the year	279	-

Accounting policies

Dividend
Dividend is recognised as a liability at the time of approval by the Annual General Meeting.

Treasury shares
Acquisition and selling prices of treasury shares and dividend received on these shares are recognised directly in equity under retained earnings.

Translation reserve
The translation reserve for exchange rate differences in the consolidated financial statements comprises exchange rate differences that occur when translating the foreign subsidiaries' financial statements from their functional currency into the Group's presentation currency.

On disposal of net investments the exchange rate differences on the individual investment are recognised in the income statement. The reserve is a distributable reserve.

Reserve for cash flow hedge
Reserve for cash flow hedges comprises accumulated changes in fair value of derivative financial instruments, which meets the conditions for hedging of future cash flows, where the hedged position has not yet been realised. The changes in fair value are transferred to the income account, when the hedged positions are realised.

6.6 PROVISIONS

(DKK million)	Warranty and fairness	Employee anniversary benefit	Other obligations	**Total**
At 31 May 2017	57	2	49	108
Provisions during the year	32	1	-	33
Provisions used during the year	(12)	-	(41)	(53)
Provisions reversed during the year	(18)	-	-	(18)
At 31 May 2018	59	3	8	70
Provisions during the year	38	1	22	45
Provisions used during the year	(40)	-	-	(13)
Provisions reversed during the year	-	(1)	(5)	(17)
At 31 May 2019	**57**	**3**	**25**	**85**
Falling due within 1-5 year	18	2	16	36
Falling due after 5 years	-	-	-	-
Non-current provisions	18	2	16	36
Falls due within one year	39	1	9	49
At 31 May 2019	**57**	**3**	**25**	**85**

Other obligations at 31 May 2017 included provisions for restructuring and other liabilities in the Bang & Olufsen segment, which has been used during 2017/18.

Provisions for warranty and fairness
Provisions for warranty and fairness of DKK 57 million have been recognised as at 31 May 2019 (31 May 2018: DKK 58 million) to cover expected warranty and fairness claims. The size and timing of the provisions is based on previous experience of the level and timing of repairs and returns.

Critical accounting estimates and judgements

Bang & Olufsen repairs or replaces products that do not function satisfactorily both within the warranty period and in certain situations after the warranty period. Consequently, provisions made are for future repairs and returns. The provisions are made based on historical data of repairs and returns and based on management's judgements.

The future repairs and returns can differ from the historical pattern, but management assesses that the estimate of the provisions is reasonable and appropriate.

The Group provides 2-5 years of warranty on certain products and is therefore committed to repairing or replacing products which do not function satisfactorily. Some products are repaired after the end of the warranty period, and a provision is made regarding this potential fairness claim.

Accounting policies

Provisions comprise provisions for warranty, provisions for fairness and other provisions. Provisions for warranty are obligations to repair products within the warranty period, whereas provisions for fairness are obligations to repair products after the end of the warranty period.

Provisions are recognised when there is a legal or constructive obligation as a result of events in the financial year or previous years, and it is probable that an outflow of financial resources will be required to settle the obligation. Provisions are measured at the present value of the expected expenditure required to settle the obligation.

SECTION 7
OTHER DISCLOSURE REQUIREMENTS

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7.1 Fees to auditors appointed by the General Meeting
7.2 Earnings per share
7.3 Contingent liabilities and other financial commitments
7.4 Related parties
7.5 Events after the reporting period
7.6 Companies in the Bang & Olufsen Group
7.7 Key figure definitions

7.1 FEES TO AUDITORS APPOINTED BY THE GENERAL MEETING

(DKK million)	**2018/19**	2017/18
Statutory audit	3.2	3.2
Other assurance services	0.2	-
Tax assurance services	0.2	-
Other services	0.8	0.6
Total	**4.4**	**3.8**

Fees for services other than statutory audit of the financial statements provided by Ernst & Young P/S to the Bang & Olufsen Group mainly consist of fees related to a cyber security assessment carried out in the year.

7.2 EARNINGS PER SHARE

(1,000 shares)	**2018/19**	2017/18
Earnings for the year	19	81
Average number of shares outstanding	40,834	43,174
Dilutive effect of average outstanding shares	57	282
Average number of shares outstanding, including dilutive effect	40,891	43,456
Earnings per share (EPS), DKK	**0.5**	**1.9**
Earnings per share, diluted (EPS-D), DKK	**0.5**	**1.9**

7.3 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Operating lease commitments
The Group has entered into a number of leases and rental agreements regarding buildings and premises, cars and others.

At 31 May 2019 the total rental commitments amounted to DKK 140 million (31 May 2018: 114 million) which relates to noncancellable operating leases.

(DKK million)	**2019**	2018
Lease commitments		
Buildings and premises	129	96
Cars	10	7
Others	1	11
Total lease commitments	**140**	**114**
Maturity		
Due within 1 year	46	51
Due 1 - 5 years	92	60
Due after 5 years	2	3
Total lease commitments	**140**	**114**
Rental and lease payment, net for the year	84	82
Guarantees		
Total guarantees	**96**	**106**

None of the guarantees are expected to result in a loss. The guarantees are mainly related to a rent obligation from the former Czech production facilities.

In connection with the establishment of shops in previous financial years, the Group has entered into a number of long-term rental agreements. The agreements include conditions concerning the right to sublet.

The Group had not entered into any non-cancellable lease agreements as at the balance sheet date.

7.3 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS (continued)

VAT and other taxes
The Danish companies of the Group are jointly registered and are jointly and severally liable for VAT and other taxes for a total liability of DKK 50 million (2017/18: a receivable of DKK 2 million).

Mortgage and securities
Land and buildings and investment property have been mortgaged for an amount of DKK 72 million (2017/18: DKK 170 million) as security for DKK 72 million of the Group's mortgage loan (2017/18: DKK 170 million).

Other tangible non-current assets relating to land and buildings and investment property are included in the mortgages. The carrying amount of the Group's mortgaged land and buildings and investment property is DKK 110 million (2017/18: DKK 131 million).

No intangible assets, financial assets or inventories are pledged as security for liabilities.

Lawsuits
Companies of the Bang & Olufsen Group are parties to pending lawsuits.

In management's opinion, apart from items recognised in the statement of financial position or disclosed in the financial statements, the outcome of these lawsuits, disputes etc. will not have a material negative impact on the Group's financial poisition.

7.4 RELATED PARTIES

No related parties have a controlling influence over the Bang & Olufsen Group.

The related parties that have significant influence in the Bang & Olufsen Group are members of the Board of Directors, Executive Management and other key management personnel in other companies in the Group and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

Bang & Olufsen's shares in subsidiaries are outlined in note 7.6.

Board of Directors, Executive Management and other key management personnel
Except from what follows from the employment and shareholdings, if any, there have been no transactions with members of the Board of Directors, Executive Management and other key management personnel. Remuneration and share option programmes are shown in notes 3.2.

Executive Management's terms of notice is consistent with normal market conditions (up to 24 months).

Other transactions
No transactions have taken place with related parties.

7.5 EVENTS AFTER THE REPORTING PERIOD

Apart from the events recognised or disclosed in the consolidated financial statements, no events have occurred after the reporting period that are believed to be of importance to the consolidated financial statements.

7.6 COMPANIES OF THE BANG & OLUFSEN GROUP

Company Name	Domicile	Currency	Share capital local currency	Bang & Olufsen Group's share	Number of undisclosed subsidiaries
Denmark (domicile country)					
Bang & Olufsen A/S	Struer, DK	DKK	431,974,780		
Bang & Olufsen Operations A/S	Struer, DK	DKK	156,000,000	100 %	
Bang & Olufsen Danmark A/S	Struer, DK	DKK	3,000,000	100 %	
Bang & Olufsen Expansion A/S	Struer, DK	DKK	7,000,000	100 %	
B&O PLAY A/S	Struer, DK	DKK	7,500,000	100 %	
EMEA					
Bang & Olufsen AG	Bassersdorf, CH	CHF	200,000	100 %	
Bang & Olufsen AS	Oslo, N	NOK	3,000,000	100 %	
Bang & Olufsen B.V.	Naarden, NL	EUR	18,000	100 %	
Bang & Olufsen Deutschland G.m.b.H.	Munich, D	EUR	1,022,584	100 %	
Bang & Olufsen España S.A.	Madrid, E	EUR	1,803,036	100 %	2
Bang & Olufsen France S.A.	Levallois-Perret, F	EUR	3,585,000	100 %	1
Bang & Olufsen Ges. m.b.H	Tulln, A	EUR	1,744,148	100 %	
Bang & Olufsen Italia S.r.l.	Milano, I	EUR	774,000	100 %	
Bang & Olufsen Middle East FZ-LLC	Dubai, UAE	EUR	113,116	100 %	
Bang & Olufsen Svenska AB	Stockholm, S	SEK	4,150,000	100 %	
Bang & Olufsen UK Ltd.	Berkshire, GB	GBP	2,600,000	100 %	2
S.A. Bang & Olufsen Belgium N.V.	Dilbeek, B	EUR	942,000	100 %	
Americas					
Bang & Olufsen America Inc.	Deerfield, IL, USA	USD	34,000,000	100 %	3
Asia					
Bang & Olufsen Asia Pte Ltd.	Singapore, SG	SGD	2	100 %	
Bang & Olufsen Hong-Kong Pty Ltd	Hong Kong, HK	HKD	1,000,000	100 %	2
Bang & Olufsen Japan KK	Tokyo, JP	JPY	10,000,000	100 %	

Dormant companies have not been included

7.7 KEY FIGURE DEFINITIONS

Gross margin, %
Gross profit/(loss) x 100/Revenue

EBITDAC
Earnings before interest, tax, depreciation, amortisation, impairment losses and capitalisation

EBITDA
Earnings before interest, tax, depreciation, amortisation and impairment losses

EBITDA margin, %
EBITDA x 100/Revenue

EBIT margin, %
Operating profit/(loss) x 100/Revenue

NIBD/EBITDA, %
Sum of cash less mortgage loans x 100/ EBITDA

Return on assets, %
Earnings for the year x 100/Assets

Return on invested capital excl. goodwill, %
Earnings for the year x 100 /Invested capital, excl. goodwill

Return on equity, %
Earnings for the year x 100/Equity

Earnings per share (EPS), DKK
Earnings for the year/Average number of shares in circulation

Earnings per share, diluted (EPS-D), DKK
Profit/(loss) for the year/Average number of shares in circulation (diluted)

Price/earnings
Quotation/Earnings per share (nom. DKK 10)

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INCOME STATEMENT

1 June – 31 May

(DKK million)	Notes	2018/19	2017/18
Revenue	3	**455**	**595**
Production costs	4	(65)	(67)
Gross profit		**390**	**528**
Development costs	5	(346)	(354)
Distribution and marketing costs	4	(105)	(107)
Administration costs	4	(118)	(120)
Operating profit (EBIT)		**(179)**	**(53)**
Financial income	6	36	3
Financial expenses	6	(30)	(56)
Financial items, net		6	(53)
Earnings before tax (EBT)		**(173)**	**(106)**
Income tax	7	42	21
Earnings for the year		**(131)**	**(85)**
Total comprehensive income for the year		**(131)**	**(85)**
Appropriation of earnings for the year:			
Reserve for development costs		(89)	87
Retained earnings		(42)	(172)
		(131)	**(85)**

STATEMENT OF FINANCIAL POSITION

Assets

(DKK million)	Notes	31/5/19	31/5/18
Acquired rights		-	1
Completed development projects		116	181
Development projects in progress		54	41
Intangible assets	8	**170**	**223**
Land and buildings		61	88
Other tangible assets		10	11
Tangible assets	8	**71**	**99**
Investment properties	9	**27**	**44**
Investments in subsidiaries	11	607	607
Other financial receivables		-	11
Financial assets		**607**	**618**
Deferred tax assets		**154**	**135**
Total non-current assets		**1,029**	**1,119**
Trade receivables		1	3
Tax receivable		44	50
Interest-bearing receivables from subsidaries		65	-
Other receivables		7	16
Prepayments		4	6
Total receivables		**121**	**75**
Cash		**314**	**974**
Assets held for sale	12	**36**	**-**
Total current assets		**471**	**1,049**
Total assets		**1,500**	**2,168**

Liabilities

(DKK million)	Notes	31/5/19	31/5/18
Share capital	13	432	432
Reserve for development costs		133	222
Retained earnings		122	455
Total equity		**687**	**1,109**
Provisions		1	1
Mortgage loans	14	69	161
Other non-current liabilities		12	76
Total non-current liabilities		**82**	**238**
Mortgage loans	14	3	9
Interest-bearing debt to subsidiaries		544	614
Trade payables		117	112
Other liabilities		49	64
Deferred income		18	22
Total current liabilities		**731**	**821**
Total liabilities		**813**	**1,059**
Total equity and liabilities		**1,500**	**2,168**

STATEMENT OF CASH FLOW

1 June – 31 May

(DKK million)	**2018/19**	2017/18
Operating profit (EBIT)	(179)	(53)
Depreciation, amortisation and impairment	156	231
Operating profit before depreciation, amortisation and impairment	**(23)**	**178**
Other non-cash items	(14)	(54)
Change in net working capital	(1)	(8)
Change in interest bearing receivables from subsidaries	(65)	3
Change in interest bearing debt to subsidiaries	(70)	119
Interest received	3	3
Interest paid	(15)	(13)
Income tax paid	(3)	6
Cash flow from operating activities	**(188)**	**234**
Purchase of intangible non-current assets	(79)	(106)
Purchase of tangible non-current assets	(15)	(42)
Sales of tangible non-current assets	2	2
Change in financial receivables	11	1
Cash flow from investing activities	**(81)**	**(145)**
Free cash flow	**(269)**	**89**
Repayment of long-term loans	(97)	(9)
Purchase of own shares	(279)	-
Settlement of share options	(15)	-
Cash flow from financing activities	**(391)**	**(9)**
Change in cash and cash equivalents	**(660)**	**80**
Cash and cash equivalents, 1 June	974	894
Cash and cash equivalents, 31 May	**314**	**974**

Accounting policies

Cash flow is calculated using the indirect method and is based on earnings before interest and tax. Cash flow cannot be derived directly from the statement of financial position and income statement.

STATEMENT OF CHANGES IN EQUITY

1 June – 31 May

(DKK million)	Share capital	Reserve for development costs	Retained earnings	**Total**
Equity 1 June 2017	**432**	**135**	**625**	**1,193**
Earnings for the year	-	87	(172)	(85)
Other comprehensive income, net of tax	-	-	-	-
Comprehensive income, net of tax	-	87	(172)	(85)
Share-based payment	-	-	2	-
Equity 31 May 2018	**432**	**222**	**455**	**1,109**
Equity 1 June 2018				
Earnings for the year	-	(89)	(42)	(131)
Other comprehensive income, net of tax	-	-	-	-
Comprehensive income, net of tax	-	(89)	(42)	(131)
Share-based payment	-	-	(12)	(12)
Purchase of own shares			(279)	(279)
Equity 31 May 2019	**432**	**133**	**122**	**687**

NOTES

1 ACCOUNTING POLICIES

The financial statements for 2018/19 for Bang & Olufsen A/S have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for listed companies.

Accounting policies and changes to accounting policies for the parent company are unchanged compared to last year, except for the changes mentioned below, and are identical to accounting policies for the Group as presented in note 1.1, 1.2 and 7.7, except for the following areas where the accounting policies for the parent company are different from the Group or not applicable.

Changes in accounting policies
In the year a new allocation model has been implemented in relation to the allocation of costs to functions. The changes are made as a result of the ongoing transformation of the business and results in the financial statements providing more reliable and relevant information on financial performance.

The implementation impacts the allocation between production costs, development costs, distribution and marketing costs and administration costs. The allocation has no impact on the operating result (EBIT).

For the implementation of the new allocation model the retrospective approach has been applied with no cumulative effects recognised in retained earnings as of 1 June 2017. The year and comparison periods have been restated.

The retrospectively adjustment of the 2017/18 figures related to the new model for allocation of costs to function can be specified as follow:

(DKK million)	2017/18 before adjustment	Adjustment	2017/18 after adjustment
Production costs	(129)	62	(67)
Gross profit	**466**	**62**	**528**
Gross margin	*78.3%*	*10.4%*	*88.7%*
Development costs	(345)	(9)	(354)
Distribution costs	(90)	(17)	(107)
Administration costs	(84)	(36)	(120)
EBIT	**(53)**	**-**	**(53)**

1 ACCOUNTING POLICIES (continued)

Accounting policies different from the group

Investments in subsidiaries
Investments in subsidiaries are measured at cost. If the cost exceeds the recoverable amount, the carrying amount is reduced to this lower amount. When selling investments in subsidiaries gain or losses are calculated as the difference between the carrying amount of the sold investments and the fair value of the proceeds from the sale.

Dividends
Dividends from investments in subsidiaries are recognised, when the final right to receive the dividends are established. This is typically at the time of the Annual General Meeting's approval of the distribution of dividend from the company in question. Dividends are recognised as a liability at the time of approval by the Annual General Meeting.

Investment properties
Investment properties are held to earn rental income or capital appreciation. Investment properties consist of a number of properties which are owned with the purpose of renting them to mainly other Group companies. Investment properties are measured at cost less accumulated depreciation and impairment losses. Investment properties are depreciated on a straight-line basis over 40 years.

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

When applying the parent company's accounting principles it is necessary that management makes a number of accounting assessments and estimates as well as makes assumptions about the carrying amount of certain assets and liabilities and the recognised revenue and costs, which cannot be deduced directly from other sources. Significant judgements are made when assessing development projects and deferred tax assets.

Management bases its estimates and assumptions on historical experience and other relevant factors that are believed to be reasonable under the given circumstances. The actual outcome can differ from these estimates.

The estimates made and the underlying assumptions are reviewed on a continuous basis. Changes made to the accounting estimates are recognised in the financial period, where the change takes place and future financial periods, if the change affects both the period, where the change takes place, and the following financial periods.

The following accounting estimates and judgements are assessed to be material for the parent company financial statements.

Development projects
Development costs are capitalised only after technical and commercial feasibility of the projects have been established.
In connection with the capitalisation of development costs, the expected useful life of the products are to be determined. Management has assessed that the amortisation period is usually 3-6 years.

Deferred tax assets
Deferred tax assets are recognised in the balance sheet at the value, the asset is expected to be realised at, either by set-off against deferred tax liabilities or as net tax assets to be set-off against future positive taxable income. At each balance sheet date it is assessed, if it is probable that sufficient taxable income will exist in the future, so that the deferred tax asset can be utilised.

3 REVENUE

(DKK million)	2018/19	2017/18
Geographical split		
Denmark	366	404
Rest of world	89	191
Total	**455**	**595**
Split by nature:		
Sale of services	12	12
Royalty	383	518
Rental income	60	65
Total	**455**	**595**

4 STAFF COSTS

(DKK million)	2018/19	2017/18
Wages and salaries etc.	219	212
Share-based payments	4	1
Pensions	17	16
Other social security costs	3	3
Total	**243**	**232**
Staff costs relate to:		
Production costs	16	21
Development costs	92	88
Distribution and marketing costs	57	53
Administration costs	78	70
Total	**243**	**232**
Average number of full-time employees	355	363

The pension costs all relate to defined contribution plans. Pension contributions, which can either be a fixed amount or a fixed percentage of the monthly salary, are recognised in the income statement as they are paid to independent pension insurance companies. Any unpaid contribution is recognised in the balance sheet as a liability. Once the contributions have been paid the company has no further obligations and the individual employee carries the risk for the value of the pension insurance at retirement.

4 STAFF COSTS (continued)

Refer to note 3.2 in the consolidated financial statements for further information about the remuneration of the Board of Directors, Executive Management and other key employees.

5 DEVELOPMENT COSTS

(DKK million)	2018/19	2017/18
Incurred development costs before capitalisation	293	241
Herof capitalised	(79)	(105)
Incurred development costs after capitalisation	214	136
Capitalisation (%)	*26.9%*	*43.7%*
Total amortisation charges and impairment losses on development projects	132	218
Total	**346**	**354**

6 FINANCIAL ITEMS

(DKK million)	2018/19	2017/18
Interest income from banks	3	2
Interest income from subsidiaries	3	-
Other financial income	-	1
Exchange rate gains, net	30	-
Financial income	**36**	**3**
Interest expenses	16	13
Interest expenses to subsidiaries	14	15
Exchange rate losses, net	-	28
Financial costs	**30**	**56**

All financial income and costs are related to financial assets and liabilities, which are not measured at fair value in the income statement.

7 TAX

(DKK million)	2018/19	2017/18
Tax for the year		
Current tax	(31)	(17)
Change in deferred tax during the year	(8)	(4)
Change in deferred tax as a result of change in tax rate	-	-
Adjustments to tax for prior years	(3)	-
Total	**(42)**	**(21)**

	2018/19		2017/18	
	%	DKK million	%	DKK million
Effective tax rate for the year				
Calculated tax on result for the year before tax	22.0	(38)	22.0	(23)
Non-deductible costs and non-taxable income	0.6	(1)	(0.9)	1
Adjustments to prior periods	1.7	(3)	-	-
Deviating tax rates in foreign subsidiaries	-	-	-	-
Other	-	-	(0.9)	1
Effective tax rate for the year	**24.3**	**(42)**	**20.1**	**21**

	Assets		Liabilities		Net assets	
(DKK million)	2019	2018	2019	2018	2019	2018
Deferred tax						
Non-current assets	8	-	-	5	8	(5)
Tax loss carry-forwards	124	116	-	-	124	116
Other	22	24	-	-	22	24
Total	**154**	**140**	**-**	**5**	**154**	**135**

Refer to note 2.4 in the consolidated financial statements for the assessment of future utilisation of the deferred tax assets.

(DKK million)	2018/19	2017/18
Change in deferred tax, net during the year		
Non-current assets	13	(18)
Inventories	-	-
Receivables	-	-
Provisions	-	-
Tax loss carry-forwards	8	25
Other	(2)	(3)
Total	**19**	**4**

As per 31 May 2019 the net deferred tax asset accumulates to DKK 154m (DKK 135m in 2018), whereas the increase of DKK 19m is mainly due to change in non-current assets relating to development costs of DKK 13M and increase in tax loss carry forward due to asset reclassification within the jointly taxed Danish Group of DKK 10m, and utilisation of tax loss of DKK 2m.

8 INTANGIBLE AND TANGIBLE ASSETS

(DKK million)	Acquired rights	Completed devel-opment projects	Devel-opment projects in progress	**Total intangible assets**	Land and buildings	Other tangible assets	**Total tangible assets**
Cost							
At 1 June 2017	155	898	138	1,191	180	167	347
Additions in the year	-	68	37	106	34	8	42
Disposals in the year	-	(370)	-	(370)	(67)	(52)	(119)
Completed development projects and assets	-	135	(135)	-	16	(16)	-
Reclassification of assets from investment properties to tangible assets	-	-	-	-	55	-	55
At 31 May 2018	155	731	41	927	218	107	325
Additions in the year	-	27	52	79	9	6	15
Disposals in the year	(52)	-	-	(52)	(61)	(17)	(78)
Completed development projects and assets	-	39	(39)	-	5	(5)	-
Moved to assets held for sale	-	-	-	-	(83)	-	(83)
Exchange rate adjustments	-	1	-	1	-	-	-
At 31 May 2019	**103**	**798**	**54**	**955**	**88**	**91**	**179**
Amortisation, depreciation and impairment							
At 1 June 2017	(153)	(702)	-	(855)	(143)	(146)	(289)
Reclassification of assets from investment properties to tangible assets	-	-	-	-	(47)	-	(47)
Amortisation and depreciation	(1)	(218)	-	(219)	(7)	(2)	(9)
Disposals	-	370	-	370	67	52	119
At 31 May 2018	(154)	(550)	-	(704)	(130)	(96)	(226)
Amortisation and depreciation during the year	(1)	(132)	-	(133)	(9)	(2)	(11)
Disposals	52	-	-	52	60	17	77
Moved to assets held for sale	-	-	-	-	62	-	62
Impairment losses	-	-	-	-	(10)	-	(10)
At 31 May 2019	**(103)**	**(682)**	**-**	**(785)**	**(27)**	**(81)**	**(108)**
Carrying amount							
At 31 May 2019	**-**	**116**	**54**	**170**	**61**	**10**	**71**
At 31 May 2018	1	181	41	223	88	11	99

There are no contratual obligations regarding purchase of tangible assets.

8 INTANGIBLE AND TANGIBLE ASSETS (continued)

	Intangible assets		Tangible assets	
(DKK million)	**2018/19**	2017/18	**2018/19**	2017/18
Amortisation, depreciation and impairment losses				
Production costs	2	3	4	3
Development costs	131	216	7	6
Administration costs	-	-	10	-
Total	**133**	**219**	**21**	**9**

Impairments were recognised in administration costs.

9 INVESTMENT PROPERTIES

(DKK million)	
Cost	
At 1 June 2017	273
Reclassification of assets from investment properties to tangible assets	(55)
Additions	-
At 31 May 2018	219
Reclassification of assets from investment properties to tangible assets	-
Additions	-
Moved to assets held for sale	(79)
At 31 May 2019	**140**
Depreciation and impairment	
At 1 June 2017	(219)
Reclassification of assets from investment properties to tangible assets	47
Depreciation during the year	(3)
At 31 May 2018	(175)
Reclassification of assets from investment properties to tangible assets	-
Depreciation during the year	(2)
Moved to assets held for sale	64
At 31 May 2019	**(113)**
Net book value	
At 31 May 2019	**27**
At 31 May 2018	44

Investment properties consist of a number of properties which are owned with the purpose of renting them to other Group companies, and to some extent external parties.

All investment properties are located in Struer, Denmark and are used for production, warehousing and offices. Due to the size and type of the buildings and due to the location of the investment properties, where there are no active marked for these types of buildings, it is not possible to estimate the fair value of the properties, since the fair value is completely dependent on the Group companies' continued use of the properties. Independent valuers have not been used.

There are no contractual obligations to purchase, construct or develop investment properties.

Rental income of DKK 60 million has been received from investment properties in 2018/19 (2017/18: DKK 65 million), and directly attributed operating expenses were DKK 44 million (2017/18: DKK 45 million).

Investment properties are leased to the subsidiaries on operating leases with a lease term of 3-34 months. According to the existing operating leases rental income of DKK 16 million will be received in the 3 months which are included in the lease term of the operating leases.

10 IMPAIRMENT OF NON-CURRENT ASSETS

Tangible assets – impairment losses during the year
In 2018/19, an impairment loss of DKK 10 million related to the former headquarter in Struer, Denmark, was recognised and included in administration costs in the income statement.
In 2017/18 no impairments were recognised.

Intangible assets – impairment losses during the year
No impairment losses were recognised in 2018/19 and 2017/18.

The assessment of the recoverable amount of the intangible assets are based on calculations of value in use of the assets. The value is calculated based on expected future cash flows from the assets based on the budgets approved by management over the expected lifetime of the assets, and a discount rate before tax of 10.0% (2017/18: 10.0%).

Financial assets – impairment losses during the year
No impairment losses were recognised on non-current financial assets in the parent company in 2018/19 or 2017/18.

11 ASSETS HELD FOR SALE

Assets held for sale includes the two buildings at 31 May 2019 also presented as held for sale for the group. Refer to note 5.3 in the consolidated financial statements.

12 INVESTMENTS IN SUBSIDIARIES

(DKK million)	**31/5/19**	31/5/18
Bang & Olufsen Operations A/S	600	600
B&O Play A/S	7	7
	607	**607**

As of 31 May 2019 investments in subsidiaries amounted to DKK 607 million (31 May 2018: DKK 607 million). There were no acquisitions or disposals in 2018/19 (2017/18: None).

Refer to note 7.6 in the consolidated financial statements for an overview of the group companies.

13 SHARE CAPITAL

(DKK million)	31 May 2019	31 May 2018	31 May 2017	31 May 2016	31 May 2015
Nominal value					
Share capital	432	432	432	432	393
Capital increase	-	-	-	-	39
Total share capital	**432**	**432**	**432**	**432**	**432**

At 31 May 2019, the share capital consisted of 43,197,478 (31 May 2019: 43,197,478) shares with a nominal value of 10 DKK each. Each share carries one vote. No shares have special rights. There are no limitations to transferability and no voting restrictions.

	Number		Nominal value		% of share capital	
	2018/19	2017/18	**2018/19**	2017/18	**2018/19**	2017/18
Own shares						
1 June	22,999	22,999	-	-	-	-
Aquired in connection with the share buy-back programme	2,273,449	-	23	-	5.5	-
Acquired in connection with the matching share programmes	86,991	-	1	-	0.2	-
31 May	**2,383,439**	**22,999**	**24**		**5.5**	

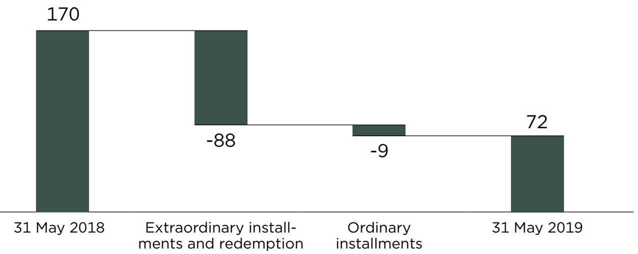
All own shares are owned by Bang & Olufsen A/S.

Shareholders disclosure subject to section 104 of the Danish Financial Statements Act:

	Capital/ Votes (%)
Sparkle Roll (Denmark) Limited	14.9%
Arbejdsmarkedets Tillægspension	11.5%
Chr. Augustinus Fabrikker	5.8%

14 MORTGAGE LOANS

(DKK million)	2019	2018
Non-current liabilities		
Mortgage loan	69	161
Current liabilities		
Mortgage loan	3	9
Total	**72**	**170**



(DKK million)	Nominal interset value	Year of maturity	31 May 2019 Carrying amount	31 May 2018 Carrying amount
Terms and repayment schedule				
Fixed rate loans, DKK	4.1%	-	-	21
Floating rate loans, DKK	0.5 - 1.0%	2040	72	149
Total loans			**72**	**170**

In 2018/19 it was decided by Management to make extraordinary installments on the mortgage loans. In total it was decided to redeem the fixed rate loan of DKK 18 million and make an extraordinary installment on the floating rate loan of DKK 70 million.

(DKK million)	31 May 2017	Financing cash flow	Reclassi-fications	31 May 2018	Financing cash flow	Reclassi-fications	31 May 2019
Terms and repayment schedule							
Long-term borrowings	170	-	(9)	161	(88)	(3)	69
Short-term borrowings	9	(9)	9	9	(9)	3	3
Total	**179**	**(9)**	**-**	**170**	**(97)**	**-**	**72**

15 SHARE BASED PAYMENT

The matching share programmes described in note 3.3 to the consolidated financial statements were issued by Bang & Olufsen A/S.

The majority of the matching shares are granted to employees in Bang & Olufsen A/S. Expenses of DKK 3 million (2017/18: DKK 1 million) have been recognised in the year as part of staff costs.

16 FINANCIAL INSTRUMENTS

(DKK million)	2018/19	2017/18
Other financial receivables	-	11
Trade receivables	1	3
Interest-bearing receivables from subsidaries	65	-
Other receivables excl. prepaid expenses	-	16
Cash	314	974
Financial assets at amortised cost	**380**	**1,004**
Mortgage loans	72	170
Interest bearing debt to subsidiaries	544	614
Trade payables	117	112
Financial liabilities at amortised cost	**733**	**896**

(DKK million)	Less than one year	Between one and five years	More than five years	Total
Contractual maturity analysis for financial liabilities				
2018/19				
Mortgage loans	3	21	48	**72**
Interest bearing debt to subsidiaries	544	-	-	**544**
Trade payables	117	-	-	**117**
2017/18				
Mortgage loans	9	38	123	**170**
Interest bearing debt to subsidiaries	614	-	-	**614**
Trade payables	517	-	-	**517**

Refer to Note 6.2 Financial instruments in the consolidated financial statements for a description of the Group's management of financial risks.

17 CONTINGENT LIABILITIES AND OTHER FINANCIAL COMMITMENTS

Operating lease commitments
The Group has entered into a number of operating leases and rental agreements regarding plant and machinery, shops and other property. There is a considerable diversity in the length of the agreements. The longest running agreement has a term of 15 years.

All agreements contain conditions regarding renewal. The Group is entitled to determine, whether or not the agreements are renewed. None of the agreements impose restrictions in the Group's rights of disposal.

(DKK million)	2018/19	2017/18
Lease commitments		
Buildings and premises	2	4
Cars	8	2
Others	1	2
Total lease commitments	**11**	**8**
Maturity		
Due within 1 year	6	6
Due 1 - 5 years	5	2
Due after 5 years	-	-
Total lease commitments	**11**	**8**
Rental and lease payment, net for the year	25	25
Guarantees		
Total guarantees	96	106

None of the guarantees are expected to result in any losses.
The guarantees are mainly related to a rent obligation from the former Czech production facilities. Bang & Olufsen A/S has provided guarantees concerning the continious operation and payment of liabilities in 2018/19 for some of the subsidaries.

VAT and other taxes
Refer to note 7.3 in the consolidated financial statements.

Mortgages and securities
Refer to note 7.3 in the consolidated financial statements.

18 RELATED PARTIES

No related parties have a controlling influence in Bang & Olufsen A/S.

The related parties that have significant influence in Bang & Olufsen A/S are the Board of Directors, Executive Management and other key management personnel and the close family members of these persons. Related parties also include companies in which these persons have significant interests.

The related parties in Bang & Olufsen A/S also comprise the subsidiaries in which the company has a controlling interest.

Bang & Olufsen's direct and indirect share in subsidiaries is shown in note 7.6 to the consolidated financial statements.

Board of Directors, Executive Management and other key management personnel
Except from what follows from the employment and shareholdings, if any, there were been no transactions with the Board of Directors, Executive Management and other key management personnel. Remuneration and matching share option programmes are shown in notes 3.2 and 3.3 in the consolidated financial statements.

The Executive Management's terms of notice is consistent with normal market terms and conditions (up to 24 months).

Associates & subsidiaries
Transactions with subsidiaries has included the following:

(DKK million)	**2018/19**	2017/18
Purchase of services - subsidiaries	27	28
Rental income - subsidiaries	50	60
Royalty income - subsidiaries	310	356

Bang & Olufsen A/S had a receivables from subsidaries of DKK 65 million and payables of DKK 544 million, net payable to subsidiaries of DKK 479 million at 31 May (2017/18: payable DKK 614 million).

18 RELATED PARTIES (continued)

All receivables and payables with subsidiaries fall due within 1 year.

The carrying amount is expected to be a reasonable approximation of the fair value.

No impairment was identified in subsidaries in 2018/19 or 2017/18.

Other transactions
Bang & Olufsen A/S has issued guarantees for its related parties, cf. note 16. None of the guarantees are expected to result in any losses.

No other transactions have taken place with related parties.

19 EVENTS AFTER THE REPORTING PERIOD

Apart from the events recognised or disclosed in the financial statements, no events have occurred after the reporting period of importance to the financial statements.

MANAGEMENT'S STATEMENT

The Board of Directors and the Executive Management Board have today discussed and approved the Annual Report of the Bang & Olufsen Group and the parent company for 2018/19.

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and further requirements in the Danish Financial Statements Act.

In our opinion the consolidated financial statements and the Parent Company's financial statements give a true and fair view of the Group's and the Parent Company's financial position at 31 May 2019 and of the results of the Group's and the Parent Company's operations and cash flow for the financial year 1 June 2018 – 31 May 2019.

Further, in our opinion the Management review includes a fair review of the development in the Group's and the Parent Company's operations and financial matters, of the result for the year, and of the Group's and the Parent Company's financial position as well as describing the significant risks and uncertainties affecting the Group and the Parent Company.

We recommend that the Annual General Meeting approve the Annual Report.

Struer, 11 July 2019

Executive Management Board:

Henrik Clausen
CEO

Nikolaj Wendelboe
CFO

John Mollanger

Snorre Kjesbu

Board of Directors:

Ole Andersen
Chairman

Juha Christensen
Deputy Chairman

Albert Bensoussan

Anders Colding Friis

Brian Bjørn Hansen

Geoff Martin

Ivan Tong Kai Lap

Jesper Jarlbæk

Mads Nipper

Majken Schultz

Søren Balling

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bang & Olufsen A/S

Opinion
We have audited the consolidated financial statements and the parent company financial statements of Bang & Olufsen A/S for the financial year 1 June 2018 – 31 May 2019, which comprise income statement, statement of comprehensive income, statement of financial position, statement of cash flow, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 May 2019 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 June 2018 – 31 May 2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor
We were initially appointed as auditor of Bang & Olufsen A/S for the financial year 2012/13. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 7 years up until and including the financial year 2018/19.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2018/19. These matters were addressed during our audit of the financial statements as a whole and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Accordingly, our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of deferred tax assets
The group has recognised deferred tax assets of DKK 261 million as at 31 May 2019 of which DKK 149 million relate to tax loss carry forwards and DKK 112 million relate to temporary differences. The group has recognised the deferred tax assets to the extent that the realisation of the related tax benefits through future taxable profits are probable within a foreseeable future. We refer to Note 2.4 – Tax of the consolidated financial statements. This area was significant to our audit due to the amount of the recognised deferred tax assets as well as the inherent uncertainty related to Management's estimates in forecasting future taxable profits, including expectations for future revenue and margin developments.

Our audit procedures included evaluating Management's assumptions and methodologies, and testing consistency between the assumptions used in the measurement of deferred tax assets against the long-term forecast and strategy plans. Furthermore, we assessed the appropriateness of the disclosures in Note 2.4 - Tax of the consolidated financial statements against applicable financial reporting standards.

Revenue recognition
Revenue is recognised when control of the goods have been transferred to the customer and is measured at the fair value of the expected consideration to be received, less rebates, discounts, sales taxes, duties and expected sales returns. We refer to Note 2.2 - Revenue of the consolidated financial statements. Revenue recognition was a significant matter in our audit due to the estimates and judgements necessary by Management in respect of timing of transfer of control to the customers and measurement of rebates and discounts.

Our procedures included considering the appropriateness of the group's accounting policies in relation to revenue, assessment of internal controls related to timing and measurement of revenue and test of a sample of customer contracts to assess the completeness and measurement of recognised rebates and discounts. We have applied data analytics and performed sample testing of sales transactions close to the balance sheet date as well as credit notes issued after the balance date to verify whether those transactions were recognised in the correct period and at correct amounts. Furthermore, we assessed the appropriateness of the disclosures in note 2.2 - Revenue against applicable financial reporting standards.

Statement on the Management's review
Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the financial statements
Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

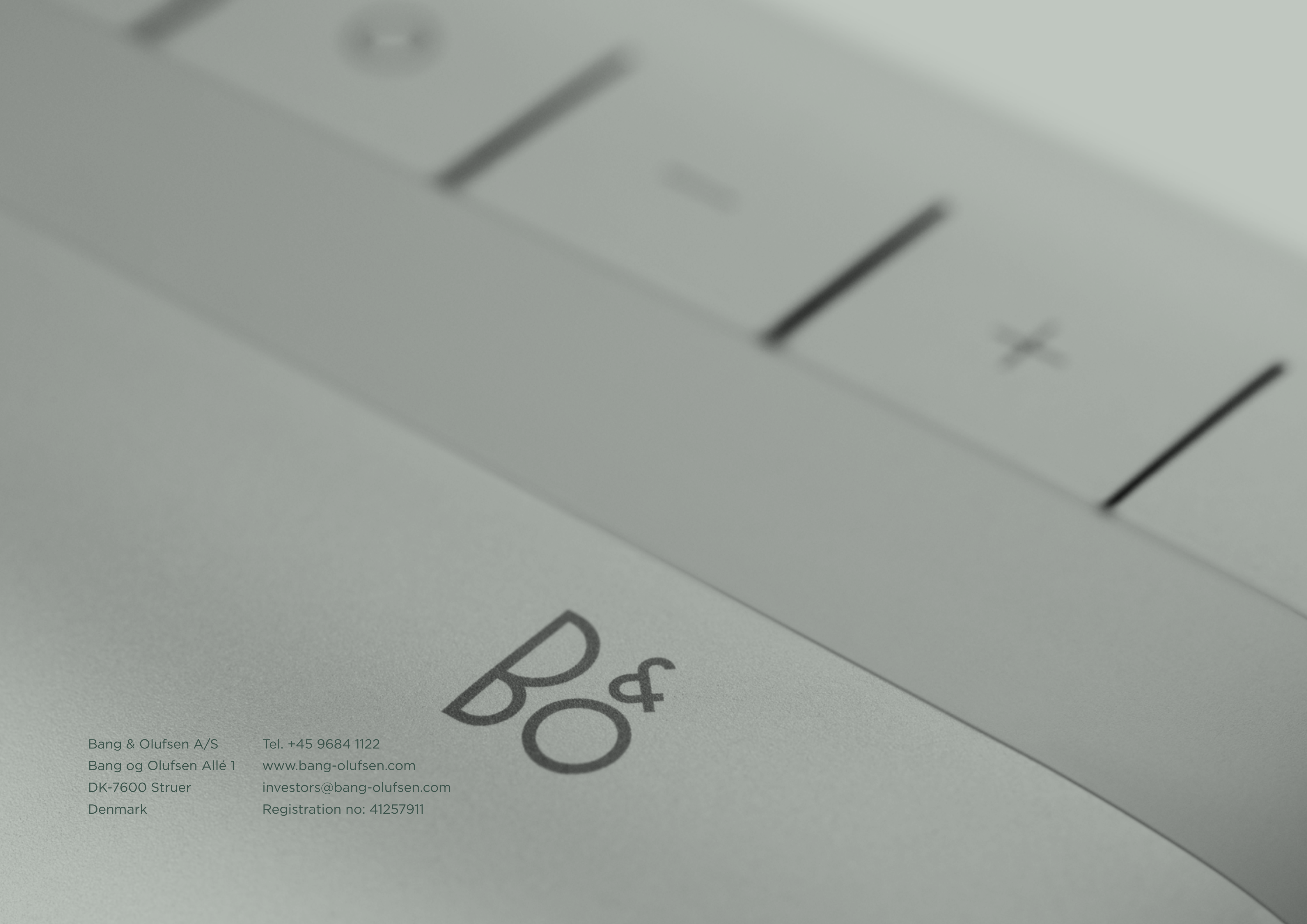
From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aarhus, 11 July 2019

Ernst & Young
Godkendt Revisionspartnerskab
CVR no. 30 70 02 28

Steen Skorstengaard
State Authorised Public Accountant
mne19709

Morten Friis
State Authorised Public Accountant
mne32732



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

Tel. +45 9684 1122
www.bang-olufsen.com
investors@bang-olufsen.com
Registration no: 41257911